

# ECONOMIC IMPACT OF FEDERAL PROCUREMENT

---

---

HEARINGS  
BEFORE THE  
SUBCOMMITTEE ON FEDERAL PROCUREMENT  
AND REGULATION  
OF THE  
JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES  
EIGHTY-NINTH CONGRESS  
FIRST SESSION

APRIL 27, 28, AND 29, 1965

Printed for the use of the Joint Economic Committee



U.S. GOVERNMENT PRINTING OFFICE

47-662

WASHINGTON : 1965

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Washington, D.C., 20402 - Price \$1.25

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

WRIGHT PATMAN, Texas, *Chairman*

PAUL H. DOUGLAS, Illinois, *Vice Chairman*

HOUSE OF REPRESENTATIVES

RICHARD BOLLING, Missouri  
HALE BOGGS, Louisiana  
HENRY S. REUSS, Wisconsin  
MARTHA W. GRIFFITHS, Michigan  
THOMAS B. CURTIS, Missouri  
WILLIAM B. WIDNALL, New Jersey  
ROBERT F. ELLSWORTH, Kansas

SENATE

JOHN SPARKMAN, Alabama  
J. W. FULBRIGHT, Arkansas  
WILLIAM PROXMIRE, Wisconsin  
HERMAN E. TALMADGE, Georgia  
JACOB K. JAVITS, New York  
JACK MILLER, Iowa  
LEN B. JORDAN, Idaho

JAMES W. KNOWLES, *Executive Director*

JOHN R. STARK, *Deputy Director*

MARIAN T. TRACY, *Financial Clerk*

HAMILTON D. GEWEHR, *Administrative Clerk*

---

ECONOMISTS

WILLIAM H. MOORE  
GERALD A. POLLACK

NELSON D. MCCLUNG  
DONALD A. WEBSTER (Minority)

---

SUBCOMMITTEE ON FEDERAL PROCUREMENT AND REGULATION

PAUL H. DOUGLAS, Illinois, *Chairman*

SENATE

JOHN SPARKMAN, Alabama  
WILLIAM PROXMIRE, Wisconsin  
LEN B. JORDAN, Idaho

HOUSE OF REPRESENTATIVES

WRIGHT PATMAN, Texas  
MARTHA W. GRIFFITHS, Michigan  
THOMAS B. CURTIS, Missouri  
WILLIAM B. WIDNALL, New Jersey

RAY WARD, *Economic Consultant*

# CONTENTS

## CHRONOLOGICAL LIST OF WITNESSES

	Page
Hon. Robert S. McNamara, Secretary of Defense.....	2
Hon. Paul R. Ignatius, Assistant Secretary of Defense (Installations and Logistics); accompanied by Paul H. Riley, Deputy for Supply and Services; John M. Malloy, Deputy for Procurement; and Brig. Gen. Allen T. Stanwix-Hay, Director of the Office of Technical Data and Standardization Policy.....	48
Hon. Charles S. Gubser, Representative from California.....	73
Vice Adm. Joseph M. Lyle, U.S. Navy, Director, Defense Supply Agency; accompanied by Dr. Wilfred Garvin, Comptroller.....	75
Hon. Joseph Campbell, Comptroller General of the United States; accompanied by Robert F. Keller, General Counsel; William A. Newman, Jr., Director of Defense Accounting and Auditing Division; Harold H. Rubin, Associate Director of Defense Accounting and Auditing Division; and Edward J. Mahoney, Associate Director of the Accounting and Auditing Policy Staff, General Accounting Office.....	108
Lawson B. Knott, Jr., Acting Administrator, General Services Administration; accompanied by H. A. Abersfeller, Commissioner, Federal Supply Service; Maurice J. Connell, Commissioner, Defense Materials Service; Howard Greenberg, Commissioner, Utilization and Disposal Service; Edmund D. Dwyer, Director, Data Processing Coordination Staff; and Charles W. Gasque, Jr., Deputy General Counsel.....	187
Elmer B. Staats, Deputy Director of the Bureau of the Budget; accompanied by Roger Jones, Special Assistant to the Director; George G. Mullins, Chief, Property and Supply Management Branch, Office of Management and Organization; Harold Seidman, Assistant Director, Management and Organization; William Gill, Automatic Data Processing Program; and Cliff Miller, Military Division.....	275

## WITNESSES' STATEMENTS AND EXHIBITS

McNamara, Hon. Robert S., Secretary of Defense.....	1
Letter from Senator Paul H. Douglas to Secretary McNamara, dated April 8, 1965.....	1
Prepared statement.....	2
<i>Chart</i> : Progress of Department of Defense cost reduction program: Recurring annual savings.....	10
Buying only what we need.....	11
Buying at the lowest sound price.....	12
<i>Chart</i> : Contracts awarded on basis of competition as a percent of total contract awards.....	13
<i>Chart</i> : Cost-plus-fixed-fee contracts as a percent of total contract awards.....	14
Reducing operating costs.....	15
<i>Table</i> : Department of Defense cost-reduction program.....	20
Testimony.....	21
Requests reduced by \$24 billion.....	30
Use of excess on surplus stock.....	31
Ten billion four hundred million dollars in excess of surplus inventory.....	31
Eliminating "gold plating".....	31
Potential saving of \$500 million.....	31
Thirty-nine percent of contracts to be competitive.....	31
Breakouts.....	32
Abuses in cost-plus-fixed-fee contracts.....	32

## McNamara, Hon. Robert S., Secretary of Defense—Continued

	Page
Testimony—Continued	
No incentive in CPPF contracts.....	32
Reducing operating costs.....	33
Closing installations.....	33
One billion dollars savings.....	33
Economic impact of closings.....	33
Developing job opportunities.....	33
Establishment of employment opportunity program.....	34
Centralized referral activity.....	34
Office of Economic Adjustment.....	35
Base closure results in greater employment.....	36
Savings from DSA.....	37
Protection of subcontractors.....	38
In 1965 18.6 percent formally advertised bids.....	39
Decrease in spare parts.....	39
Battle Creek operation.....	40
Standardization program.....	40
Butchers' smocks.....	41
Moving costs for displaced employees.....	42
Data on components of prime contract supplied for the record at request of Representative Curtis.....	43
Cost determination.....	43
Data on cost determination supplied by DOD at the request of Representative Curtis.....	44
Renegotiation Act.....	45
Transfer of civilian items to GSA.....	46
Data on status of the in-house performance of commercial-indus- trial activities by the Department of Defense, supplied for the record at the request of Representative Curtis.....	46
Ignatius, Hon. Paul R., Assistant Secretary of Defense; accompanied by Paul H. Riley, Deputy for Supply and Services; John M. Malloy, Deputy for Procurement; and Brig. Gen. A. T. Stanwix-Hay, Director of the Office of Technical Data and Standardization Policy.....	48
Prepared statement.....	48
Government-furnished equipment.....	48
High dollar spare parts breakout program.....	50
Increased use of formal advertising.....	50
<i>Chart: Price competition</i> .....	50
Procurement management review.....	51
Department of Defense relationships with subcontractors.....	51
Department of Defense technical data management.....	52
Avoiding unnecessary procurement.....	53
Department of Defense standardization program.....	54
Contract support services.....	55
Management of items by DSA and the military services.....	56
Consolidation of hospitals.....	59
Recoding supply items.....	60
Chef's hats.....	60
Allocation of R. & D. funds.....	61
R. & D. awards made on basis of personnel quality.....	62
Data on geographical distribution of DOD contracts, supplied for the record at the request of Senator Douglas.....	63
<i>Table: Net value of military prime contract awards for experi-             mental, developmental, test, and research work, by State and             region and by type of contractor, fiscal year 1964</i> .....	65
<i>Table: Net value of military prime contract awards for experi-             mental, developmental, test, and research work, fiscal year             1963</i> .....	67
Additional material submitted for record:	
Letter from Paul R. Ignatius to Senator Paul H. Douglas, dated January 26, 1965, with comments on subcommittee's recom- mendations.....	68
Comments on recommendations of the report on economic im- pact of Federal Supply and Service Activities, September 1964, by the Subcommittee on Defense Procurement, Joint Economic Committee of the U.S. Congress.....	68

Ignatius, Hon. Paul R., Assistant Secretary of Defense, etc.—Continued Additional material submitted for record—Continued	
Memorandum for the Director, Defense Supply Agency, from Paul H. Riley, Deputy Assistant Secretary of Defense, on the subject "Project To Identify and Use Short-Shelf-Life Materi- als," dated September 25, 1964.....	Page 71
Recommendation relating to centralized management of auto- matic data processing.....	72
Gubser, Hon. Charles S., a Representative from California, statement to the Joint Economic Committee.....	73
Lyle, Vice Adm. J. M., U.S. Navy; Director, Defense Supply Agency; accompanied by Dr. Wilfred Garvin, Comptroller.....	75
Prepared statement.....	75
Mission changes.....	76
<i>Chart:</i> Contract administration services, functional assign- ments and exclusions.....	77
<i>Chart:</i> Contract administration services regions.....	78
Management improvements.....	80
<i>Chart:</i> Trend in total GSA sales to Department of Defense.....	84
Operational effectiveness and economy.....	85
<i>Charts:</i>	
DSA inventory reduction trends.....	86
DSA personnel savings.....	87
DSA customer support indices.....	88
Reduction in number of Department of Defense cata- loged items.....	89
DSA procurement program (by commodity).....	90
Value of DSA total and competitive procurement awards.....	91
DSA materiel shipment workload (line item).....	92
Materiel utilization cost reduction actions—increased use of excess inventory.....	93
Competitive contracts in DSA.....	94
Purchases under \$2,500 negotiated.....	94
Identical bids reported to Department of Justice.....	95
Transfer of sales function to GSA.....	95
Small business procurement.....	96
Traffic management decentralized to Army.....	97
Management of ADPE.....	97
ADPE used by Defense contractors.....	98
Data on DOD leasing of ADPE equipment, supplied for the record at the request of Senator Proxmire.....	98
Short-shelf-life items.....	98
Critical report of Comptroller General.....	99
DSA inherited paint and handtools.....	99
Inventory shortage.....	100
Purchase specifications.....	101
Thirty-nine percent advertised competitive bidding, DSA.....	102
<i>Table:</i> Formal advertising statistics, DSA.....	103
DSA support to civilian agencies.....	103
Federal supply system.....	104
Awarded by statutory authority.....	104
Campbell, Hon. Joseph, Comptroller General of the United States; ac- companied by Robert Keller, General Counsel; William Newman, Di- rector of Defense Accounting and Auditing Division; Harold Rubin, Associate Director of Defense Accounting and Auditing Division; and Edward J. Mahoney, Associate Director of the Accounting and Audit- ing Policy Staff, General Accounting Office.....	107
Opening remarks of Senator Paul H. Douglas: Paying tribute to Stanley Warren, killed in line of duty during past year; statement regarding short shelf-life items.....	107
Letter from Senator Douglas to Hon. Joseph Campbell, dated April 7, 1965.....	107
Statement of Comptroller General Campbell.....	108
Standardization.....	109
Failure to utilize available material.....	111
Lease versus purchase of equipment.....	112

Campbell, Hon. Joseph, Comptroller General, etc.—Continued  
 Statement of Comptroller General Campbell—Continued

	Page
Short-shelf-life items.....	113
Rotation of medical stockpile.....	115
Air Force policy questioned.....	115
Scope of GAO review.....	116
Procurement and management of ADPE.....	116
Inventorizing of items.....	116
Inadequate records.....	117
ADPE serious problem.....	117
Disagreement with BOB and other agencies.....	117
Stockpiling of medical items.....	117
DOD statement on GAO report entitled "Wasteful Practices in the Management of Age-Controlled Aeronautical Spare Parts," submitted for the record at the request of Senator Douglas.....	118
Rotation of medical stockpile items.....	120
DOD statement on GAO report entitled "Opportunities for Reducing Costs by Using Limited Life and Excess Items in Civil Defense Medical Stockpile for Current Government Re- quirements," submitted for the record at the request of Senator Douglas.....	120
Correspondence between Senator Douglas, Veterans' Administra- tion, Department of Defense, and Department of Health, Education, and Welfare, in May 1965, regarding GAO report dealing with management of short-shelf-life medical supplies.....	121
Management of paint and handtools.....	124
Purchase versus leasing of automobiles.....	125
Purchase versus rental of ADPE.....	126
Scope of ADPE costs.....	127
Government furnished ADPE to contractors.....	127
DOD position in Government-furnished ADPE.....	128
Contractor fees re ADPE.....	128
Bureau of the Budget position on ADPE.....	129
Centralized management of ADPE.....	129
Role of BOB in ADPE management.....	129
Bureau of the Budget—Operating or planning agency?.....	130
Compatibility of computer systems.....	130
Transfer of disposal function to GSA.....	131
GAO to review capabilities and costs of DSA and GSA re disposal function.....	131
Treatment of subcontractors by prime contractors.....	132
Prime and subcontracts.....	132
Change orders in contracts.....	133
General policy and exceptions in procurement and management of ADPE.....	133
Attitude of manufacturers to ADPE.....	134
Industry generally centralizes.....	134
Disposal of surplus property.....	134
DOD returns from surplus disposals.....	134
Table: Proceeds from disposal sales of surplus personal property by the military departments, fiscal years 1958-64.....	135
Table: Costs of disposal sales of surplus property by the military departments, fiscal years 1958-64.....	135
Possible collusion at auction sales.....	136
Balancing requirements against stock.....	136
Problem of substitutability.....	136
Reductions in items in supply systems.....	137
Competitive contracting.....	137
Increase in formally advertised procurement.....	137
Table: Net value of military procurement actions, with business firms for work in the United States, classified by method of procurement, fiscal years 1951-64.....	138
Savings from competitive bidding.....	138
Chairman puzzled at lack of progress.....	138
Formal advertising 19.5 percent for first half, fiscal 1965.....	139
Twenty-five percent saving—a conservative figure.....	139
Competitive negotiation.....	139
Two steps.....	139
Procurement of C-5 plane.....	139

Campbell, Hon. Joseph, Comptroller General, etc.—Continued	
Statement of Comptroller General Campbell—Continued	Page
Incentive-type contracts.....	140
GAO studying incentive-type contracting.....	140
Quality of Government negotiations.....	140
Government negotiators often not equipped with available facts.....	140
Policy on negotiators accepting favors.....	141
Department of Defense directive: "Standards of Conduct".....	142
Department of Defense Directive No. 5500.7, dated May 17, 1963, "Standards of Conduct".....	142
Enclosures:	
Executive Order 10939, dated May 5, 1961, "To Provide a Guide on Ethical Standards to Government Officials".....	154
President's memo, dated May 2, 1963, subject: "Preventing Conflicts of Interest on the Part of Special Government Employees".....	156
Digest of conflict-of-interest laws: New laws applicable to full-time officers and employees.....	167
New law applicable to former officers and employees.....	170
Summary of laws applicable to retired regular officers not on active duty.....	172
Other related criminal laws applicable to all Department of Defense personnel.....	174
House Concurrent Resolution 175, 85th Congress, 2d session: Code of ethics for Government service... ..	175
Statement of employment and financial interests... ..	176
Statement of employment: DD form 1357.....	177
Data on disciplinary action regarding DOD personnel violations of statute or policy set forth in Department of Defense Directive No. 5500.7, "Standards of Conduct," supplied for the record at the request of Senator Douglas.....	178
Report on Fort Monmouth for the Joint Economic Committee hearings, prepared for the record by DOD at the request of Senator Douglas.....	179
Introduction.....	179
Background.....	179
The "Radiacmeter" case.....	180
Adverse personnel actions against civilian engineers.....	182
Later developments.....	184
Better engineering drawings.....	184
Rate of progress.....	184
Ten-year program.....	184
Role of GAO in assisting Congress.....	185
GAO supplies staff to House Appropriations Committee.....	186
Letter relating to BOB—GAO differences with respect to Federal Government procurement and management of ADPE.....	406
Knott, Lawson B., Jr., Acting Administrator, General Services Administration; accompanied by H. A. Abersfeller, Commissioner, Federal Supply Service; Maurice J. Connell, Commissioner, Defense Materials Service; Howard Greenberg, Commissioner, Utilization and Disposal Service; Edmund D. Dwyer, Director, Data Processing Coordination Staff; and Charles W. Gasque, Jr., Deputy General Counsel.....	187
Letter from Senator Paul H. Douglas to Mr. Knott, dated April 7, 1965.....	187
Prepared statement.....	187
Joint DOD/GSA agreement for National Supply System.....	188
Disposal of surplus property.....	188
GSA to withdraw delegation of authority.....	188
Timetable to be prepared for transfers of responsibilities.....	189
DASA to have federalwide responsibilities.....	189
Feasibility studies underway.....	189
Status of studies.....	189
Plans being developed for petroleum, electronics, and clothing-textiles.....	189

## Knott, Lawson B., Jr., Acting Administrator, etc.—Continued

## Prepared statement—Continued

	Page
Savings by GSA.....	189
Trade-in values.....	190
Thirty thousand autos sold annually.....	190
Disposition of proceeds from sales.....	190
Proceeds used for motor pool operations.....	191
GSA vehicles never become surplus.....	191
Letter to Senator Douglas from Mr. Knott, dated May 7, 1965, regarding surplus vehicles, provided for the record at the request of Representative Martha Griffiths.....	191
Table: Vehicles sold by General Services Administration.....	192
National inventory control centers.....	192
Standardization.....	195
Paint and handtools.....	196
Forty million inventory reduction.....	196
Losses in paint inventories.....	196
Volume of GSA supply activities.....	196
Use of stockpile materials.....	197
Disposal of excess stockpile material.....	197
Impact of disposals on balance of payments.....	197
Machine tools loaned to schools.....	198
Transfer of disposal function from DSA to GSA.....	198
Utilization of excess property.....	198
Savings on file cabinets.....	198
Use of excess property by Defense contractors.....	200
Contractor inventory, procedures for contracting.....	200
Extent of contractor inventory.....	201
DSA/GSA agreement on excess property.....	201
New regulations on reportable property.....	201
Property rehabilitation program.....	201
DOD cooperating in program.....	201
Use of small business firms.....	202
Transfer of disposal function to GSA.....	202
Real property disposal.....	202
Reduction in sales centers.....	202
Use of ADPE.....	202
Maintenance of bidders' list.....	203
Savings from transfer of function.....	203
Returns by DOD and GSA.....	204
Position of Bureau of the Budget.....	205
Procurement and management of ADPE.....	205
Sharing of equipment.....	206
Pools of ADPE.....	207
Business service centers.....	207
Discontinuance of procurement advisory center.....	208
Charts:	
1. Buying volumes and savings through price economies.....	210
2. Item reduction program.....	211
3. Savings through competition.....	212
4. Federal Supply Service, volume and employment trends.....	213
5. General Services Administration—Federal Supply Service.....	214
6. Domestic procurement for offshore use, fiscal years 1961-66.....	215
7. Government use of stockpile excesses.....	216
8. Disposals of stockpile excesses: Effects on balance of pay- ments.....	217
9. Personal property utilization.....	218
10. Personal property rehabilitation.....	219
11. Widespread use of ADP in Government requires an ADP shar- ing program.....	220
GSA regulations on contractor inventory.....	221
Extent of contractor inventory.....	221
GSA and ASPR concerning contractor inventory.....	222
Materials provided for the record at the request of Representative Martha W. Griffiths.....	224

Knott, Lawson B., Jr., Acting Administrator, etc.—Continued	
Materials provided for the record, etc.—Continued	
Letter to Senator Douglas from Lawson B. Knott transmitting materials governing retention or disposal of contractor inventory by Government contractors	Page 224
Utilization of personal property	225
General provision	227
Utilization of property proposed for processing for exchange/sale	228
Utilization of excess	231
Utilization of abandoned and forfeited personal property	243
Illustrations	247
Staats, Elmer B., Deputy Director of the Bureau of the Budget; accompanied by Roger Jones, Special Assistant to the Director; George G. Mullins, head of Property and Supply Management Branch, Office of Management and Organization; Harold Seidman, Assistant Director, Management and Organization; William Gill, automatic data processing program; and Cliff Miller, Military Division, Bureau of the Budget	275
Letter from Senator Paul H. Douglas to Kermit Gordon, Director of the Budget, dated April 7, 1965	276
Prepared statement	276
Cost reduction program	277
Circular A-14, dated March 29, 1965, to the heads of executive departments and establishments, from Kermit Gordon, Director, Bureau of the Budget; subject, "Cost Reduction and Management Improvement in Government Operations"	278
Automatic data-processing program	286
Circular A-71, dated March 6, 1965; subject, "Responsibilities for the Administration and Management of Automatic Data Processing Activities"	288
Meteorological research	293
Circular A-62, dated November 13, 1963; subject, "Policies and Procedures for the Coordination of Federal Meteorological Services"	294
A Federal supply and services system	298
Consolidated procurement of subsistence supplies	298
The civilian portion of the Federal catalog	300
Improved management of hospitals	300
Summary	301
Closing of veterans' hospitals	302
Review underway	302
Federal catalog	303
Owning versus leasing of ADPE	304
Estimated savings	305
Ground rules for ADPE	305
Standardization and central procurement	305
Uses of ADPE as economic tools	306
Annual costs of ADPE	306
Three billion dollars estimated annual Government costs for ADPE	306
Government sector utilizes about 30 percent of total outlays for ADPE	306
Rate of growth	307
Report to President on management of ADPE	307
Heavy rate of obsolescence	307
Practices in private sector	307
Tax situation involved in purchase versus lease of ADPE	308
Training of programers	308
Need for cost-benefit analysis	309
Payoff may be monetary or in terms of inefficiency	309
Points of difference between BOB and GAO	310
Report of BOB-GAO differences	310
Material describing principal difference between views of the Bureau of the Budget and those of the Comptroller General on the acquisition of ADP equipment, furnished for the record by Mr. Staats at the request of the subcommittee	310
The position of the Comptroller General	311

## Staats, Elmer B., Deputy Director, etc.—Continued

## Prepared statement—Continued

	Page
Material describing principal difference, etc.—Continued	
Bureau of the Budget position .....	311
The Federal program .....	312
BOB and GAO need for revolving fund .....	313
Pooling arrangement successfully tested .....	313
Federal utilization of property excess .....	314
Central role of GSA .....	314
Use of computers in R. & D. ....	314
Application to water pollution problem .....	315
Capturing available data for current use .....	315
Use of ADP in regulatory work .....	316
Use in foreign affairs field .....	316
Use in medical field .....	316
Use in budget process .....	317
Perishable and nonperishable items .....	318
Storage of foodstuffs .....	319
Government in-house versus contracted-out activities .....	320
Allowance for taxes .....	320
Policy on the Government's commercial-industrial activities .....	320
Determining true Government costs, overhead, etc. ....	320
Difficulties in setting standards .....	321
In-lieu payments by the Government .....	321
Impacted aid-to-school program .....	321
Shared revenues .....	321
TVA makes in-lieu payments .....	321
Conclusion not yet reached .....	321
Government ownership versus leasing buildings .....	321
Government-owned communications system .....	322
Definition of costs .....	322
Transfer of management of paint and handtools from DSA to GSA .....	322
Letter from Mr. Staats to Senator Douglas transmitting data on transfer of management responsibilities for paint and handtools from the Department of Defense to GSA, dated June 8, 1965, as requested by Representative Curtis, for inclusion in the record of the hearings .....	322
Meteorological research, delay in applying technology .....	323
The Federal plan for services and research .....	323
A coordinated program .....	323
Problem of operational needs versus duplication .....	323
Congressional understanding needed .....	323
Transfer of surplus sales from DSA to GSA .....	324
BOB outlined conditions to GSA .....	324
Postwar history of surplus sales function .....	325
Correspondence between Bureau of the Budget and General Services Administration regarding transfer of surplus sales .....	326
Correspondence between Bureau of the Budget and General Services Administration regarding transfer of surplus sales, requested by Representative Curtis to be made part of the record .....	326
Use of catalog to reduce loss of short-shelf-life items .....	328
Use of special codes in supply .....	328

## APPENDIX

Questions submitted by members of the Subcommittee on Federal Procurement and Regulation to Department of Defense, Bureau of the Budget, General Services Administration, with replies thereto .....	331
GSA exhibit: "Auction Sale, etc." .....	335
Report of the Joint General Services Administration-Department of Defense Shelf-Life Materials Study Group .....	379
Appendix A: Memorandum for the Director, Defense Supply Agency, from Paul H. Riley, Deputy Assistant Secretary of Defense, on "Project To Identify and Use Short-Shelf-Life Materials" .....	382

## APPENDIX—Continued

## Report of the Joint General Services Administration, etc.—Continued

	Page
Appendix B: Extract of the report of the Subcommittee on Defense Procurement to the Joint Economic Committee, dated September 3, 1964.....	383
Appendix C: Shelf-life controls exercised by Federal agencies..	383
Appendix D: Activities visited.....	388
Appendix E:	
Analysis of current shelf-life items.....	394
Table: Summary of shelf-life items as reported by ICP's, November 15 to December 30, 1964.....	395
Table: Examples of items managed by two or more services with varying shelf-life time periods, as reported by inventory managers.....	396
Index of classes.....	396
Appendix F: Shelf-life codes.....	402
Appendix G: Table for application of condition code changes for shelf-life items.....	403
Appendix H: Department of Defense instruction: Identification, control, and utilization of shelf-life items.....	403
Appendix I: Proposed agreement between GSA and DOD governing cross servicing of shelf-life assets.....	405
Letter from GAO relating to differing views of GAO-BOB regarding Federal procurement and regulation of ADPE.....	406

# ECONOMIC IMPACT OF FEDERAL PROCUREMENT

TUESDAY, APRIL 27, 1965

CONGRESS OF THE UNITED STATES,  
SUBCOMMITTEE ON FEDERAL PROCUREMENT AND  
REGULATION OF THE JOINT ECONOMIC COMMITTEE,  
*Washington, D.C.*

The subcommittee met at 10 a.m., pursuant to call, in room 3110, New Senate Office Building, Senator Paul H. Douglas, chairman of the subcommittee, presiding.

Present: Senators Douglas and Jordan; Representatives Griffiths and Curtis.

Present also: Ray Ward, economic consultant; James W. Knowles, executive director; and Hamilton D. Gewehr, administrative clerk.

Senator DOUGLAS. I might explain for the benefit of those who have not followed the hearings and reports of the Subcommittee on Federal Procurement and Regulation for the past 5 years, that Federal costs for personal and real property, transportation of things, storage and issuance of supplies, and surplus disposal run into tens of billions of dollars annually.<sup>1</sup>

How these functions are done—where, when, and by whom—vitaly affect our economy.

Our concern has been with the impact of these functions on the economy and not on military matters per se.

Of special interest to us has been the factor of waste which impoverishes the taxpayer, impedes efficiency, and deprives essential military and civilian programs and projects of economic lifeblood.

We have been heartened, therefore, by the positive actions taken by Secretary McNamara since he assumed office in January 1961. I am merely speaking the truth when I say he is the greatest Secretary of Defense that this country has ever had.

Secretary McNAMARA. Thank you, Mr. Chairman.

Senator DOUGLAS. His cost reduction program, which has been endorsed by both Presidents Kennedy and Johnson, is paying national dividends in excess of \$4 billion annually. These savings have kept the estimated Federal administrative budget below the \$100 billion level and have been a key factor in financing needed functions that otherwise would be long deferred, if not impossible.

Secretary McNamara, we deeply appreciate your coming to us this morning in the midst of your heavy burdens and responsibilities. We shall be very glad to hear from you on the cost reduction program and then from your able assistants on the subjects I outlined in my letter of April 8 which is inserted at this point.

APRIL 8, 1965.

HON. ROBERT S. McNAMARA,  
*Secretary of Defense,*  
*Washington, D.C.*

DEAR MR. SECRETARY: The Subcommittee on Federal Procurement and Regulation will hold hearings on April 27, 28, and 29, 1965, as a continuation of the program of the former Subcommittee on Defense Procurement.

<sup>1</sup> "Background Material on Economic Impact of Federal Procurement—1965," hereafter referred to as "staff report, 1965." See p. 3.

You are scheduled to testify at 10 a.m. on April 27, 1965, in room 3110, and Assistant Secretary Ignatius and Director Lyle of the Defense Supply Agency will follow you, taking such time in the morning and afternoon as may be required.

It would be helpful to the subcommittee if you and your assistants would cover the following areas:

1. DOD cost reduction program, bringing us up to date as to accomplishments and projections.
2. Progress and plans relative to the management of common supply and service activities.
3. Impact of DOD oversea procurement on balance of payments and policies and plans respecting thereto.
4. Policy and practices on procurement of products and services by contract and force account.
5. Progress made in the standardization and reduction of items in the DOD supply systems.
6. Improvement in competitive bidding, development of adequate engineering data, and specifications.
7. Utilization of existing Government inventories and stocks.

We should like for Secretary Ignatius to elaborate on his letter of January 26, 1965, as to the recommendations contained in our report of September 1964. (Of particular interest is the subject of "Item Management Coding Criteria" and the scheduled report thereon.) The point raised by Congresswoman Griffiths as to relationships between prime contractors and subcontractors and the protection of the latter under DOD regulations should also be covered.

This subcommittee is interested in the attainments and plans of DSA and would welcome Director Lyle's testimony thereon.

It is appreciated that there is overlapping in the subjects listed above. You may eliminate this to the extent feasible in the development of your respective statements.

Faithfully yours,

PAUL H. DOUGLAS.

Senator DOUGLAS. Since you have another commitment at 11 o'clock, you may read or paraphrase your prepared statement as you wish, and we will place the full statement in the record.

(Prepared statement of Secretary McNamara follows:)

PREPARED STATEMENT OF SECRETARY OF DEFENSE ROBERT S. MCNAMARA,  
APRIL 27, 1965

Mr. Chairman and members of the committee, it is again my pleasure to appear before this committee to discuss the progress of the Defense Department's cost reduction program. I believe it would assist in setting this program in proper perspective if I were to discuss some of the major improvements we have made during the last 4 years in the overall organization and management of the Defense Establishment, with particular reference to the logistics functions.

To start with, it should be recognized by all concerned that in an enterprise as large and complex as the Defense Establishment, some of the actions taken will not turn out as planned and some outright mistakes will be made no matter how the Department is organized and managed and, indeed, no matter who the managers happen to be. What is involved here is an enterprise employing almost 4 million full-time military and civilian personnel, including more than 100,000 foreign civilians. In addition, we have on our direct payroll over 1 million part-time military employees in the Reserve components and about 500,000 retired personnel. We manage an inventory of over \$170 billion in real and personal property and we spend about \$50 billion a year, including a gross expenditure of about \$3 billion overseas. Our annual payroll costs alone amount to about \$20 billion and we spend almost \$30 billion a year for goods and services purchased from the private economy. We draw on virtually every segment of American industry and account for a very large proportion of the total research and development effort of the Nation. Our people and activities are located at more than 1,000 major military installations and some 11,000 minor facilities spread throughout the United States and the free world.

We execute some 10 million contract actions and write over 90 million checks per year. Even excluding purchases of less than \$10,000 each, we deal with nearly 20,000 different firms. The Defense supply system stocks almost 3.9 mil-

lion different items worth nearly \$40 billion. About 400,000 new items are added to the system each year and about the same number of old items are dropped. It has been estimated that the supply system makes over 20,000 wholesale issues daily; the number of retail issues is many times greater.

In all of these tens of millions of transactions each year, ample opportunities for human error or poor judgment exist, and I might add that these deficiencies are much more easily recognized after the fact than before. This very real limit on human infallibility can be frankly recognized without in the least condoning the results. I can testify from my own experience that it exists in industry as well as Government. The issue we should be concerned with is whether the Defense Department is taking the proper measures to provide the organization, policies, procedures, and training required to carry out its responsibilities effectively.

And let me say right here that the defense program is far too large and complex to manage in any single pattern or from any central point and indeed, we are organized to manage in several different ways, depending upon the area or function involved. For the day-to-day administration of most of this huge aggregation of diverse activities, we still rely on the three military departments which report directly to the Secretary of Defense. The actual combat forces are organized under unified and specified commands which report to the Secretary of Defense through the Joint Chiefs of Staff. For certain functions common to the entire establishment there have been created over the years what we now call "defense agencies", for example, the Defense Communications Agency, the Defense Intelligence Agency and, of course, the Defense Supply Agency which is of particular concern to this committee.

But all of these diverse programs, activities and management systems must be brought together in a single unified effort directed toward a single overriding objective—the defense of the Nation. That is the basic purpose of the planning-programing-budgeting system which we introduced into the Defense Department 4 years ago. This system brings together at one place and at one time all of the programs and activities of the Defense Establishment, in both physical and financial terms, and not just for 1 year but projected for at least 5 years into the future. It is here, in the context of the entire long-range effort, that the most important decisions must be made, decisions which involve not only large sums of money but the very security of the Nation.

Worth noting is the fact that under this system the programs and activities are analyzed in terms of the principal military missions and not in terms of the traditional organizational components of the Defense Establishment; and the force levels are established in relation to the objectives of our foreign policy and the military strategy associated with the attainment of those objectives. As President Eisenhower so rightly pointed out in his 1958 Message on Defense Reorganization:

"\* \* \* complete unity in our strategic planning and basic operational direction [is a vital necessity]. It is therefore mandatory that the initiative for this planning and direction rest not with the separate services but directly with the Secretary of Defense and his operational advisers, the Joint Chiefs of Staff, assisted by such staff organization as they deem necessary.

"No military task is of greater importance than the development of strategic plans which relate our revolutionary new weapons and force deployments to national security objectives. Genuine unity is indispensable at this starting point. No amount of subsequent coordination can eliminate duplication or doctrinal conflicts which are intruded into the first shaping of military programs."

It is interesting to recall in this connection that President Kennedy's Committee on Defense Reorganization, chaired by the distinguished Senator from Missouri, Stuart Symington, sought to achieve the same objective by eliminating the three major departments as such, vesting directly in the Secretary of Defense the administration of the services. I believe we have achieved a true unification of effort through the planning-programing-budgeting system without going through such a drastic upheaval in the organization of the Defense Establishment.

While we were able to avoid a sweeping reorganization of the basic structure of the Defense Department, we did find it necessary to make a number of organizational changes, particularly in the logistics area. In addition to the establishment of the Defense Supply Agency, with which you are fully familiar, major changes have been effected in the logistics organizations of the military departments. One of the most significant was the merging of the old "technical

services" into a new Army Materiel Command which now is responsible for the entire life cycle of Army materiel from research and development through production, supply and maintenance and eventually to its declaration as excess.

As I pointed out to this committee when I appeared here 2 years ago, the reorganization of the Army's technical services had been discussed with President Truman by Secretary of Defense Lovett in 1952—at that time Secretary Lovett said it would be "no more painful than backing into a buzz saw," but it was long overdue. Now that it has been accomplished I believe there is general agreement among all parties concerned that it was a sound and necessary decision. The merger, however, was not without its difficulties. The new Army Materiel Command inherited from its predecessors a number of different sets of procedures, forms, and ways of doing business which had developed over the long history of separate technical services. These had to be reconciled into a uniform system and it took the new command about a year simply to complete this task. The command now is, of course, a fully functioning, and we believe effective, organization.

For all of its relatively brief history as a separate service, the Air Force has centrally managed its logistics operations. The most recent significant change (effective in the spring of 1961) involved a realignment between the old Research and Development Command and the Air Materiel Command. A new Systems Command was established to manage all major weapon systems from the research and development phase through procurement, supply, and maintenance and declaration of excess, leaving to the new Logistics Command all other Air Force logistics functions.

Over and above these reorganizations of the logistics activities of the military departments, we have, of course, placed responsibility for the management of most common supplies and services in the Defense Supply Agency. The eight existing single managers for common supplies, the single manager for traffic management, the Armed Forces Supply Support Center and the surplus property sales offices, previously scattered throughout the Defense Department, were all consolidated in January 1962 under one management in that Agency. Later, additional responsibilities were assigned to the Agency, including the management of common electrical and electronics items, chemical supplies, automotive supplies and industrial production equipment. Admiral Lyle will report to you in detail on the progress of this Agency. Let me simply say that I believe our experience over the last 3 years has fully demonstrated the wisdom of this move.

Within the last year, we have given DSA the additional responsibility for the management of the consolidated contract administration function in the field. When fully completed by the end of fiscal year 1966, this action will bring under a single management the 150 field offices and some 20,000 personnel concerned with the administration of defense contracts after they are awarded, including such functions as materiel inspection, production expediting, industrial security, and payment of contractor invoices. The headquarters activity—the Office of the Deputy Director of DSA, Contract Administration Services—became operational on the 1st of February this year. The integration of field units is now proceeding under a schedule which will have the new system fully operational by the end of fiscal year 1966. We estimate that our contractors will, as a result of this action, realize significant annual savings in administrative costs which will, in time, be reflected in lower procurement costs for us. Additional direct savings to the Defense Department of \$19 million annually should result from the elimination of about 1,800 personnel spaces made possible by the consolidation.

More recently, as this committee had previously recommended, we have decided to consolidate the contract audit functions. This consolidation will result in the creation of a new defense agency, known as the Defense Contract Audit Agency (DCAA), bringing together under single management the activities now performed by the 268 offices of the three military departments employing over 3,400 people. As a tentative target, we expect that as many as 40 of the present field offices will be eliminated with an overall 5 percent savings in personnel spaces.

At the same time, we have embarked on an effort to consolidate all procurement regulations in one system by incorporating the service implementing regulations and instructions into the main body of Armed Services Procurement Regulations. This in itself should do much to eliminate unnecessary variations among the purchasing activities of the three military departments and DSA, thus easing for defense contractors the problems of doing business with the Government and, we would hope, decreasing the paperwork burden for both. Al-

though it will increase the scope of the ASPR's it should result in a significant decrease in the overall volume of procurement regulations.

In a further consolidation move last fall, I designated the Secretary of the Army as the single manager of military traffic terminals. His charter embraces traffic management, the control of movement into and out of air and ocean terminals, and the management and operation of common user ocean terminals. This consolidation should produce annual savings of \$14.1 million.

In my appearance before this committee 2 years ago, I noted that truly important savings in defense expenditures can be achieved only by attacking the entire spectrum of logistics activities—beginning with research and development, extending through procurement, production, construction of facilities, deployment, supply, maintenance, transportation, etc., and ending with disposal of surplus material and facilities. Decisions made during the development phase of a weapon system will affect not only the cost of development but also the cost of production and operation of the system throughout its life. But the research, development, test, and evaluation effort also deserves intensive management attention in its own right. Not only does it account for \$6½ billion a year of defense expenditures but, more important, it is the foundation for our future military strength.

There has been considerable discussion in recent years about the number of new developments being started. Yet, it is not the number of developments started but rather the number of developments successfully completed and which make a significant contribution to our military strength that is the true measure of how well the research and development program is being managed. As I pointed out to the committee 2 years ago:

"All too often large-scale weapon system developments, and even production programs, have been undertaken before we had clearly defined what was wanted and before we had clearly determined that there existed a suitable technological base on which to draw in developing a system. And, all too often, insufficient attention had been paid to how a proposed weapon system would be used; what it would cost, and, finally, whether the contribution the system could make to our military capability would be worth the cost."

As a result, many developments had to be terminated before completion and use. In fact, the records show that some 60 major research and development projects were terminated during the last 10 or 12 years after costs of well over \$6 billion had been incurred. The number and value of smaller canceled developments have never been counted.

It was plain to us that for management purposes, the entire R.D.T. & E. effort needed to be realigned. Clear distinctions had to be made among the various sequential phases of the development process, ranging from basic research through operational systems development because each phase has its own peculiar problems and requires somewhat different management standards and techniques.

Accordingly, the research and development process was divided into five significant steps or phases:

1. Research: The effort directed toward the expansion of knowledge of natural phenomena and our environment, and the solution of scientific problems.

2. Exploratory developments: The effort directed toward the expansion of technological knowledge and the development of materials, components, and subsystems which it is hoped will find some useful military application. Here the emphasis is on exploring feasibility of various approaches to the solution of specific military problems, up to the point of demonstrating feasibility with "breadboard" devices and prototype components and subsystems.

3. Advanced developments: The effort directed toward the development of experimental hardware for technical or operational testing of its suitability for military use, prior to the determination of whether the item should be designed or engineered for actual service use. Here is where we begin to identify each project with a specific military application or technique, and we begin to question in depth its potential military utility. During this phase we also begin to explore the costs of the most likely applications to determine whether the potential operational benefit would be worth the cost of development, production, and deployment.

4. Engineering developments: The effort directed toward the development of a particular system engineered for service use and for operational employment, but which has not as yet been approved for production and deployment. During this phase large commitments of resources must be made to single projects. Accordingly, before full-scale engineering development is initiated, the specific operational requirements and the cost effectiveness of the system must be confirmed, and goals, milestones and time schedules must be established.

5. Operational systems developments: The effort directed toward the continued development, test, evaluation, and design improvement of projects which have already entered (or have been approved for) the production-deployment stage.

The first 3 phases—research, exploratory developments and advanced developments—constitute the area of new technology formation. The last two—engineering developments and operational systems developments—cover the area of development, test and evaluation of specific new weapon systems and equipment. It is particularly from the second and third that we acquire the “technical building blocks,” i.e., the new techniques and critical components that we need for the development of major systems. We cannot do a proper job of engineering development, still less of operational systems development, unless these building blocks are available. Thus, the kinds of weapon systems we will have a decade from now will depend importantly upon how well we conduct the research, exploratory and advanced development phases of the R. & D. process over the next few years.

One of the management difficulties encountered in the past was the tendency to require that new technology efforts be justified in terms of an end-product development, since there was a reluctance to undertake work on new technologies or components which could not be directly related to some needed future weapon system. This, in our opinion, was a shortsighted approach on two counts: First, it led to a neglect of basic research and technology; and second, it resulted in the initiation of large numbers of system developments for which the basic technology had yet to be created, thereby foredooming many to failure. Because they were so numerous, the available funds were not nearly adequate to pursue them all at efficient and orderly rates and, as a consequence, many developments were overtaken by new technologies or changes in requirements and eventually had to be terminated before completion.

We now try to judge proposed research and exploratory development projects on their own merits, in relation to their potential contribution to the advancement of knowledge across the entire spectrum of science and technology of pertinence to the defense effort. Not until the third step, “advanced development,” do we begin to weigh the costs of the more likely applications against the potential operational benefits to making program decisions. Decisions affecting “research” and “exploratory development” projects do not normally involve this kind of consideration; instead, they are managed generally on a “level of effort” basis. It is interesting to note that expenditures for research, exploratory development and advanced development, which together constitute the area of new technology formation, have increased from less than \$1.9 billion in fiscal year 1962 to well over \$3.2 billion in the fiscal year 1966 budget request.

But while research and exploratory development, and even advanced development, do not necessarily have to be directly related to specific military requirements, a full-scale engineering development or an operational system development can be justified only in terms of its potential contribution to our strategy, considering both its cost and military effectiveness as well as the relative cost effectiveness of other alternatives. We are dealing here with billion dollar decisions, just for development alone. For example, we will have spent about \$1½ billion on the development and construction of two experimental B-70 heavy bombers and this project is still far from a full-scale weapons systems development. We invested about \$1½ billion in the Nike-Zeus anti-ballistic missile system before we shifted emphasis to a more advanced system, the Nike X which itself will require a comparable investment. The new Poseidon submarine-launched missile development, which we announced in January, will cost about \$900 million for development alone. The development cost of the new C-5A transport, also announced in January, is estimated at three-quarters of a billion dollars. Certainly, we should want to know, in at least approximate terms, what these projects, if produced and deployed, could add to our overall military strength and weigh these contributions against their total costs before we commit ourselves to such large expenditures.

Now, before we embark on a new major weapons systems development, we first conduct a series of studies during which we, together with our contractors, do our thinking and planning. These studies not only permit us to define the proposed program more clearly, assess better the technical risks, and determine the estimated costs and time schedule before commitment to full-scale development, but they also help us judge how well a proposed system might contribute to the attainment of our military objectives. We have found that, in most cases, careful and comprehensive prior planning saves time as well as money and results in more effective and dependable weapons.

In some critical areas, it may be necessary to develop major weapons systems even though we are not sure that they will ever be deployed or that a military requirement for them will actually emerge. The YF-12A is a case in point. A force of these advanced interceptor aircraft might be needed if the Soviets were to deploy a new supersonic long-range bomber. While they have not done so as yet they may in the future and we might not become aware of it until a prototype aircraft, or even the first production aircraft, was actually flying. To delay the start of the development of a new interceptor until that time might have put us at a serious disadvantage. This is an example where the development of an expensive technology and even a full weapons system was thought to be clearly justified, before an actual military requirement presented itself.

The new Poseidon missile falls into the same category. Our principal interest in this missile is its potential capability to carry a heavy load of penetration aids which may be required if the Soviet Union should ever deploy a sophisticated ballistic missile defense on a large scale. It was for the same reason that we have invested almost a billion dollars in the development of penetration aids for all of our present missiles. Although this latter program is often overlooked in the debate on "new developments," its contribution to our strategic offensive capability in the long run could be of major importance.

As I stated before, how well a research and development project is managed will not only influence the development cost itself but will also help determine to a significant extent the costs of production and operation, particularly the cost of the logistics system. In this connection, I noticed that in your last report on the "Economic Impact of Federal Supply and Service Activities," you express some disappointment in the progress of our standardization program and in the continued increase in the value of military property holdings. First, I would like to point out that although the value of our total personal property inventory is increasing, the value of stocks in our supply systems is actually decreasing, both absolutely and in relation to the total personal property inventory. Whereas, at the end of fiscal year 1960, the supply system accounted for 62 percent of the value of the end-item inventory, by the end of fiscal year 1964 it was down to 48 percent. In other words, at the end of fiscal year 1960, we had \$42 billion of stocks in our supply systems supporting about \$68 billion of weapons and equipment compared with about \$39 billion of supplies supporting \$81½ billion of end-items at the end of fiscal year 1964. This, I submit, is a very good record. The increase in the stocks of weapons and equipment reflects the buildup of our forces over the last 4 fiscal years as well as the increase in the average unit costs of the aircraft, missiles, ships, etc., now entering the inventory.

It is true that we are still introducing into the supply system almost the same number of new items as we are eliminating each year. Nevertheless, this in itself should be viewed as an achievement, since up until recent years, we had actually been adding more items than we had been eliminating. From the end fiscal year 1958 to the end fiscal year 1962, the number of items in our supply system increased from about 3.4 million to nearly 4 million. But from that time through fiscal year 1964, the number of items leveled out at about 3.9 million and during the past 8 months has actually begun to decrease.

Although we have been quite successful in purging our inventories of duplicative items through our standardization program, it is now clear that the real problem is to reduce the number of new items entering the inventory. This, we are now doing through our item entry control system which was initiated in fiscal year 1963. Admiral Lyle will discuss this effort in greater detail but I would like to point out now that during a 6 months' test of the system last year in which about 25 percent of all requests for new stock numbers were reviewed, 42 percent of those screened were rejected for one reason or another with 32 percent of the total found to have existing Federal stock numbers or recommended substitutes already in the supply system. The proportion of requests for new catalog numbers being screened by the system has been rising steadily. The services, too, are conducting direct item screening in the major weapon areas. The Army Missile Command, for example, has a continuing program to review proposed new missile parts. As a result of this program, out of some quarter of a million repair parts used in Army missiles, some 31 percent are now standard items and an additional 14 percent are common to more than one application.

But much more fundamental to the task of minimizing the number of new items entering the inventories than "screening" is the extension of the standardization philosophy back into the research and development stage. Here is where the decisions are really made to add new items to the supply system and the

consequences of these decisions cannot be undone at the supply support stage. Each time a new weapon enters the inventory, it brings with it thousands of new items of spares and support equipment. That is why any serious attempt to reduce the number of different items in our logistics system and thereby reduce logistics costs, must begin in the research and development stage.

Two years ago when I appeared before this committee, I discussed with you our efforts to minimize parallel developments which could lead to parallel production programs and supply inventories. I pointed to the standardization of the F-4 as a tactical fighter for the Air Force as well as the Navy and my decision to assign to the Air Force supply management responsibility for all spares and components peculiar to the F-4 aircraft. I also mentioned that I had asked the Air Force and the Navy to develop and submit for my approval joint plans for the maintenance of this aircraft, the cost of which will eventually involve over \$300 million annually. This has been done and we are now well along in achieving a single integrated system of maintenance and spares management for both Air Force and Navy F-4's.

Our largest single effort in this direction to date has, of course, been the F-111 (TFX) which I described to you 2 years ago. The project, as a whole, is going well and just last month we took the first steps to commit the aircraft to production. I am convinced that the F-111 program will produce substantial savings not only in the development and production phases but in the logistics support as well. An integrated materiel management and maintenance plan has been jointly prepared by the Navy and the Air Force with support to be provided by the Air Force for about 10,000 to 15,000 items common to both aircraft. Because joint logistics planning was possible from the beginning of the project, the F-111 plan should be considerably more effective than the F-4 plan which had to be developed after the airplane had already entered production for the Navy.

The possibilities for common development programs, however, are relatively quite limited because of the difference in missions among the four military services. But even where a full-scale common development program is not feasible, we can and should standardize on components and parts within a particular development program and, wherever possible, incorporate in new designs, components, and parts already available in the Defense supply system. The vigorous application of these principles should open up new and important possibilities for reducing the number of new-item entries into the supply system as well as expanding opportunities for using existing stocks of components and parts which may be in excess to our current supply requirements. With regard to the latter, it would also facilitate advertised competitive bidding inasmuch as we already have engineering drawings and technical data for items now in our inventory. Thus, a new effort directed along these lines would do much to solve a number of problems which have long been a matter of concern to this committee.

However, if standardization is to begin in the design and development stage, it is necessary, as the committee noted in its September 1964 report: " \* \* \* that the views of research and development as well as production, supply, and service people be merged into final decisions." To meet this need and to insure the coordination of the closely related technical data program within the Department, we established in March 1964 a Department of Defense Council on Technical Data and Standardization Policy, cochaired by the Assistant Secretary of Defense (Installations and Logistics) and the Deputy Director, Defense Research and Engineering. To provide staff support for the Council, in both the technical data and standardization areas, we established in June 1964 an Office of Technical Data and Standardization Policy within the Office of the Assistant Secretary of Defense (Installations and Logistics). With regard to standardization, this Office is responsible for:

- (1) Administering and managing the standardization program, including the establishment of policies, procedures, and controls;
- (2) Establishing a system of reports to measure progress in achieving the program objectives;
- (3) Insuring that the implementing instructions of the Military Departments and Defense agencies are mutually compatible;
- (4) Resolving, or referring to the Council, differences on any phase of the program which cannot be settled at the Military Department-Defense agency level.

To encourage the standardization of components and parts within a single development project, we plan to include a requirement to that effect wherever appropriate in all future development contracts. To facilitate the developer's

use of existing components and parts, we are making a major effort to improve our data storage and retrieval systems. Obviously, if designers are to make use of items already in our inventories, they must have ready access to adequate technical descriptions, specifications, engineering drawings, etc. Considering the enormous number of items involved, it is clear that this is a major undertaking in itself. Several techniques are now being explored to provide such data more quickly than is now possible and in a more readily usable form.

One word of caution is in order here: We must be careful that our effort to encourage the use of existing items in new developments is not pressed to the point where we are stultifying technical progress. Small improvements in the large numbers of bits and pieces which make up any major end item may cumulatively produce significant advances in its overall performance, and we should not want to lose that kind of benefit. Similarly, in the "break out" of components and spares for competitive procurement, we want to be sure that there will be no interruption in the support of the end item in the field. In both cases, full consideration must always be given to the claims of the operational requirement.

All of the measures which I have described, and the many others which I have not had time to discuss, are designed to simplify and improve the management of the Defense Department's logistics functions. But simply providing the proper organizational framework, sound policies and efficient procedures is not enough. By themselves, they cannot insure economy and efficiency in our day-to-day logistics operations which involve the actions and decisions of literally hundreds of thousands of Defense employees spread around the world. These people must be properly motivated and provided with a continuing stimulus and incentive for efficiency and economy at all levels of the Department's operation, and that is the basic objective of the cost reduction program.

But, as I noted last year, a program of this type can succeed only if—

- (1) It is vigorously supported by the entire management of the Department, from the Secretary on down to the lowest managerial level;
- (2) Firm, clearly defined goals are set for each level of management and the objectives, methods, and procedures of the program are clearly explained to and accepted by the people who have to achieve the goals.
- (3) A uniform and effective system of progress reporting is established to insure adequate followup on performance; and
- (4) Both the goals and the results are thoroughly audited by an independent group to insure the savings being reported are valid and can be properly substantiated.

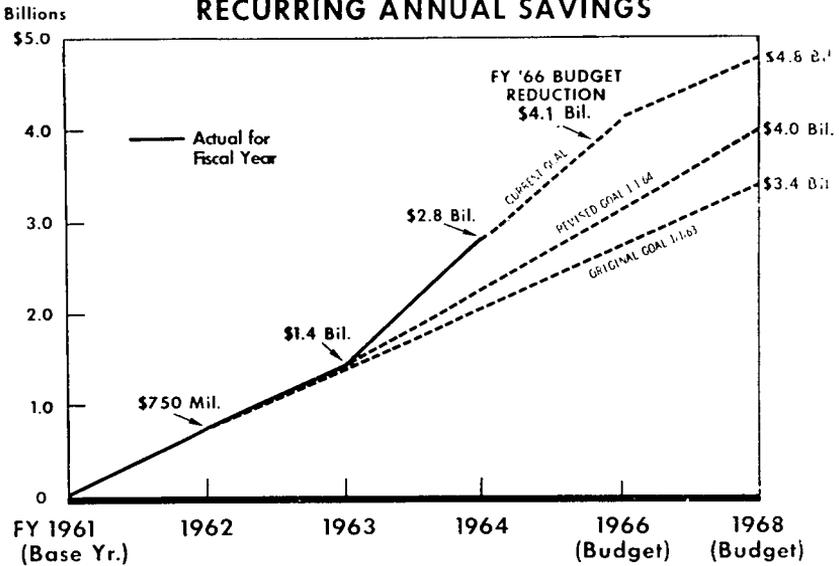
The Defense Department's cost reduction program is based on these principles. The initial targets are actually developed at the lowest levels of management and are then aggregated and reviewed at each successively higher level up to my own office. As a result, when the overall goals are finally approved at the Defense Department level, all logistics managers understand what is expected of them and have, in fact, been given an opportunity to participate directly in the formulation of the program's objectives.

To add to this built-in stimulus of having a specific goal to strive for, we initiated last year a new system of awards, over and above those given in the regular incentive awards program. After an intensive review of the best of the thousands of cost reduction ideas submitted by our logistics organizations, 19 civilian and military personnel were singled out for special commendation. To emphasize the importance which the administration attaches to this program, these initial awards were made personally by the President in a special ceremony at the Pentagon. The individual Military Departments are also making special awards for outstanding achievement in this program. Recognition by top management of jobs well done is indispensable to the success of such an effort. The cost reduction program must have the full and sustained support and interest of the entire management structure if we are to expect continuing concern and involvement of the people who must actually produce the results.

Inasmuch as I have discussed the character of this program in some detail in my previous appearances before this committee, I would like at this time simply to give you a brief progress report and highlight some of the areas in which this committee has expressed a particular interest.

As shown on the chart below, we have successively raised our ultimate goal each year since the inception of the program and it now stands at \$4.8 billion per year to be achieved in fiscal year 1968, compared with the \$4 billion I mentioned here last year. Based on the progress achieved during the first 6 months, I am certain that we will exceed our goal for the current fiscal year and be able to raise the ultimate objective above \$4.8 billion.

## PROGRESS OF DoD COST REDUCTION PROGRAM RECURRING ANNUAL SAVINGS



This achievement is a tribute to the entire Defense Establishment. As I noted on previous occasions, the top management of the Department can plan the program, establish objectives, prescribe the organization and procedures, and follow up on the execution but, in the final analysis, its success depends on the skill, understanding, and support of the people who must actually carry out the program.

As a result of this cost-reduction effort, the fiscal year 1966 budget now before the Congress is some \$4.1 billion less than it otherwise would have been. And it is worth noting that the program has also contributed to a reduction in Defense expenditures below the amounts originally estimated for both fiscal years 1964 and 1965. A detailed analysis of expenditures for these two fiscal years reveals that refinements of requirements and lower purchase prices alone have reduced expenditures about one-half of a billion dollars in each year, over and above the anticipated cost-reduction savings deleted from the budgets of those years. In other words, we are actually buying weapons and equipment at prices lower than we had estimated in those budgets. This, I understand, is a rare experience for the Defense Department and I ascribe it in large measure to our efforts to increase competitive procurement and reduce cost-plus-fixed-fee contracts. These additional savings are included in the \$3.2 billion of prior-year appropriations which have been applied to our fiscal year 1966 budget in lieu of new appropriations.

The detailed goals and accomplishments of the cost reduction program are listed on the table attached to this statement, but I have summarized and will discuss them in terms of the three categories shown below :

[In billions]

	Savings reflected in fiscal year 1966 budget	Savings goal by fiscal year 1968
1. Buying only what we need.....	\$2.0	\$2.0
2. Buying at the lowest sound price.....	1.0	1.1
3. Reducing operating costs.....	1.1	1.7
Total.....	4.1	4.8

## BUYING ONLY WHAT WE NEED

As you can see from the attached table, better analysis of our materiel requirements continues to offer major opportunities for savings. Basically, this effort is aimed at pruning out of each proposed procurement program every nonessential item. The value of such savings reflected in the fiscal year 1966 budget totals \$1.7 billion. They result from literally thousands of individual reviews made by managers at all levels to insure that inventories of end items, spare parts and consumables are held to the minimums required to meet the needs of approved forces and mobilization objectives.

Not included in these savings is a reduction of \$24 billion which we made a few years ago during our initial review of the stated requirements for military equipment and supplies. These requirements were based on unilateral service war plans, which were not in balance with one another. This kind of requirements calculation is worse than useless—it distorts the true requirement and makes effective management of the program virtually impossible. I have, therefore, insisted that our approved war plans, force structures and materiel requirements be brought into appropriate balance and kept that way. There is no point in having forces which cannot be adequately supported in combat or war plans that cannot be properly carried out by the forces being supported.

This is one of the principal reasons why we have recommended the elimination of 21 divisions and various nondivisional units in the Army Reserve components. These units are not required to support our contingency plans. Furthermore, they have only about 35 percent of their authorized equipment on hand and much of this is substandard and unsatisfactory for combat use. Thus, in the event of a callup, these units would have to be completely re-equipped and even under the best of conditions, this would require 12 to 18 months—about the same time it would take to organize, train, and equip new units. To acquire the necessary equipment and war consumables for these forces during peacetime would cost about \$10 billion. Such an expenditure would be clearly unjustified for units for which there is no requirement in our contingency war plans.

“Buying only what we need” also means utilizing excess inventories instead of turning to new procurement. Since fiscal year 1961, we have steadily increased the use of excess stocks and in fiscal year 1964, about \$1.3 billion of such stocks were returned to productive use, about \$330 million more than in fiscal year 1961. On the basis of progress made during the first 6 months of fiscal year 1965, we expect to exceed our goal for that year and make still further progress in fiscal year 1966.

It is not enough to determine simply the proper quantitative requirement for equipment and supplies. We cannot afford to buy qualitative features which are not essential to meet the standards of performance, reliability and durability required by the military mission.

Last year, we estimated that, by simplifying our specifications to eliminate “frills” or “goldplating” and by employing greater ingenuity in seeking out less costly materials and designs, we could eventually save \$145 million annually. That estimate has proved to be far too conservative; in fact, actions initiated through fiscal year 1964 alone will ultimately save \$224 million in the cost of defense hardware—half again more than last year's goal. Moreover, I am convinced that given a proper plan of organization for value engineering, the fiscal year 1964 performance can be at least doubled. To this end I have asked the military departments and DSA to propose plans for augmenting our staff of full time qualified value engineers and have established an evaluation group to help me judge their proposals.

Looking ahead, we now believe that savings of \$500 million annually will ultimately be attainable through “value engineering” techniques. This improved outlook stems not only from our own stepped-up program but also from the excellent assistance we are now receiving from industry in challenging unnecessary quality features in our procurement specifications and in seeking out more economical ways to do the job. Last year, 580 cost savings of this type were proposed by our principal defense contractors, and we expect this number to increase significantly in the future.

Here are some examples of recent savings achieved in fiscal year 1964 by eliminating “goldplating”:

	Unit cost		Savings on current procurement
	Before redesign	After redesign	
M-449 projectile: Eliminated components, simplified manufacturing and assembly processes.....	\$116	\$71	\$4, 480, 800
Xenon searchlights: Redesigned the reflectors to eliminate the excessive supporting members.....	1, 757	465	1, 476, 600
Container for LANCE missile propulsion system: Substituted lightweight design made of fibreglass and aluminum for a bulky steel container.....	2, 732	869	174, 400
Tilting tailpipe for A-8A aircraft: Eliminated as nonessential after analyzing operational experience. Weight reduced 154 pounds per aircraft.....	31, 911	0	765, 864

The final item in this category of "Buying only what we need," is inventory item reduction, which I have already discussed at some length. Although we have not recorded any savings from this source heretofore, we have deleted \$72 million from the fiscal year 1966 budget in anticipation of the progress we expect to make as a result of the measures I discussed earlier.

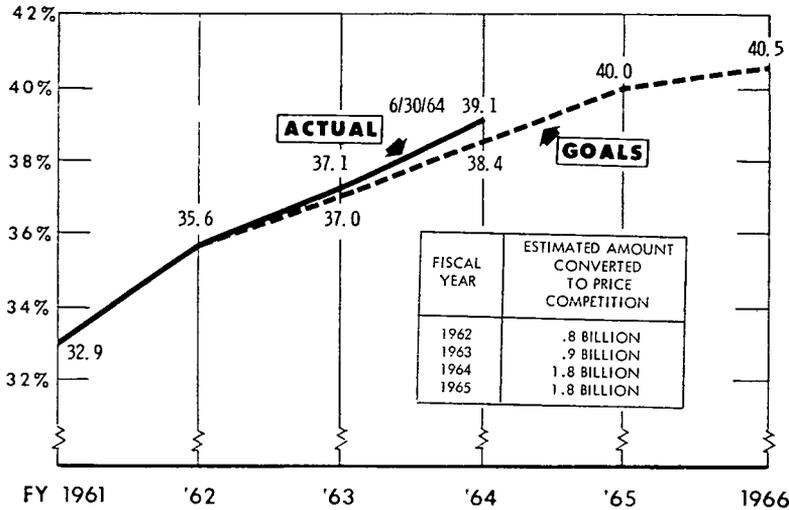
#### BUYING AT THE LOWEST SOUND PRICE

During the past 4 years, we have devoted much attention to strengthening the policies and practices governing the 10 million purchase actions made annually by the Department of Defense. As a result, we believe that most of the steps needed to realize the savings potential in this area of the 5-year cost reduction program have now been initiated. To date, these actions have resulted in a marked increase in competitive procurement and the elimination of cost-plus-fixed-fee contracts in all but those few cases where it is generally agreed that this is the most suitable type. Procurement savings stemming from these measures will amount to over \$1 billion in fiscal year 1966 and future years, as shown on the table.

Early in 1961, we began a detailed analysis of Defense purchasing practices to determine whether more of our procurements could not be made on the basis of free and open competition, with award to the lowest responsible, responsive bidder. From this analysis, we found significant opportunities to increase competitive buying and we have pursued them energetically.

In fiscal year 1961, 32.9 percent of the value of our contracts were awarded on the basis of price competition. However, our analysis of this performance showed that with better planning by our more than 800 design, engineering, and requirements staffs, this rate could and should be raised to about 40 percent. Continued progress was made during fiscal year 1964 in shifting from noncompetitive to competitive procurement. As shown on the next chart, 39.1 percent of the total value of our contracts was awarded on a competitive basis, significantly in excess of the goal for that year. Based on the progress made during the first 6 months of the current fiscal year, it appears that we will meet or exceed our goal of 40 percent for fiscal year 1965 and 40.5 percent for fiscal year 1966.

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



In reaching our objective we will have shifted about \$1.8 billion of our annual procurement program from noncompetitive to competitive-type contracts at an average savings of 25 cents for each dollar shifted. As a result of this shift, anticipated savings of \$414 million have been reflected in the fiscal year 1966 budget request. Some recent examples of the savings achieved are shown below:

Item	Non-competitive unit price	Competitive unit price	Percent reduction	Total savings
Antiexposure coverall.....	\$358.80	\$171.12	52	\$91,340
Helicopter armament subsystem.....	19,471.00	10,218.00	47	2,165,337
Electronics assembly (Polaris guidance).....	48,287.00	37,127.00	23	4,924,466
Gimbal assembly (Polaris guidance).....	77,834.00	47,168.00	39	13,696,015
Radio receiver-transmitter (AN/ARC-51).....	4,670.00	3,207.00	31	1,958,712
Target control system (AN/SRW-4B).....	44,804.00	31,619.00	29	265,787
Test set, target control system (AN/SRM-2).....	34,973.00	23,746.00	32	44,909
Radio transmitter-receiver (AN/SRC-20).....	12,375.00	9,025.00	27	556,100
Submarine antenna (AT-317).....	2,327.00	1,759.00	24	67,175
Accessory kits (MK 706/PRC-41).....	1,344.44	878.32	35	151,022
Signal comparator (CM-122).....	36,000.00	26,550.00	26	340,200

Short of a very recent innovation which I will discuss in a moment, we believe that there are only a few areas in which we can expect to achieve further significant increases in the degree of price competition. These include:

- (1) A few additional military end items for which detailed specifications are available, such as ships, tanks, guns, and certain electronics equipment;
- (2) Spare parts; and
- (3) Maintenance and repair services for equipment and facilities.

All of these possibilities for expanding the scope of competitive procurement are being intensively explored and, as I indicated earlier, we are moving forward with the "breakout" program for the competitive procurement of spare parts and components. But one major area of sole source procurement has, up to now, evaded solution and that is the procurement of major weapons systems involving extensive development effort. Last year when I appeared before this committee, I noted that:

"\*\*\* Where large engineering and tooling costs are involved, which is typically the case in aircraft, missiles, and many other complex weapon systems, it is unlikely that any new source could compete successfully against the development contractor who has already incurred these costs. Accordingly, we have no alternative but to place the follow-on procurement contracts with the development contractor."

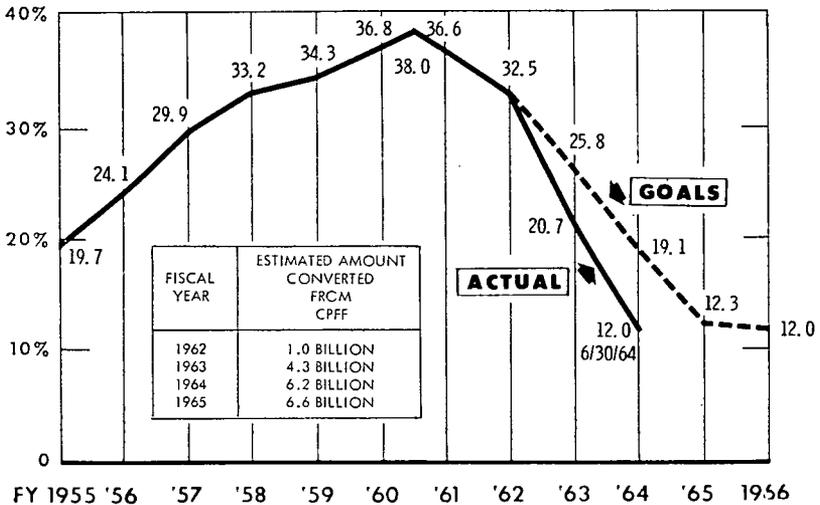
Although we have attempted in the past to obtain at least some degree of competition in the project definition phase of such programs, once the development contract was let, we were, for all practical purposes, limited to sole source procurement from the development contractor. This led to a tendency for contractors to try to "buy in" on the development contract in the expectation of making their profit on the production contract. To solve this problem, we have developed during the last year a new procurement technique which we plan to use for the first time in connection with the acquisition of the C-5A aircraft. The value of this program, for development and production of 58 operational aircraft and a small number of prototypes is estimated at \$2.2 billion.

Under this procurement concept, one contract will be awarded competitively for the development and production of the C-5A system, less engines and other Government-furnished equipment. Similar contracts will be awarded on a competitive basis for the engines. Appropriate options will be provided in the contract for any future changes in the number of aircraft to be procured. Although the basic contract will be a multiyear procurement, each annual increment will be separately funded in accordance with the law and the desires of the Congress. We hope that all the terms and conditions of the entire transaction will be settled through competition so that definitive contracts can be awarded to the winning contractors. In this way, we expect to apply the principle of competition not only to the development phase of the program but to the "life cycle" of the production program.

At the same time that we have increased competitive procurement generally, we have also increased the volume placed through formal advertising, from \$2.9 billion in fiscal year 1961 to \$4.1 billion in fiscal year 1964, or from 11.9 to 14.4 percent. I believe this to be a significant achievement considering the relatively limited areas to which formal advertised procurement is applicable. Two new techniques have contributed significantly to this result—the two-step formal advertising procedure and multiyear procurements. I described the former to you last year. The latter technique involves the procurement of more than 1 year's requirement of an item in a single competitive contract, often through the use of the two-step advertising procedure. The larger production run, of course, permits the bidders to offer lower unit prices. However, each single annual increment of such a contract is funded separately. A study of 42 multiyear contracts awarded since fiscal year 1962 indicates average savings of about 10 percent.

In addition to increasing competitive buying, we have sought to "buy at the lowest sound price" in shifting procurement from cost-plus-fixed-fee to fixed-price and incentive-type contracts. Progress here has exceeded our expectations, as shown on the next chart.

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



From a peak of 38 percent of total awards, CPFF contracts have declined to 12 percent, well below our fiscal year 1964 goal of 19.1 percent. We estimate that at least 10 cents is saved on every dollar shifted from CPFF contracts. As a result, we have been able to reduce our fiscal year 1966 budget request by about \$600 million. CPFF contracts are now used only when no other form of contract is suitable, e.g., in exploratory developments or study projects where no meaningful measure of performance can be established in advance.

#### REDUCING OPERATING COSTS

This third category of cost reduction actions is designed to increase the efficiency of our various supply, maintenance, communications, transportation, and other support activities. In total, our goal in this area is to achieve annual savings of \$1.7 billion by fiscal year 1968. During fiscal year 1964, we actually realized savings of \$757 million and the anticipated savings incorporated in the fiscal year 1966 budget request total \$1.1 billion.

Since my appearance here last year, another major step forward has been taken to close unneeded Government-owned facilities. From an original list of 73 closure actions announced in 1961, the number has now grown to 669, and the recurring annual savings from \$220 million to over \$1 billion, after deducting all one-time closing and relocation costs.

These results have been achieved through a systematic evaluation of each category of installations by a full-time staff in the Office of the Assistant Secretary of Defense (Installations and Logistics), assisted by similar staffs in each of the military departments. Among the functional systems studied were the Defense Supply Agency's supply and distribution facilities; the record centers of all of the Services; the military ocean terminals; the naval shipyards; the Air Force supply and maintenance depots; the Strategic Air Command base structure, etc. In each case, the facilities excess to requirements were identified and placed on the closure list.

As shown below, the list of base closings announced late last year is one of the largest such actions we have taken thus far.

#### *Summary of actions to eliminate surplus, obsolete facilities (January 20, 1961, through December 31, 1964)*

Date	Number of actions	Jobs		Acres released	Annual savings
		Dislocated	Eliminated		
To Nov. 18, 1964.....	574	144,950	85,834	1,000,000	\$577,000,000
Nov. 18, 1964.....	95	145,872	64,047	480,267	461,000,000
Total.....	669	290,822	149,881	1,480,267	1,038,000,000

Although totaling only 95 (80 in the United States), they have virtually doubled the number of military and civilian positions eliminated as well as the ultimate level of recurring annual savings. In fact, about 146,000 military and civilian personnel will be dislocated by these most recently announced closings. About 82,000 of the jobs will be moved to other locations but the remaining 64,000 positions will be eliminated.

Included in this list of 95 closures are some very large facilities: Brookley Air Force Base, at Mobile, Ala., with more than 13,000 military and civilian jobs; the Air Materiel Area of Norton Air Force Base, at San Bernardino, Calif., with about 8,500 jobs; Hunter Air Force Base, at Savannah, Ga., with about 5,800; Schilling Air Force Base, at Salina, Kans., with 5,400; Lincoln Air Force Base, at Lincoln, Nebr., with 6,800 jobs; Portsmouth Naval Shipyard in New Hampshire, with 7,600 jobs; the New York Naval Shipyard, with about 9,800 jobs; and Amarillo Air Force Base, at Amarillo, Tex., with about 7,100 jobs. Because of the magnitude of some of these installation closings, their activities will be phased out over a period of years.

Nevertheless, the impact of these base closures on the employees and communities involved will be substantial and we are very well aware of that fact. With regard to its own employees, the Defense Department, in my judgment, bears a special responsibility as an employer. It has always been my contention that the burden of major dislocations caused by our dynamic economy should not have to be borne solely by the people directly involved. Our society, within reason, should help to carry that burden, and I refer here not only to the Federal

Government but to State and local governments and industry as well. This is desirable not only on the basis of equity but also to facilitate the changes required for progress.

When I first suggested that the Defense Department, as an employer, assume the responsibility for finding a new job opportunity for every employee dislocated by a base closure, there was much skepticism among some of my associates in the Department. They pointed out that the Defense Department would be assuming a new responsibility which it had heretofore avoided on the grounds that there were other Government programs designed to take care of unemployed workers and that the cost of any new effort would have to be borne by the Department. Yet it seemed to me that both for reasons of fairness to our employees and in the Government's own interest, the Defense Department should assume that responsibility. In a program as dynamic as Defense, major changes are unavoidable and must be made in a timely fashion if the program is to be managed efficiently. As I pointed out in the spring of 1961 in connection with the initial set of President Kennedy's amendments to the fiscal year 1962 budget:

"Technological progress causes obsolescence not only in weapon systems, but also in the often highly specialized facilities constructed for their deployment and maintenance. Just as we continually measure our weapon system development and procurement programs against the ever-changing yardstick of military need, so, too, we review our worldwide complex of installations in light of our present and future requirements. Facilities and installations which fail this test of true need only encumber the national security effort and waste resources."

But these necessary changes will be bitterly resisted if the full burden has to be borne solely by the employees affected. It is therefore in the national interest for the Defense Department, as an employer, to mitigate these hardships to the full extent that the law permits, and this is what we have undertaken to do.

To this end, we have established a continuing employment opportunity program designed to protect the job security of our employees, to minimize personal hardships resulting from Defense program shifts, to preserve the talents and experience of our work force, and over the long run to improve the climate for change itself. Under this program every career employee, dislocated by a base closure, is being offered another job opportunity and wherever possible he is given a choice of locations.

When a displaced career employee is offered a job at some other Defense installation, we now pay the appropriate expenses of moving his family and household goods. If he accepts a lower paying job or moves to a lower pay rate area, his present pay will be continued for a period of 2 years. Where a temporary waiver of qualification requirements will facilitate the placement of a career employee in a job for which he can be trained, this is being done under special arrangements worked out by the Civil Service Commission. Where feasible, we are also undertaking special retraining programs for dislocated career employees.

To facilitate this employment opportunity program we have instituted a series of hiring freezes and limitations on permanent appointments, thus, in effect "stockpiling" jobs for career employees who are scheduled to be displaced as a result of actions taken by the Department of Defense. Just 2 months ago we established at Dayton, Ohio, a nationwide centralized referral activity. Prior to that time, we depended principally upon a regional placement program in which qualified displaced employees were matched with job openings occurring within their own civil service region. Under the new system, placement opportunities will be greatly broadened and this referral process considerably speeded. In the first 7 weeks of operation, more than 6,800 employee applications were registered in the system and about 6,500 requisitions representing about 14,000 jobs were received. These numbers are expected to grow significantly in the months ahead. Finally, we are aggressively seeking the assistance of State employment services in finding jobs in industry and the Civil Service Commission in locating job opportunities in other Government agencies.

This program requires a major effort on the part of Defense management and it costs money. But, in my judgment, it is well worth the cost and the effort involved. And in this connection may I say that I don't think early retirement is a good substitute for productive employment. It would be easier on Defense management but much harder on the individuals involved and much more costly for our Nation. No self-respecting American in his early forties would want to live on a retirement income; what he wants and should have is a productive role in our society.

Admittedly, our efforts to help our own dislocated employees may not solve the problems of the communities affected by our base closing actions, especially

when the new jobs offered them are at other places. Although our responsibility in this instance is not as direct as in the case of our own employees, we still should do what we can to alleviate the impact. It was for this reason that I established in March 1961, a new Office of Economic Adjustment under the Assistant Secretary of Defense (Installations and Logistics). This Office is designed to work with the affected communities to help them find alternative uses for whatever Government facilities may be available and to advise them on other programs of assistance offered by the Federal Government.

In working with these communities, the Office of Economic Adjustment encourages and assists local leadership to identify and exploit their own resources for economic growth. Officials of local defense firms are encouraged to participate in this effort. Members of the staff of the Office of Economic Adjustment visit the communities on their invitation and therefore the cooperation of a community's leadership is an indispensable element in the success of this effort. The Office of Economic Adjustment can serve as the focal point and provide ideas and advice and put the local officials in touch with the appropriate Government agencies. But the initiative must rest with the local community and cooperation must be forthcoming if any useful results are to be achieved.

Representatives of the Office of Economic Adjustment have now completed initial visits to most of the communities affected by the base closings announced last November which have requested assistance. These include Mobile, Ala.; San Bernardino, Calif.; Savannah, Ga.; Terre Haute, Ind.; Salina, Kans.; Glasgow, Mont.; Lincoln, Nebr.; Reno, Nev.; Portsmouth, N.H.; Middletown, Pa.; Amarillo, Tex.; Moses Lake, Wash.; and Madison, Wis. These initial visits are intended to lay the organizational groundwork for continuing cooperation between the community and the Federal Government.

We have found in most cases that swift, aggressive action can usually reduce and shorten the local economic impact of these closing actions. For example, shortly after we announced that Schilling Air Force Base at Salina, Kans., would be closed by this coming June 30, a group of local leaders, accompanied by Governor-elect Avery, Congressmen Dale and Shriver and representatives of Senators Carlson and Pearson met with Deputy Secretary Vance to arrange for the assistance of the Office of Economic Adjustment. Since that time, readjustment planning has moved forward at a very good pace. By next September a vocational school will open occupying part of the facilities of the former base. Action has been taken to freeze the transfer of surplus industrial type equipment located at the base which might be of use in the school's training program. Within the past few weeks, the State legislature has passed a bill approving some quarter of a million dollars for the establishment of a technical institute which will eventually enroll about 1,500 students. Also well along in planning is a new campus for Kansas Wesleyan University. Both of these new activities will occupy former base facilities. Still another portion of Schilling will become a municipal airport. The local planning group, known as the Schilling Development Council, has "fathered" enabling State legislation permitting the creation of a public authority to buy some of the remaining property for use as a large industrial park.

The final story at Schilling has yet to be written, of course. The closing of the airbase was, by any measure, a staggering economic loss. Some 5,000 military and 350 civilian jobs, upward of a quarter of total area employment, were lost to the community by this single action, not counting those jobs indirectly supported by the military activities at Schilling. Nevertheless, the prompt response of community leaders and the Government agencies at all levels makes the prognosis, in this case, I believe, good.

But, Schilling is not an isolated case. We now have extensive evidence that when obsolete or surplus military facilities are made available for long-term civilian uses, they are frequently of even greater economic benefit to the communities immediately concerned. An analysis of what has happened to the military properties released since 1961 clearly demonstrates the wide range of productive civilian uses to which these facilities can be put:

New use	Locations	States	Acres
Other Federal agencies .....	29	21	23, 101
Civic airports.....	18	10	5, 763
Schools and universities.....	54	28	7, 655
Public domain.....	6	3	627, 785
Parks, recreation, community development.....	66	28	35, 407
Private industry for production.....	22	10	6, 218
Individuals and small companies.....	55	10	26, 550

Altogether, communities in 44 different States have been beneficiaries of these disposals, and the return to the U.S. Treasury has been over \$84 million. I believe you are already familiar with some of the cases where base closings have actually resulted in the creation of more jobs for the communities involved:

Presque Isle, Maine, where today a new industrial complex provides jobs for 2,000 civilians (compared with a former Defense employment of 1,200 military and civilians) and where the former SNARK missile base itself provides educational, commercial aviation, local government and industrial facilities.

The former Army signal depot facilities at Decatur, Ill., where the new private owners employ half again as many civilians as did the Army and are still adding workers.

The former Naval Ordnance Plant at York, Pa., which was sold for \$9.6 million as a going concern to a private company which promptly rehired the entire work force and has since increased employment by 60 percent.

The following are some more recent cases:

The same kind of "going concern" disposal so successfully employed at York, Pa., is now being developed for the Naval Ordnance Plant in Macon, Ga., and it is anticipated the sale will be completed before the end of calendar year 1965.

The University of Southwestern Louisiana now plans to open a new 3,000-student, general studies campus on the site of the former New Iberia Naval Air Station, which closed in January 1965. A regional airport will be located on the airfield portion of the station. The university's payroll will more than offset the economic effect of the loss of the air station.

On April 5, 1965, Governor Connally of Texas announced that Texas A. & M. University will locate a top quality, modern, 2,500 student vocational-technical institute at James Connally Air Force Base after it closes in July 1966.

On April 9, President Johnson formally opened a 2,000-man Job Corps training center at the former Camp Gary in San Marcos, Tex. The Defense Department provided equipment needed for operation of the center. Five other major 2,000- to 2,500-man Job Corps centers are being located on former military installations. In addition, smaller Job Corps camps are being planned on several radar sites and smaller installations being released by the Defense Department.

In addition to these base closures, major changes in the defense procurement program also have an important impact on the economy, particularly on those industries and companies which are heavily dependent on defense work and on those communities in which they are located. Although we are concerned with the impact of our program on the Nation as a whole and on the individuals, firms and communities affected, both our responsibility and our capability to mitigate the impact are more limited than in the case of our own employees or the communities in which our bases are located.

We recognize our obligation to do everything we properly can to minimize the disruptive effects of changes in our programs and to assist insofar as we are able and the law permits those who are adversely affected by these changes. The Defense Department, however, cannot and should not assume responsibilities for creating a level of demand adequate to keep either the national or a local economy healthy and growing.

Actually, in the aggregate, the changes taking place in the defense program today are not as severe as those which have taken place in previous periods, notably after World War II and the Korean War. Indeed, their effects on the economy as a whole are not far different in kind or degree from those which periodically take place as a result of changes in civilian demand or technology, or the exhaustion of natural resources in a particular area. Adjustments to all of these changes can best be accomplished when the economy as a whole is expanding. Thus, the most fundamental answer to the defense impact problem is a strong and growing economy, a development which we would want to foster in any event.

There are, however, a number of measures which the Government can take to alleviate hardships on particular individuals and communities during the period of readjustment. Most of these measures are the responsibilities of other Government agencies both Federal and State. They include the maintenance of employee income during periods of readjustment, job information and placement services, training and retraining, relocation allowances, assistance to communities and, in a limited way, assistance to firms. All of these measures and others

are now being studied by the President's Committee on the Economic Impact of Defense and Disarmament and a report of their findings, conclusions, and recommendations will soon be published. I do not wish to anticipate them at this time. I do want to point out, however, that the ability of our free enterprise economy to adjust to change is one of its greatest strengths. The programs I have discussed and those which are being studied by the President's Committee are designed to facilitate the necessary shift in resources, not to impede it; they are also designed to alleviate the hardships on the individuals and communities concerned.

Returning now to the cost reduction program—in addition to terminating unnecessary operations, we are also consolidating and standardizing our operations. I have already mentioned the consolidation of the contract administration services, the contract audit activity and the ocean terminal and traffic management functions. The consolidation of the management of common supply items and services in the Defense Supply Agency continues to produce savings and promote efficiency. Operating savings alone in fiscal year 1964 amounted to \$42 million and the fiscal year 1966 budget request anticipates further economies of \$57 million. The following table illustrates some of DSA's accomplishments:

	Prior to DSA (January 1962)	End fiscal year 1965	Reduction	Percent reduction
Items managed.....	1,875	1,630	245	13
Inventory value.....	\$2,486	\$1,914	\$572	23
Personnel.....	41,039	33,168	7,871	19

The final category of cost-reduction projects is concerned with the logistic support services of communications, transportation, and maintenance. These activities annually involve about \$15 billion of Defense expenditures. The fiscal year 1966 budget anticipates savings of over \$364 million as a result of our actions in the areas and our goal for fiscal year 1968 is to achieve annual savings of well over \$500 million. As a group, these activities offer a very great potential for future savings and we intend to exploit this potential intensively.

I cannot conclude this discussion of the cost-reduction program without calling attention to the fact that we have received outstanding cooperation from our defense contractors. There is much evidence that the program is taking widespread hold in defense-related industry and that industry profits have been thereby improved rather than impeded. For example, I noticed in Lockheed's annual report for 1964 that among the factors to which that company attributed increased earnings in a year of lower sales were the following: "1. Generally improved efficiency resulting from the cost-reduction program," and "2. More work carried out under fixed price and incentive contracts rather than cost plus fixed fee." Western Electric's 1964 financial report states that "price reductions \* \* \* also reflect the sustained program of cost reduction conducted in all of our operations \* \* \*. In manufacturing operations alone, several thousand individual cost-reduction projects were completed during the year." In defense work alone, that company reports savings of "approximately \$21 million of taxpayers' money." Douglas reports that "\* \* \* the company's ability to show higher earnings on a slightly lower level of sales is further demonstration of its substantial progress in effecting greater efficiency through new management systems and cost-reduction techniques \* \* \*. In 1964 Douglas scored well in responsiveness to the national administration's heavy emphasis on cost reduction \* \* \*. These efforts had a simultaneously beneficial effect on the company's own results." Similar comments are to be found in the annual reports of other defense contractors.

This trend is indeed encouraging, especially so because our contractors account for more than 55 percent of each defense dollar spent. Their efforts will contribute importantly to our ability to meet and, indeed, exceed our present goal of \$4.8 billion in cost-reduction savings by fiscal year 1968.

Mr. Chairman, this has been a rather long statement even though I have not dealt with all of the points raised in your letter to me. Mr. Ignatius and Admiral Lyle will be covering some of them in their prepared statements. I will be glad to respond to any other questions you may have.

## Department of Defense cost-reduction program

[In millions of dollars]

	Estimated savings to be realized in fiscal year 1—				
	1963	1964	1965	1966	1968
<b>A. Buying only what we need:</b>					
1. Refining requirement calculations:					
(a) Major items of equipment.....	90	487	373	747	
(b) Initial provisioning.....	163	218	134	184	
(c) Secondary items.....	481	643	607	799	
(d) Technical manuals.....		10		8	
(e) Production base facilities.....	35	14	19		
(f) Technical data and reports.....		2	4	2	
2. Increased use of excess inventory in lieu of new procurement:					
(a) Equipment and supplies.....		57	15	75	
(b) Idle production equipment.....	1				
(c) Excess contractor inventory.....	18	14	1	3	
3. Eliminating "gold plating" (value eng.).....	72	76	15	83	
4. Inventory item reduction.....				72	
Total.....	860	1,521	1,168	1,973	2,001
<b>B. Buying at the lowest sound price:</b>					
1. Shift from noncompetitive to competitive procurement:					
Total percent competitive <sup>2</sup> .....	( <sup>6</sup> )	( <sup>5</sup> )			
Total amount of savings.....	237	448	216	414	
2. Shift from cost plus fixed fee to fixed or incentive price:					
Total percent cost plus fixed fee <sup>3</sup> .....	( <sup>7</sup> )	( <sup>6</sup> )			
Total amount of savings.....		100	436	599	
3. Breakout for direct purchase.....		5		2	
Total.....	237	553	652	1,015	1,114
<b>C. Reducing operating costs:</b>					
1. Terminating unnecessary operations.....	123	334	359	551	
2. Consolidation and standardization of operations:					
(a) DSA operating expense savings <sup>4</sup> .....	31	42	53	57	
(b) Consolidation of contract administration.....					
(c) Departmental operating expense savings.....		95	20	95	
3. Increasing efficiency of operations:					
(a) Improving telecommunications management.....	80	131	49	129	
(b) Improving transportation and traffic management.....	24	7	12	35	
(c) Improving equipment maintenance management.....		65	109	108	
(d) Improving noncombat vehicle management.....	2	18	12	21	
(e) Reduced use of contract technology.....		20	9	27	
(f) Improving military housing management.....	6	13	8	14	
(g) Improving real property management.....	23	25	9	27	
(h) Packaging, preserving and packing.....		7	1	3	
4. Military assistance program.....					
Total.....	289	757	641	1,067	1,711
Total program.....	1,386	2,831	<sup>5</sup> 2,461	4,055	4,826

<sup>1</sup> Includes certain one-time savings not expected to recur in future years.<sup>2</sup> Fiscal year 1961 was 32.9 percent; total annual conversion from sole source by end of fiscal year 1966 of \$1,800,000,000. Savings are 25 percent per dollar converted.<sup>3</sup> For the first 9 months of fiscal year 1961, cost plus fixed fee was 38 percent, a reduction of \$6,800,000,000 is required to reduce that percentage to the fiscal year 1966 goal of 12.0 percent; savings are 10 percent per dollar converted.<sup>4</sup> Excludes DSA inventory drawdown without replacement of \$38,000,000 for fiscal year 1962; \$262,000,000 in fiscal year 1963; \$161,000,000 in fiscal year 1964; \$111,000,000 in fiscal year 1965; and \$131,000,000 in fiscal year 1966, a total of \$703,000,000.<sup>5</sup> Amount reflected in the original fiscal year 1965 budget; actual accomplishment is expected to exceed this amount.<sup>6</sup> Fiscal year 1963, 37.1 percent.<sup>7</sup> Fiscal year 1963, 20.7 percent.<sup>8</sup> Fiscal year 1964, 39.1 percent.<sup>9</sup> Fiscal year 1964, 12.0 percent.

Senator DOUGLAS. If time does not permit members of the committee to finish their questioning, we will send their further questions to you so that the answers may be supplied for the record. ( See Appendix, p. 331.)

**TESTIMONY OF HON. ROBERT S. McNAMARA, SECRETARY, DEPARTMENT OF DEFENSE, ACCOMPANIED BY PAUL R. IGNATIUS, ASSISTANT SECRETARY, DEPARTMENT OF DEFENSE**

Secretary McNAMARA. Thank you very much, Mr. Chairman. I am deeply grateful for the opportunity to be here.

The cost reduction program, on which you so graciously complimented us, is based upon the thoughts and ideas, studies and analyses of many, many people, including the members of this committee. The record of its proceedings over the past several years, the Hoover Commission reports, the reports of the General Accounting Office, reports of other congressional committees, and in particular the personal views of many Members of Congress, notably yourself and Congressman Curtis.

So, what I will be reporting to you this morning is a restatement of many of the conclusions you have previously stated and a progress report on the degree to which we have implemented those.

Before discussing the cost reduction program itself I should like to discuss some of the major improvements we have made during the past 4 years in the overall organization and management of the Defense Establishment which are fundamental to the program. In doing so, I will follow my prepared statement for the most part, reading certain portions, summarizing and paraphrasing certain portions, and draw your attention to the portions I omit.

To start with, it should be recognized by all concerned that in an enterprise as large and complex as the Defense Establishment, some of the actions taken will not turn out as planned and some outright mistakes will be made no matter how the Department is organized and managed and, indeed, no matter who the managers happen to be.

What is involved here is an enterprise employing almost 4 million full-time military and civilian personnel, including more than 100,000 foreign civilians. In addition, we have on our direct payroll over 1 million part-time military employees in the Reserve components and about 500,000 retired personnel. We manage an inventory of over \$170 billion in real and personal property and we spend about \$50 billion a year, including a gross expenditure of about \$3 billion overseas. Our annual payroll costs alone amount to about \$20 billion and we spend almost \$30 billion a year for goods and services purchased from the private economy. We draw on virtually every segment of American industry and account for a very large proportion of the total research and development effort of the Nation. Our people and activities are located at more than 1,000 major military installations and some 11,000 minor facilities spread throughout the United States and the free world.

We execute some 10 million contract actions and write over 90 million checks per year. Even excluding purchases of less than \$10,000 each, we deal with nearly 20,000 different firms. The Defense supply system stocks almost 3.9 million different items worth nearly \$40 billion. About 400,000 new items are added to the system each

year and about the same number of old items are now dropped. It has been estimated that the supply system makes over 20,000 wholesale issues daily; the number of retail issues is many times greater.

In all of these tens of millions of transactions each year, ample opportunities for human error or poor judgment exist, and I might add that these deficiencies are much more easily recognized after the fact than before. This very real limit on human infallibility can be frankly recognized without in the least condoning the results. I can testify from my own experience that it exists in industry as well as Government. The issue we should be concerned with is not whether or not we are making mistakes, but whether the Defense Department is taking the proper measures to provide the organization, policies, procedures, and training required to carry out its responsibilities effectively, which, of course, are the defense of the Nation.

That is the basic purpose of the planning, programing, and budgeting system which we have introduced into the Defense Department which is the foundation of all our management actions. This system brings together at one place, at one time, all of the programs and activities of the Department in both physical and financial terms. It brings them together not just for 1 year but for the 5-year period covered by our projections in the future. It is here in the context of the entire long-range defense effort that the most important policy decisions must be made. Decisions which involve not only large sums of money, but the very security of the Nation.

Worth noting is the fact that under this system, the programs and activities are analyzed in terms of the principal military missions and not in terms of the traditional organizational components of the Defense Establishment; and the force levels are established in relation to the objectives of our foreign policy and the military strategy associated with the attainment of those objectives. As President Eisenhower so rightly pointed out in his 1958 message on defense reorganization:

\* \* \* complete unity in our strategic planning and basic operational direction (is a vital necessity). It is therefore mandatory that the initiative for this planning and direction rest not with the separate services but directly with the Secretary of Defense and his operational advisers, the Joint Chiefs of Staff, assisted by such staff organization as they deem necessary.

No military task is of greater importance than the development of strategic plans which relate our revolutionary new weapons and force deployments to national security objectives. Genuine unity is indispensable at this starting point. No amount of subsequent coordination can eliminate duplication or doctrinal conflicts which are intruded into the first shaping of military programs.

It is interesting to recall in this connection that President Kennedy's Committee on Defense Reorganization, chaired by the distinguished Senator from Missouri, Stuart Symington, sought to achieve the same objective by eliminating the three major departments as such, vesting directly in the Secretary of Defense the administration of the services. I believe we have achieved a true unification of effort through the planning-programing-budgeting system without going through such a drastic upheaval in the organization of the Defense establishment.

While we were able to avoid a sweeping reorganization of the basic structure of the Defense Department, we did find it necessary to make a number of organizational changes, particularly in the

logistics area. In addition to the establishment of the Defense Supply Agency, with which you are fully familiar, major changes have been effected in the logistics organizations of the military departments. One of the most significant was the merging of the old "technical services" into a new Army Materiel Command which now is responsible for the entire life cycle of Army materiel from research and development through production, supply, and maintenance and eventually to its declaration as excess.

As I pointed out to this committee when I appeared here 2 years ago, the reorganization of the Army's technical services had been discussed with President Truman by Secretary of Defense Lovett in 1952. At that time Secretary Lovett said it would be "no more painful than backing into a buzz saw," but it was long overdue. We have felt the pain of the buzz saw as a result of the reorganization.

Now that it has been accomplished, I believe there is general agreement among all parties concerned that it was a sound and necessary decision.

Over and above these reorganizations of the logistics activities of the military departments, we have, of course, placed responsibility for the management of most common supplies and services in the Defense Supply Agency. The eight existing "single managers" for common supplies, the single manager for traffic management, the Armed Forces Supply Support Center and the surplus property sales offices, previously scattered throughout the Defense Department, were all consolidated in January 1962 under one management in that Agency. Later, additional responsibilities were assigned to the Agency, including the management of common electrical and electronics items, chemical supplies, automotive supplies, and industrial production equipment. Admiral Lyle will report to you in detail on the progress of this Agency. Let me simply say that I believe our experience over the last 3 years has fully demonstrated the wisdom of this move.

Within the last year, we have given DSA the additional responsibility for the management of the consolidated contract administration function in the field. When fully completed by the end of fiscal year 1966, this action will bring under a single management the 150 field offices and some 20,000 personnel concerned with the administration of Defense contracts after they are awarded, including such functions as materiel inspection, production expediting, industrial security, and payment of contractor invoices. The headquarters activity—the Office of the Deputy Director of DSA, Contract Administration Services—became operational on February 1, this year. The integration of field units is now proceeding under a schedule which will have the new system fully operational by the end of fiscal year 1966. We estimate that our contractors will, as a result of this action, realize significant annual savings in administrative costs which will, in time, be reflected in lower procurement costs for us. Additional direct savings to the Defense Department of \$19 million annually should result from the elimination of about 1,800 personnel spaces made possible by the consolidation.

More recently, as this committee had previously recommended, we have decided to consolidate the contract audit functions. This consolidation will result in the creation of a new Defense agency, known as the Defense Contract Audit Agency (DCAA), bringing together

under single management the activities now performed by the 268 offices of the 3 military departments employing over 3,400 people. As a tentative target, we expect that as many as 40 of the present field offices will be eliminated with an overall 5 percent saving in personnel spaces.

At the same time, we have embarked on an effort to consolidate all procurement regulations in one system by incorporating the service implementing regulations and instructions into the main body of armed services procurement regulations. This in itself should do much to eliminate unnecessary variations among the purchasing activities of the three military departments and DSA, thus easing for defense contractors the problems of doing business with the Government and, we would hope, decreasing the paperwork burden for both. Although it will increase the scope of the ASPR's, it should result in a significant decrease in the overall volume of procurement regulations.

In a further consolidation move last fall, I designated the Secretary of the Army as the single manager of military traffic terminals. His charter embraces traffic management, the control of movement into and out of air and ocean terminals, and the management and operation of common user ocean terminals. This consolidation should produce annual savings of \$14.1 million.

In my appearance before this committee 2 years ago, I noted that truly important savings in Defense expenditures can be achieved only by attacking the entire spectrum of logistics activities—beginning with research and development, extending through procurement, production, construction of facilities, deployment, supply, maintenance, transportation, and so forth, and ending with disposal of surplus material and facilities.

Decisions made during the development phase of a weapon system will affect not only the cost of development but also the cost of production and operation of the system throughout its life. But the research, development, test, and evaluation effort also deserves intensive management attention for that reason as well as because of the huge expenditures associated in the research and development phase alone. That phase alone accounts for \$6½ billion a year defense expenditures, but more importantly, of course, it is the foundation of our future weapons development and, therefore, our future military strength.

There has been considerable discussion in recent years about the number of new developments being started. But, of course, it is not the number of new developments started but rather the number of developments successfully completed which makes the significant contribution to our military strength.

As I pointed out to the committee 2 years ago :

All too often large-scale weapon system developments, and even production programs, have been undertaken before we had clearly defined what was wanted and before we had clearly determined that there existed a suitable technological base on which to draw in developing a system. And, all too often, insufficient attention had been paid to how a proposed weapon system would be used ; what it would cost, and finally, whether the contribution the system could make to our military capability would be worth the cost.

As a result, many developments had to be terminated before completion and use. In fact, the records show that some 60 major research and development projects were terminated during the last 10 or 12 years after costs of well over \$6 billion had been incurred. The num-

ber and value of smaller canceled developments have never been counted.

It was plain to us that for management purposes, the entire R.D.T. & E. effort needed to be realigned. Clear distinctions had to be made among the various sequential phases of the development process, ranging from basic research through operational systems development because each phase has its own peculiar problems and requires somewhat different management standards and techniques.

Therefore, we have divided this process into five steps or phases. Basic research, exploratory development, advance development, engineering development, and operation systems development.

I will describe how we are controlling these various phases.

One of the management difficulties encountered in the past was the tendency to require that new technology efforts be justified in terms of an end-product development, since there was a reluctance to undertake work on new technologies or components which could not be directly related to some needed future weapon system. This, in our opinion, was a shortsighted approach on two counts: first, it led to a neglect of basic research and technology; and second, it resulted in the initiation of large numbers of system developments for which the basic technology had yet to be created, thereby foredooming many to failure. Because they were so numerous, the available funds were not nearly adequate to pursue them all at efficient and orderly rates and, as a consequence, many developments were overtaken by new technologies or changes in requirements and eventually had to be terminated before completion.

We now try to judge proposed research and exploratory development projects on their own merits, in relation to their potential contribution to the advancement of knowledge across the entire spectrum of science and technology of pertinence to the defense effort. Not until the third step, "advanced development," do we begin to weigh the costs of the more likely applications against the potential operational benefits to making program decisions.

Decisions affecting "research" and "exploratory development" projects do not normally involve this kind of consideration; instead, they are managed generally on a "level of effort" basis. It is interesting to note that expenditures for research, exploratory development, and advanced development, which together constitute the area of new technology formation, have increased from less than \$1.9 billion in fiscal year 1962 to well over \$3.2 billion in the fiscal year 1966 budget request.

It is from these expenditures that we expect to achieve the advance in weapons systems development in future years.

But while research and exploratory development, and even advanced development, do not necessarily have to be directly related to specific military requirements, a full-scale engineering development or an operational system development can be justified only in terms of its potential contribution to our strategy, considering both its cost and military effectiveness as well as the relative cost effectiveness of other alternatives. We are dealing here with billion-dollar decisions, just for development alone.

Certainly with respect to these large projects we should want to know, in at least approximate terms, what they will, if produced and

deployed, add to our overall military strength and we want to weigh these contributions against their total costs before we commit ourselves to such large expenditures.

It is that stage with respect to engineering development which has been completely skipped many, many times in the past which has led to the cancellation of the \$6 billion worth of projects that I mentioned earlier, a clear waste of \$6 billion of our resources.

Now, before we embark on a new major weapons systems development, we first conduct a series of studies during which we, together with our contractors, do our thinking and planning. These studies not only permit us to define the proposed program more clearly, assess better the technical risks, and determine the estimated costs and time schedule before commitment to full-scale development, but they also help us judge how well a proposed system might contribute to the attainment of our military objectives. We have found that, in most cases, careful and comprehensive prior planning saves time as well as money and results in more effective and dependable weapons when placed in service.

As I stated before, how well a research and development project is managed will not only influence the development cost itself but will also help determine to a significant extent the costs of production and operation of that system, particularly the cost of the logistics systems. In this connection I noticed in your last report on the economic impact of Federal supply and service activities, you express some disappointment in the progress of our standardization program and in the continued increase in the value of military property holdings.

I will digress just a second. I want to comment on that but I also want to say that we, too, are dissatisfied with the progress of the standardization program. Within the last 9 months we have set up an office to specialize in monitoring this. We have appointed an able officer, General Stanwix-Hay, to head that office. I think you can expect some progress and next year I hope to be able to report that progress to you.

We have made some progress in reducing our supply inventories, however.

First, I would like to point out although the value of our total personal property inventory is increasing, the value of stocks in our supply systems, the *spare parts*, if you will, is actually decreasing, both absolutely and in relation to the total personnel property inventory. And that is important. Whereas at the end of fiscal 1960 the supply system accounted for 62 percent of the end item inventory, by the end of 1964 that had dropped to 48 percent.

In other words, at the end of fiscal 1960 we had \$42 billion of stock in our supply system supporting about \$68 billion worth of weapons and equipment. Today we have \$39 billion in supplies supporting \$81 and \$1½ billion of weapons and equipment. So, the backup, the *spare parts* in support of the weapons systems has been cut down substantially. This is the result of much more precise requirement calculations and results in a very direct saving. I think it is a good record.

The increase in the stocks of our weapons and equipment reflects the buildup of the forces over the last 4 years as well as the increase

in the average unit cost of the more complicated aircraft, missiles, ships, and so forth, which are now entering the inventory.

It is true that we are still introducing into the supply system almost the same number of new items as we are eliminating each year. Nevertheless, this in itself should be viewed as an achievement, since up until recent years, we had actually been adding more items than we had been eliminating. From the end of fiscal year 1968 to the end of fiscal year 1962, the number of items in our supply system increased from about 3.4 million to nearly 4 million. But from that time through fiscal year 1964, the number of items leveled out at about 3.9 million and during the past 8 months has actually begun to decrease.

Although we have been quite successful in purging our inventories of duplicative items through our standardization program, it is now clear that the real problem is to reduce the number of new items entering the inventory. This, we are now doing through our item entry control system which was initiated in fiscal year 1963. Admiral Lyle will discuss this in greater detail but I would like to point out now that during a 6-month test of the system last year in which about 25 percent of all requests for new stock numbers were reviewed, 42 percent of those screened were rejected for one reason or another with 32 percent of the total found to have existing Federal stock numbers or recommended substitutes already in the supply system. The proportion of requests for new catalog numbers being screened by the system has been rising steadily. The services, too, are conducting item screening in the major weapons areas. The Army Missile Command, for example, has a continuing program to review proposed new missile parts. As a result of this program, out of some quarter of a million repair parts used in Army missiles, some 31 percent are now standard items and an additional 14 percent are common to more than one application.

But much more fundamental to the task of minimizing the number of new items entering the inventories than "screening" is the extension of the standardization philosophy back into the research and development stage. Here is where the decisions are really made to add new items to the supply system and the consequences of these decisions cannot be undone at the supply support stage. Each time a new weapon enters the inventory, it brings with it thousands of new items of spares and support equipment. That is why any serious attempt to reduce the number of different items in our logistics system and thereby reduce logistics costs, must begin in the research and development stage.

Two years ago when I appeared before this committee, I discussed with you our efforts to minimize parallel developments which could lead to parallel production programs and supply inventories. I pointed to the standardization of the F-4 as a tactical fighter for the Air Force as well as the Navy and my decision to assign to the Air Force supply management responsibility for all spares and components peculiar to the F-4 aircraft. I also mentioned that I had asked the Air Force and the Navy to develop and submit for my approval joint plans for the maintenance of this aircraft, the cost of which will eventually involve over \$300 million annually. This has been done and we are now well along in achieving a single integrated system of maintenance and spares management for both Air Force and Navy F-4's.

Our largest single effort in this direction to date has, of course, been the F-111 (TFX), which I described to you 2 years ago. The project, as a whole, is going well and just last month we took the first steps to commit the aircraft to production. I am convinced that the F-111 program will produce substantial savings not only in the development and production phases but in the logistics support as well. An integrated materiel management and maintenance plan has been jointly prepared by the Navy and the Air Force with support to be provided by the Air Force for about 10,000 to 15,000 items common to both aircraft. Because joint logistics planning was possible from the beginning of the project, the F-111 plan should be considerably more effective than the F-4 plan which had to be developed after the airplane had already entered production for the Navy.

However, if standardization is to begin in the design and development stage, it is necessary, as the committee noted in its September 1964 report: " \* \* \* that the views of research and development as well as production, supply, and service people be merged into final decisions." To meet this need and to insure the coordination of the closely related technical data program within the Department, we established in March 1964 a Department of Defense Council on Technical Data and Standardization Policy, cochaired by the Assistant Secretary of Defense (Installations and Logistics) and the Deputy Director, Defense Research and Engineering. To provide staff support for the Council, in both the technical data and standardization areas, we established in June 1964 an Office of Technical Data and Standardization Policy within the Office of the Assistant Secretary of Defense (Installations and Logistics). With regard to standardization, this office has been making excellent progress.

All of the measures which I have described, and the many others which I have not had time to discuss, are designed to simplify and improve the management of the Defense Department's logistics functions. But simply providing the proper organizational framework, sound policies, and efficient procedures is not enough. By themselves, they cannot insure economy and efficiency in our day-to-day logistics operations which involve the actions and decisions of literally hundreds of thousands of Defense employees spread around the world. These people must be properly motivated and provided with a continuing stimulus and incentive for efficiency and economy at all levels of the Department's operation, and that is the basic objective of the cost reduction program.

But, as I noted last year, a program of this type can succeed only if—

- (1) It is vigorously supported by the entire management of the Department, from the Secretary on down to the lowest managerial level.

- (2) Firm, clearly defined goals are set for each level of management and the objectives, methods, and procedures of the program are clearly explained to and accepted by the people who have to achieve the goals.

- (3) A uniform and effective system of progress reporting is established to insure adequate followup on performance.

- (4) Both the goals and the results are thoroughly audited by an independent group disassociated with management for attaining those goals to insure the savings being reported are valid and can be properly substantiated.

The Defense Department's cost-reduction program is based on these principles. The initial targets are actually developed at the lowest levels of management and are then aggregated and reviewed at each successively higher level up to my own office. As a result, when the overall goals are finally approved at the Defense Department level, and by me and Mr. Vance, all logistics managers understand what is expected of them and have, in fact, been given an opportunity to participate directly in the formulation of the program's objectives.

To add to this built-in stimulus of having a specific goal to strive for, we initiated last year a new system of awards, over and above those given in the regular incentive awards program. After an intensive review of the best of the thousands of cost-reduction ideas submitted by our logistics organizations, 19 civilian and military personnel were singled out for special commendation.

To emphasize the importance which the administration attaches to this program, these initial awards were made personally by the President in a special ceremony at the Pentagon. The individual military departments are also making special awards for outstanding achievement in this program. Recognition by top management of jobs well done is indispensable to the success of such an effort. The cost-reduction program must have the full and sustained support and interest of the entire management structure if we are to expect continuing concern and involvement of the people who must actually produce the results.

I think perhaps the most notable accomplishment in the past year or two has been the development of interest and ideas from the bottom instead of at the top. Two or three years ago many, if not most, of the suggestions leading to substantial reductions originated in the upper levels of the departments. That has not been true in the past 2 years. The savings which I will report to you now are largely a reflection of the initiative, efforts, and ideas and imagination of the literally hundreds of thousands of people in all echelons of the Department.

Inasmuch as I have discussed this program in considerable detail in previous appearances before you, I would like at this time to simply highlight it and respond later to your questions. I think for this purpose you might like to examine the table I have included in my prepared statement (see table, p. 20), as I summarize the program from here on.

First, let me draw your attention to the chart. (See p. 10.) I have summarized the goals and the progress to date. The program started back in fiscal 1962. At that time we established a goal of \$3.4 billion annual savings per year which we hope to achieve in 1967 or 1968.

We did save, we believe, \$750 million in fiscal 1962 as a result of the program. Our experience was more favorable than we anticipated, and in fiscal 1963 we were able to raise the annual goal for savings from \$3.4 billion to \$4 billion. And in fiscal 1963 the savings themselves rose to about \$1.4 billion. Again our savings exceeded our expectations and by fiscal 1964 it became apparent we could raise the goal again.

We so reported to the President on July 1 of last year when the goal was raised from \$4 billion to \$4.8 billion. We do expect to achieve annual savings of \$4.8 billion effective in fiscal 1968. The actual savings in fiscal 1964 we believe were \$2.8 billion, or more. We are not

entirely certain; some of the final figures aren't in as yet. The fiscal 1966 budget now lying before the Congress was developed after taking account of savings of \$4.1 billion as a result of the program.

I have summarized in this brief table the categories of actions contributing to these savings. You will see there three basic categories entitled, "Buying Only What We Need," "Buying at the Lowest Sound Price," and "Reducing Operating Costs."

It is from these we have achieved the savings shown in the chart and the savings shown in the table. I will run through these very quickly for you. Under the heading "A. Buying Only What We Need," we have been refining requirement calculations. This has very substantially reduced the volume of materiel which we have placed on procurement.

I want to mention to you that we have not included in the estimated savings a reduction of about \$24 billion which we made a few years ago during our initial review of the stated requirements for military equipment and supplies. These requirements were based on the unilateral service war plans—war plans which were not in balance with one another and which led to a vast overstatement of the materiel requirements.

That kind of requirement calculation is worse than useless. It distorts the true requirements and it makes effective management of the procurement program absolutely impossible.

#### REQUESTS REDUCED BY \$24 BILLION

Senator DOUGLAS. Did you say a savings of \$24 billion?

Secretary McNAMARA. As I say, we have excluded that \$24 billion figure from these savings calculations because no one had any intention of buying that amount of equipment. But it is a fact that it was in the stated requirements, and it is a fact that the procurement plans therefore were based on false and inflated requirements, and it is a fact, therefore, that this distorted the management of the procurement program and made any effective control of it impossible. It also led to a serious imbalance in our inventories.

I therefore insisted that our approved contingency war plans, our approved force structures, and approved materiel requirements be brought into appropriate balance and be kept that way. We have a military strategy related to our foreign policy, a force level related to the strategy, and a program of supplies related to the force level and the financial budget which will support the force level and procurement program.

There is no point in having forces which can't be supported in combat or war plans that can't be carried out by the forces being supported.

This is one of the principal reasons why we have recommended the elimination of 21 divisions and various nondivisional units in the Army Reserve components. These units are not required to support our contingency plans. Furthermore, they have only about 35 percent of their authorized equipment on hand and much of this is substandard and unsatisfactory for combat use. Thus, in the event of a callup, these units would have to be completely reequipped and even under the best of conditions, this would require 12 to 18 months—about the same time it would take to organize, train, and equip new units. To acquire the necessary equipment and war consumables for these forces during peacetime would cost about \$10 billion. Such an

expenditure would be clearly unjustified for units for which there is no requirement in our contingency war plans.

#### USE OF EXCESS OR SURPLUS STOCK

I would like to draw your attention to item No. 2 in the table—still under the heading “Buying Only What We Need.” This item, No. 2, is listed as increased use of excess inventory in lieu of new procurement. We are using about \$1.3 billion per year of excess or surplus stock in lieu of new procurement and that is up about \$300 million over the levels of fiscal 1961 as a result of a much more screening of new procurement orders against existing stocks.

#### TEN BILLION FOUR HUNDRED MILLION DOLLARS IN EXCESS OR SURPLUS INVENTORY

We have today about \$10.4 billion of excess or surplus inventory. It is that inventory which we are gradually drawing down and utilizing as a result of this program. I think it is very effective.

#### ELIMINATING “GOLD PLATING”

The third item under “A. Buying Only What We Need” is labeled as eliminating “gold plating.”

This is an extremely important portion of our cost reduction program the full potential of which we have not yet realized. Last year we estimated that by simplifying our specifications, by eliminating frills or gold plating and employing greater ingenuity in seeking out less costly materials we could save \$145 million a year. That estimate has proven too conservative. Action initiated through 1964 alone will save \$224 million in the cost of hardware, again more than last year's goal.

#### POTENTIAL SAVING OF \$500 MILLION

I think with proper attention we can raise that annual savings from some \$224 million to about \$500 million a year.

To this effort individual industrial contractors are making very substantial contributions. Last year alone we received 580 cost savings proposals of this kind and we expect that number to increase significantly in the future.

Now, the next category shown in the table is headed “B. Buying at the Lowest Sound Price.” Here I think you are quite familiar with many of the changes we have made. I will pass over them rather quickly, therefore. But these savings occur primarily because of two shifts in our basic procurement policy. The first is to increase the percentage of our contracts awarded through competitive processes, both formal advertising and other competitive procurement procedures. In 1961 about 33 percent of the contracts were let on the basis of competition.

#### THIRTY-NINE PERCENT OF CONTRACTS TO BE COMPETITIVE

That has been increased to about 39 percent through the end of fiscal 1964.

As I can report to you later, the percentage is substantially above that at the present time. Not only is the total percentage of competitive contracts increased but the percentage through formal advertising has increased rather dramatically.

## BREAKOUTS

Representative CURTIS. Does that include the breakout bids?

Secretary McNAMARA. Yes; that includes the breakout of spare parts. As a matter of fact, that is one of the important contributing subprograms to this. The result is that we have shifted \$1.8 billion worth of contracts each year from noncompetitive to competitive procurement. As we can show you from our audits of these shifts, we save 25 cents on every dollar shifted. From this program alone we have saved about \$450 million a year. There are some very spectacular savings that rise substantially above 25 percent but on the average it amounts to that figure.

Now, the second major shift in procurement policy which has contributed substantially to these savings has been a shift away from cost-plus contracts to fixed-price or price-incentive contracts in areas where it has not been possible to go to full formally advertised procurement or other competitive procurement. Cost-plus contracts in 1955 ran about 19 percent of our total contracts. That percentage doubled between 1955 and the first 9 months of fiscal 1963; 19 percent to 38 percent. It was down at the end of 1964 to 12 percent and it is still dropping. It is now around 10. That means we have shifted about \$6.5 billion a year of contracts from a cost-plus form to a fixed-price or price-incentive form. We save about 10 cents on every dollar contracted and, perhaps even more importantly, this shift away from cost-plus puts great pressure on the Department of Defense and the contractor to plan their operations before they begin them. We obviously can't move away from cost-plus to a fixed-price type of contract or price-incentive contract unless we know exactly what it is we want to buy, in what form we want to receive it, when we want to receive it, and the contractor can't enter into such a contract until he has laid out a very definite plan for production, has firm cost estimates, and is able to relate his profit to those and accept the risk of deviating from them. It is from this that we gain the very substantial savings that accrue through this program, roughly \$600 million a year.

## ABUSES IN COST-PLUS-FIXED-FEE CONTRACTS

Senator DOUGLAS. As I remember the reports of the Comptroller General, the specific instances which he brought forward of past abuses was centered primarily in this field of cost plus fixed fee. Is that not true?

## NO INCENTIVE IN CPPF CONTRACTS

Secretary McNAMARA. Yes, his reports over the years have emphasized that. I have been on both ends of this cost-plus contracting cycle. I can testify from my personal experience. Without any intent to be inefficient, or without any intent to do other than the most effective job under the circumstances, a cost-plus contract provides no incentive to the purchaser and no incentive to the manufacturer to preplan the job and insure that each is following the most efficient form of procurement or manufacture as the case may be. We think this is a major change in procurement policy, one that will lead to substantial savings not only for the present but for the future as well.

## REDUCING OPERATING COSTS

Now, I can go down to the third category in the table which is headed "C. Reducing operating costs." The first item, No. 1, under C, is labeled "Terminating unnecessary operations." Many of you are painfully aware of some of the actions here.

## CLOSING INSTALLATIONS

In total in the last 4 years we have announced the closing or substantial termination of operations at 669 installations throughout the world. The result has been the elimination at those specific locations of 290,000 jobs. Of the 290,000 jobs, 150,000 have been completely eliminated. The difference between these two figures, 140,000 jobs, has for all practical purposes been eliminated at the location because they have been transferred to other locations. As a result we have released from Defense Department use 1,500,000 acres of land. That is over 2,340 square miles of land, formerly tax consuming, now tax reducing in the sense that it is available for other use in our society.

## ONE BILLION DOLLARS SAVINGS

There will be savings of a little over a billion dollars a year as a result of this program when all of these actions have been completed.

As I will point out to you, we have phased some of them over a period of 2 or 3 years in order to soften the impact of these decisions upon the communities affected. I particularly want to call your attention to the actions we are taking to take account of the effect on individuals and communities of these base closings.

## ECONOMIC IMPACT OF CLOSINGS

We recognize that the impact of the closings on the employees and the communities affected will be substantial in many cases. We are well aware of that fact. With regard to our own employees, the Department, in my judgment, bears a special responsibility as an employer. It has always been my contention that the burden of major dislocations caused by our dynamic economy should not have to be borne sorely by the people directly involved. Our society within reason should help to carry that burden and I refer here not only to the Federal Government but to the State governments, local governments, and industry as well. This is desirable not only on the basis of equity but also to facilitate the changes required for progress. Unless we spread this burden, opposition to progress will develop and we won't achieve it.

## DEVELOPING JOB OPPORTUNITIES

When I first suggested that the Defense Department, as an employer, assume the responsibility for finding a new job opportunity for every employee dislocated by a base closure, there was much skepticism among some of my associates in the Department. They pointed out that the Defense Department would be assuming a new responsibility which it had heretofore avoided on the grounds that there were other Government programs designed to take care of unemployed workers and that the cost of any new effort would have to be borne by the De-

partment. Yet it seemed to me that both for reasons of fairness to our employees and in the Government's own interest, the Defense Department should assume that responsibility. In a program as dynamic as defense, major changes are unavoidable and must be made in a timely fashion if the program is to be managed efficiently. As I pointed out in the spring of 1961 in connection with the initial set of President Kennedy's amendments to the fiscal year 1962 budget:

Technological progress causes obsolescence not only in weapon systems, but also in the often highly specialized facilities constructed for their deployment and maintenance. Just as we continually measure our weapons system development and procurement programs against the ever-changing yardstick of military need, so, too, must we review our worldwide complex of installations in light of our present and future requirements. Facilities and installations which fail this test of true need only encumber the national security and waste resources.

But these necessary changes will be bitterly resisted if the full burden has to be borne solely by the employees affected. It is therefore in the national interest for the Defense Department, as an employer, to mitigate these hardships to the full extent that the law permits, and this is what we have undertaken to do.

#### ESTABLISHMENT OF EMPLOYMENT OPPORTUNITY PROGRAM

To this end, we have established a continuing employment opportunity program designed to protect the job security of our employees, to minimize personal hardships resulting from Defense program shifts, to preserve the talents and experience of our work force, and, over the long run, to improve the climate for change itself.

Under this program every career employee, dislocated by a base closure, whether it be by the fact that his job is eliminated or by the fact that his job is transferred geographically, every career employee so dislocated is being offered another job opportunity and, wherever possible, he is given a choice of location.

When a displaced career employee is offered a job at some other Defense installation, we now pay the appropriate expenses of moving his family and household goods. If he accepts a lower paying job or moves to a lower pay rate area, his present pay will be continued for a period of 2 years. Where a temporary waiver of qualification requirements will facilitate the placement of a career employee in a job for which he can be trained, this is being done under special arrangements worked out by the Civil Service Commission. Where feasible, we are also undertaking special retraining programs for dislocated career employees.

To facilitate this employment opportunity program we have instituted a series of hiring freezes and limitations on permanent appointments, thus, in effect, "stockpiling" jobs for career employees who are scheduled to be displaced as a result of actions taken by the Department of Defense.

#### CENTRALIZED REFERRAL ACTIVITY

Just 2 months ago we established at Dayton, Ohio, a nationwide centralized referral activity. Prior to that time, we depended principally upon a regional placement program in which qualified displaced employees were matched with job openings occurring within their own civil service region. Under the new system, placement op-

portunities will be greatly broadened and this referral process considerably speeded. In the first 7 weeks of operation, more than 6,800 employee applications were registered in the system and about 6,500 requisitions, representing about 14,000 jobs, were received. These numbers are expected to grow significantly in the months ahead. Finally, we are aggressively seeking the assistance of State employment services in finding jobs in industry and the Civil Service Commission in locating job opportunities in other Government agencies.

This program requires a major effort on the part of Defense management and it costs money. But, in my judgment, it is well worth the cost and the effort involved. And in this connection may I say that I don't think early retirement is a good substitute for productive employment. It would be easier on Defense management but much harder on the individuals involved and much more costly for our Nation. No self-respecting American in his early forties would want to live on a retirement income; what he wants and should have is a productive role in our society.

Admittedly, our efforts to help our own dislocated employees may not solve the problems of the communities affected by our base-closing actions, especially when the new jobs offered them are at other places. Although our responsibility in this instance is not as direct as in the case of our own employees, we still should do what we can to alleviate the impact.

#### OFFICE OF ECONOMIC ADJUSTMENT

It was for this reason that I established in March 1961, a new Office of Economic Adjustment under the Assistant Secretary of Defense, Installations, and Logistics. This Office is designed to work with the affected communities to help them find alternative uses for whatever Government facilities may be available and to advise them on other programs of assistance offered by the Federal Government.

In working with these communities, the Office of Economic Adjustment encourages and assists local leadership to identify and exploit their own resources for economic growth. Officials of local defense firms are encouraged to participate in this effort. Members of the staff of the Office of Economic Adjustment visit the communities on their invitation and therefore the cooperation of a community's leadership is an indispensable element in the success of this effort. The Office of Economic Adjustment can serve as the focal point and provide ideas and Government agencies. But the initiative must rest with the local community and cooperation must be forthcoming if any useful results are to be achieved.

Representatives of the Office of Economic Adjustment have now completed initial visits to most of the communities affected by the base closings announced last November which have requested assistance. These include Mobile, Ala.; San Bernardino, Calif.; Savannah, Ga.; Terre Haute, Ind.; Salina, Kans.; Glasgow, Mont.; Lincoln, Nebr.; Reno, Nev.; Portsmouth, N.H.; Middletown, Pa.; Amarillo, Tex.; Moses Lake, Wash.; and Madison, Wis. These initial visits are intended to lay the organizational groundwork for continuing cooperation between the community and the Federal Government. We have had magnificent cooperation from the majority of the communities affected. There are some notable exceptions, however.

We have found in most cases that swift, aggressive action can usually reduce and shorten the local economic impact of these closing actions. For example, shortly after we announced that Schilling Air Force Base at Salina, Kans., would be closed by this coming June 30, a group of local leaders, accompanied by Governor-elect Avery, Congressmen Dole and Shriver, and representatives of Senators Carlson and Pearson met with Deputy Secretary Vance to arrange for the assistance of the Office of Economic Adjustment. Since that time, readjustment planning has moved forward at a very good pace. By next September a vocational school will open, occupying part of the facilities of the former base. Action has been taken to freeze the transfer of surplus industrial-type equipment located at the base which might be of use in the school's training program. Within the past few weeks, the State legislature has passed a bill approving some quarter of a million dollars for the establishment of a technical institute which will eventually enroll about 1,500 students. Also well along in planning is a new campus for Kansas Wesleyan University. Both of these new activities will occupy former base facilities. Still another portion of Schilling will become a municipal airport. The local planning group, known as the Schilling Development Council, has "fathered" enabling State legislation permitting the creation of a public authority to buy some of the remaining property for use as a large industrial park.

I won't go through it, but we show the disposition of several hundreds of these properties in a table I present in my prepared statement. (See p. 17.)

Altogether, communities in 44 different States have been beneficiaries of these disposals, and the return to the U.S. Treasury has been over \$84 million. I believe you are already familiar with some of the cases where base closings have actually resulted in the creation of more jobs for the communities involved:

Presque Isle, Maine, where today a new industrial complex provides jobs for 2,000 civilians (compared with a former Defense employment of 1,200 military and civilians) and where the former SNARK missile base, itself, provides educational, commercial aviation, local government, and industrial facilities.

The former Army signal depot facilities at Decatur, Ill., where the new private owners employ half again as many civilians as did the Army and are still adding workers.

#### BASE CLOSURE RESULTS IN GREATER EMPLOYMENT

Senator DOUGLAS. I may say, Mr. McNamara, that when you closed that base, the mayor of the city denounced me for not preventing you from doing it. However, what has happened has been that the Firestone Co. has moved in there; it employs more people and pays taxes to the locality. It has been a highly beneficial act.

Secretary McNAMARA. This is quite true, Mr. Chairman. It is typical, I think, of what can be done when men with imagination seek to put to productive use these facilities formerly reserved solely for defense purposes.

Another illustration of the same kind is at York, Pa., where the former naval ordnance plant was sold by the Government for \$9½ million to a private concern and where that private concern has increased

the former employment by 60 percent; and, in addition, put the property on the tax rolls.

So, this is what we can expect from the 669 actions that have released a million and a half acres of land and which ultimately will save a billion dollars in direct cost to the Government but, much more importantly, will put these facilities, these men and facilities, to work in the mainstream of our society, producing either for the public sector or the private sector the goods which we need and so much desire.

Now returning to the cost-reduction program, there is only one other item I wish to draw your attention to and that is item 2, under the heading "Reducing Operating Costs," where we note what we are saving through consolidating and standardizing our operations.

#### SAVINGS FROM DSA

I mention many of these consolidations to you today—the consolidation of our Contract Audit Service, consolidation of our Contract Administration Service—but I think the most interesting and most important has been the consolidation of the Common Procurement Service into the Defense Supply Agency. I will report very briefly on that to you.

One million eight hundred and seventy-five thousand items formerly procured by the services have been transferred to the Defense Supply Agency for procurement. That Agency has been able to reduce the number of those items by a quarter of a million. The inventory value which had amounted to \$2.5 billion has been reduced by \$500 million.

Forty-one thousand men were formerly assigned to these functions. They have been able to cut that total by 8,000. The savings are substantial as a result.

It has been an extraordinarily well-managed operation, the credit for which goes to General McNamara and now to Admiral Lyle.

I have but one further point to make in connection with the cost-reduction program. I want to draw your attention to the assistance that we have received from defense contractors. It has been outstanding and very important. There is much evidence that the program is taking widespread hold in defense-related industries. Not only is it helping the Government through direct savings, but there is an indication that industry profits are being improved, as well.

For example, in the Lockheed Aircraft Corp. report for 1964, among the factors to which the company attributed increased earnings in a year of lower sales were these, and I am now quoting directly from that report:

First, generally improved efficiency resulting from the cost reduction program; and, second, more work carried out under fixed-price and price-incentive contracts rather than under cost-plus-fixed-fee contracts.

Western Electric's 1964 figures report states:

Price reductions also reflect sustained program of cost reduction conducted in all our operations. In manufacturing operations alone, several thousand individual cost reduction projects were completed during the year.

In defense work alone, the company reports savings of approximately \$21 million taxpayers' money.

The Douglas Aircraft reports that:

The company's ability to show higher earnings on a slightly lower level of sales is further demonstration of its substantial progress in effecting greater efficiency

through new management system and cost reduction techniques. In 1964, Douglas scored well in responsiveness to the national administration's heavy emphasis on cost reduction. These efforts had a simultaneously beneficial effect on the company's own results.

We have had similar comments from other defense contractors.

This trend, I think, is encouraging because our contractors account for more than 55 percent of each defense dollar which we spend. Their effort, therefore, will contribute importantly to our ability to meet and, indeed, I hope to exceed the present goal of \$4.8 billion annual savings attributed to the cost reduction program.

Mr. Chairman, this has been a long statement. I apologize for its length.

I will be very happy now to attempt to answer some of your questions.

Senator DOUGLAS. That is a very splendid report on a great achievement.

I notice your time has approached. I shall not ask any questions. I will ask Mrs. Griffiths if she has any questions.

#### PROTECTION OF SUBCONTRACTORS

Representative GRIFFITHS. I would like to commend you, too, Mr. Secretary. I think you have done a good job.

What have you done, if anything, toward the protection of the subcontractor?

Secretary McNAMARA. We have not done what I think you would like to see us do, Mrs. Griffiths.

We did investigate the problem you brought to my attention either last year or the year before, which involved possible discrimination against the subcontractor by a prime contractor.

We considered what we might do to prevent such situations from developing in the future. We finally concluded that it is not practical for the Defense Department to interpose itself between the prime contractors with whom we have legal contractual arrangements and their subcontractors. It is not practical for several reasons, the most important of which is simply the huge magnitude of the job.

There are tens of thousands of subcontractors functioning for the account of the prime contractors. We have sought to avoid discrimination in those relationships by two primary programs:

One is a program to increase the participation of small business in defense contracting and on this we have made considerable progress. Small business was receiving about 15.9 percent of defense contracts 4 or 5 years ago, and it is up to something over 20 percent in the first 8 months of 1965.

Secondly, and more importantly, we have sought to insure that the prime contractors were utilizing the most efficient form of subcontracting, choosing the best producers, if you will, pushing out the work to subcontractors where that could be done more efficiently than being done in their own plants, by emphasizing formally advertised competition, competition in other forms, by shifting away from cost-plus contracting and fixed-price contracting, all of which forms of contracting give the prime contractor a major incentive to seek the most efficient way of obtaining the competent parts for his major systems; in that way, to insure that he does procure those services from the most

efficient subcontractor, if you will. I think we must rely on that as our primary safeguard.

Representative GRIFFITHS. Is one of the reasons you are able now to have more competitive bidding and fewer cost-plus, the fact that the things which you buy you have more experience in purchasing? They are more closely standardized?

Secretary McNAMARA. No; I don't believe that is a major factor.

It is true that the opportunity for formalizing varies by type of weapon. In a sense, it is much more difficult to have a formally advertised contract for an intercontinental ballistic missile than for a rifle. I believe the major reason for an increase in formal advertising which has been very substantial, indeed, during the past several years, has been simply we have directed more attention to it. This committee has consistently emphasized the desirability of it as have other bodies in the Congress. We, ourselves, recognize the benefits that accrue from it.

It is extremely difficult to develop procedures for applying formal advertising under some circumstances. We think we have made a major breakthrough within the last 2 years by developing a procedure that we call—I think it is called—two-step bidding.

In any event, what we do is first go out and separate those firms qualified to participate in a formally advertised bid from all other firms in the country and then having determined which firms are qualified we limit the formally advertised bids to those firms. This, as well as other changes in procedures, has allowed us to substantially expand the percentage of our business through formal advertising.

I don't think we have reported before to this committee the progress in fiscal 1965, and I don't wish you to think these are final figures; they are not; we have not finished the year, of course. I think they will drop before the end of the year.

#### IN 1965 18.6 PERCENT FORMALLY ADVERTISED BIDS

Through the first 8 months of 1965, 18.6 percent of our contracts were awarded through formally advertised bids. That compares with 11.9 percent in 1961, which is a tremendous percentage increase, from 11.9 to 18.6; roughly a 60-percent increase.

Perhaps I should add that I think not only will that percentage drop before the end of the fiscal year, but it will drop a point or two. I don't want to overstate the case. The fact is that there has been a tremendous increase in formally advertised bids as a result of your interest.

#### DECREASE IN SPARE PARTS

Representative GRIFFITHS. I have observed you have decreased the quantity of spare parts. How did you do it?

Secretary McNAMARA. As a percentage of new equipment inventories and in absolute terms. Simply by insisting that we make a more precise requirement calculation. Particularly the Air Force, I think, has done a magnificent job in improving the precision of its requirements calculating procedures. General Gerrity who has been in charge of that work for some time has spent a great deal of his personal time on it and has made a substantial contribution to it.

I, personally, believe that we not only have drawn down inventories and therefore saved in the sense that had we purchased stock we didn't need, it would have eventually ended up in surplus and we would have had to sell it at salvage value, 1 or 2 cents on the dollar, but, in addition, the more precise calculation will increase the in-operation rate of our equipment by relating more directly the spare parts in inventories to the maintenance requirements.

#### BATTLE CREEK OPERATION

Representative GRIFFITHS. Have you been aided by the Battle Creek operation?

Secretary McNAMARA. I will have to ask Mr. Ignatius.

I don't believe Battle Creek participates in the requirement computations for spare parts; do they?

Mr. IGNATIUS. No. In terms of utilization of inventory already on hand, they play a very major role. They don't, as the Secretary points out, get involved in computation, but through their expertise there and the computer equipment that they have, they have been an important factor in helping us to draw down some of our excess assets.

Secretary McNAMARA. It is through that operation we are able to use \$1.3 billion a year of surplus inventory in lieu of buying and in lieu of new equipment.

Representative GRIFFITHS. What possibility is there that you can historically maintain a record of which spare parts are necessary?

Secretary McNAMARA. I think there is a very great possibility. The Air Force has developed job order sheets in effect that show what parts are used on what particular aircraft and in relation to what number of hours of flying time on the basis of which they can project future requirements both for that same aircraft and also for similar aircraft.

Representative GRIFFITHS. But on other vehicles?

Secretary McNAMARA. On automotive vehicles, it is obvious that a historical record should be of great value. I don't mean to imply that our automotive records are fully adequate, but I think they are much more adequate than our records of parts consumption associated with certain unique systems such as missiles or aircraft.

Representative GRIFFITHS. When you were here before you thought then that the standardization of the TFX for the use of two departments would save about a billion dollars in spare parts costs.

Secretary McNAMARA. I believe I said a billion dollars in research and development cost. An additional savings unestimated in spare parts and maintenance cost. I still can't estimate the savings in spare parts other than to say, as I mentioned in my statement, the Air Force will assume the responsibility for, in effect, maintaining common spares supplies for 10,000 to 15,000 individual parts that are common to the Navy and the Air Force. There will be substantial savings as a result.

It looks as though the research and development savings will be very substantial, I think approximating the magnitude I estimated.

#### STANDARDIZATION PROGRAM

Representative GRIFFITHS. Do you think that the standardization program is progressing satisfactorily? (See p. 26.)

Secretary McNAMARA. I don't know whether you would call it satis-

factorily. It is certainly progressing. It will progress much more rapidly as a result of the establishment of the office I referred to and the appointment of General Stanwix-Hay as head of that office. We have made considerable progress in the last 4 years.

#### BUTCHERS' SMOCKS

I have brought to your attention rather humorously in the past, but, nevertheless, seriously, that we did have four separate specifications for butchers' smocks, one for each of the services including the Marine Corps. We now have one butchers' smock. I think that is progress. Now we need to multiply it by tens of thousands of units.

Representative GRIFFITHS. What about handkerchiefs?

Secretary McNAMARA. I was not aware that we had more than one handkerchief. If we do, I will check into it.

Representative GRIFFITHS. Standard blankets?

Secretary McNAMARA. I can't answer, but if we have more than one or two types, we will shortly have only a limited number.

Representative GRIFFITHS. I would like to ask you also on this business of setting up a common procurement regulation: I don't know whether you still have or not, but I believe at one time within recent years, not while you were running the Defense Department, but before that, some new procurement regulations were handed down. One of them forced the purchaser to consider the freight costs of moving the end item to the point of use.

Another regulation required the purchaser, when ordering from an ordnance plant owned by the Government, to consider the taxes that would have been paid—if it had been a privately owned plant—to the city in which it was situated, and to consider that as part of the purchase cost.

I, personally, consider these two very poor purchase regulations. If they are still there, I hope you will consider doing away with them.

In the first place, the business of including the freight cost as part of the purchase cost discriminates against various areas of the country.

Secondly, it is perfectly obvious that you can also throw out a bidder under this system. You can simply move the place you are going to use the item. That is one thing. Therefore, I don't think the purchase regulations are fair, that particular one. It works a hardship.

The second one, the idea of having anybody who is competent to figure out what the tax would be on a certain item, when this is a big point in question in every city, everybody objects to the tax; nobody thinks the tax is fair. So, we really don't have any purchasers or anybody in the city who can tell you properly what can be paid on taxes.

Secondly, the idea of discriminating against the city that way. First, you require them to put a plant in there and then when the moment comes when they can be filled with working people, there is property that does not pay taxes, the bid is thrown out and it is given to somebody else.

If you have those regulations now, I hope you will consider doing away with them. They are not fair in that they allow the contracting officer to move the bid any place he wants to.

Secretary McNAMARA. I can't answer the specific question of whether those provisions remain in the procurement regulations, but I would at

some point when we have more time be willing to argue the theoretical justification of them. I think each of them is justified.

Representative GRIFFITHS. I don't. I think they work a hardship. Everybody pays taxes. There is no point in giving one person a greater break than another.

From long experience, I am perfectly well aware that many of the procurement regulations simply permit a contracting officer to throw out any bidder he wants to. I think the fewer loopholes you have, the fewer additional regulations you have, and the better off you are.

Secretary McNAMARA. This I fully agree with.

Representative GRIFFITHS. If all you have is price and quality and the contracting officer has fewer outs, you are in a better situation. I think that the people, themselves, have more faith in your operation.

Secretary McNAMARA. This I fully agree with. There should be no opportunity for favoritism in the regulations. If there is any such opportunity, I will be very happy to eliminate it.

Representative GRIFFITHS (presiding). Mr. Curtis.

Representative CURTIS. Thank you.

Mr. Secretary, I think this is an excellent operation we have going here—these annual reports for the committee. I know the committee appreciates them very much. There is enough material here for us to do a lot of homework on, and probably throughout the course of the next weeks and months there will be detailed questions that will be sent to you on it.

Secretary McNAMARA. I will be very happy to respond.

Representative CURTIS. I know you will be. This has been an excellent relationship.

Again, I want to join the chairman in commending you for this progress report.

There are a few details I would like to touch on at this point.

First, I want to emphasize how deeply impressed I have been by your military installation reexamination program. I could not agree with you more on the economic value of it to the Government, as well as to the community itself.

#### MOVING COSTS FOR DISPLACED EMPLOYEES

I hope that, in regard to moving costs for the individual displaced person, you have been more successful in setting up a liberal system than I was in trying to convince the Internal Revenue Service to provide tax deductions for these costs. I regret to say our tax laws, in spite of the improvements in the 1964 Code, are way out of line.

Did you take account of the new Civil Service Commission schedules in estimating moving costs allowances?

Secretary McNAMARA. Yes; we are working with them on that.

I somewhat share the same feeling you have, though. I don't believe that the amounts we are allowing today are fully adequate. The principle is correct. We have made the right policy decision. But we have not yet developed the means of properly calculating the full economic effect on the individual and taken account of it; loss on house, furnishings, et cetera. There are many, many indirect costs associated with moving one's family from one geographic area to another that we don't compensate for. We have taken account of the more direct moving expense and we are compensating for that.

Representative CURTIS. Some of the more enlightened companies will permit a man and his wife to go to the new community where they are going to locate to look around.

Do you include that item?

Secretary McNAMARA. No; we don't take account of that yet. That is why I say; I think we have made the right policy decision but we have not developed all the techniques of implementing it. Where you are dealing with tens of thousands of moves, it is extremely difficult to delegate discretionary policy, particularly, when you are applying new policy in areas where it is so easy for violation of policy to come in and where costs of such violations could be substantial.

Representative CURTIS. You answered one of the other questions I was going to ask on homeownership.

Among the problems that have come to my attention, one is that when you close down a base you find that the property value has gone down. Now, private corporations have moved into that area and possibly with this development, and our Government moving along with it, the situation will improve. I just want to touch on that and emphasize it.

Now, if I could go through several items here just to point out some other areas in which I think action is needed—not now, but in the future. First—advertised bidding. I am always glad to see that progress. The question I asked you: How much of that was break-out—

Secretary McNAMARA. Of spares?

Representative CURTIS. Also components of the prime contract. I wonder if you could supply data on that aspect; It think it is quite important.

(Data, subsequently supplied, follows:)

The competitive percentage of total procurement dollars includes procurements of items broken out to competition for the first time as well as all other competitive procurements. However, our reporting system on total procurement dollars is not designed to break down competitive procurement awards to identify procurements of items bought competitively for the first time. We have reporting procedures supplementing our primary reporting system that identify some of these transactions and provide us with a means for measuring progress of the breakout program and evaluating the savings resulted from the shift from non-competitive to competitive procurement. These supplementary procedures are limited in their objectives and were deliberately designed to avoid duplication of the primary reporting system. For example, of the \$966.2 million in spare parts procurements reported under these procedures in fiscal year 1964, 42.2 percent was competitive. These and all other spare parts procurements are included in the primary reporting system. This competitive percentage includes procurements of items broken out during the fiscal year, some of which might have been purchased competitively more than once during the year and also, of course, procurements of items broken out to competition in prior fiscal years. This is true also as to procurement dollars placed competitively for end items and components. Our primary reporting system covers all procurement dollars and identifies the portion awarded competitively. It is this system that we rely upon to evaluate the total procurement program and measure the increase in competition.

#### COST REDETERMINATION

Representative CURTIS. Now, on your negotiated bids, themselves, and your incentive bidding. I presume in most of those cases—our many of them—you have a cost-redetermination clause. Is that usually the case?

Secretary McNAMARA. We have very few of that kind. Within that category, we have several different formulas. I would be happy to give you the detailed breakdown of that.

Representative CURTIS. We would appreciate it if you would.

(Information requested and later furnished for the record, appears below:)

There are two broad categories of contracts which provide for price redetermination. One type provides for a firm fixed price for an initial period of contract deliveries or performance and for prospective price redetermination, either upward or downward, at a stated time or times during the performance of the contract. The use of this type of contract is very limited but it is sometimes considered appropriate in procurements calling for quantity production where it is possible to negotiate fair and reasonable firm fixed prices for an initial period but not for subsequent periods of contract performance. The following table reflects the limited use of the prospective price redetermination type of contract.

The second price redeterminable type provides for a ceiling price and retroactive price redetermination after completion of the contract. The use of this type is even more limited than the prospective price redeterminable type. It is sometimes considered appropriate in procurements where it is established at the time of negotiation that a fair and reasonable firm fixed price cannot be negotiated and the amount involved is so small or the time of performance is so short that the use of any other type of contract is impracticable. ASPR limits the use of this type to research and development at an estimated cost of \$100,000 or less.

Fixed price incentive contracts are a preferred type. It is a fixed-price-type contract with provision for adjustment of profit and establishment of the final contract price by a formula based on the relationship which final negotiated total cost bears to total target cost. These contracts provide for either a firm target or successive targets. In the firm target type, there is negotiated at the outset a target cost, a target profit, a price ceiling, and a formula for establishing final profit and price. After performance of the contract, the final cost is negotiated and the final contract price is then established in accordance with the formula. Where the final cost is less than the target cost, application of the formula results in a final profit greater than the target profit; conversely, where final cost is more than target cost application of the formula results in a final profit less than the target profit or even a net loss. Thus, within the price ceiling, the formula provides for the Government and the contractor to share the responsibility for costs greater or less than those originally estimated as determined by a comparison of negotiated final cost with target cost.

In the fixed-price incentive contract with successive targets, there is negotiated at the outset an initial target cost, an initial target profit, a price ceiling, a formula for fixing the firm target profit, and a production point at which the formula will be applied. Generally, the production point will be prior to delivery or shortly after completion of the first item. This formula does not apply for the life of the contract but simply is used to fix the firm target profit for the contract. When the production point for applying the formula is reached, the firm target cost is then negotiated, consideration being given to experienced cost and other pertinent factors, and the firm target profit is automatically determined in accordance with the formula. At this point two alternatives are possible. First, a firm fixed price may be negotiated using as a guide the firm target cost plus the firm target profit. Secondly, if a firm fixed price is determined to be inappropriate, a formula for establishing the final profit and price may be negotiated using the firm target profit and the firm target cost. As in the firm target type referred in the preceding paragraph, the final cost is negotiated at the completion of the contract and the final contract price is then established in accordance with the formula for establishing final profit and price.

The cost-plus-incentive-fee contract is a cost-reimbursement-type contract with provision for a fee which is adjusted by formula in accordance with the relationship which total cost bears to target cost. Under this type of contract, there is negotiated initially a target cost, a target fee, a minimum and maximum fee, and a fee adjustment formula. After performance of the contract, the fee payable to the contractor is determined in accordance with the formula which provides, within limits, for increases in fee above target fee when total allowable costs are less than target cost, and decreases in the fee below target fee when

total allowable cost exceeds target cost. The cost-plus-incentive-fee contract is considered suitable for use primarily for development and test when a cost reimbursement type of contract is found necessary and when a target and a fee adjustment formula can be negotiated which are likely to provide the contractor with a positive profit incentive for effective management.

There are no prescribed formulas for these incentive-type contracts except that ASPR states that in the case of cost-reimbursement-type contracts involving a fee, the maximum fee shall not exceed the statutory limitations stated in 10 U.S.C. 2306(d). In regard to fixed-price incentive contracts, the objective is that the formulas should reflect the risks involved in contract performance in order to provide an incentive consistent with the circumstances. Additionally, it should be understood that profit incentives might be applied to performance as well as to costs. A contract with a performance incentive is one which incorporates an incentive to the contractor to surpass stated performance targets by providing for increases in a fee or profit to the extent that such targets are surpassed and for decreases to the extent that such targets are not met. The term "performance" as used in this context refers not only to the performance of the article being procured but to the performance of the contractor as well. Such multiple incentives are frequently used in large development contracts. The formulas on cost incentives generally employed vary from a share of 85/15 to 75/25. In a typical formula of 80/20, for example, 80 percent of the savings would accrue to the Government and 20 percent to the contractor.

The following table shows total procurement dollars in millions for fiscal year 1964 and the percentage of this figure represented by various types of contracts.

Total Defense Department and period	Total procurement (millions)	Firm fixed price	Fixed price incentive	Cost plus incentive fee	Prospective price re-determination	Retroactive price re-determination after completion
Fiscal year 1964 (July 1963-June 1964).	\$25, 327. 5	<i>Percent</i> 46. 3	<i>Percent</i> 18. 5	<i>Percent</i> 14. 1	<i>Percent</i> 1. 8	<i>Percent</i> 0. 1

#### RENEGOTIATION ACT

Representative CURTIS. As you may know from my past interrogation, I am deeply disturbed with the Renegotiation Act remaining during periods when we should be able to procure in an orderly fashion. I have always argued that the process of renegotiating is necessary when you are dealing with a new weapon or new building; no one knows the cost but the people who are best able to do the renegotiating are those engaged in carrying out the contract.

Therefore, I was hoping to see a continued development of elimination of the cost-redetermination clause—I call them renegotiation clauses—in the contracts, themselves.

Secretary McNAMARA. We are trying to move, both in the formally advertised and in the other fixed-price forms of contracts, to contracts which provide proper incentive for high performance and to set a standard of high performance in advance and then when the performance is met to allow the profit to follow.

This results in elimination of cost-redetermination clauses. It may also result in errors. I realize that.

Representative CURTIS. I am willing to go along with the incentive idea. But I worry that we are somewhat at variance with a strict interpretation of the Renegotiation Act. I, personally, would like to see us eliminate it and get on what I would regard to be a proper base.

## TRANSFER OF CIVILIAN ITEMS TO GSA

Now, I would still like to know how much we are doing to bring over into the General Services Administration, items that are of common use, items it is not necessary for the military to procure.

Secretary McNAMARA. I strongly support that. I think we buy about 300,000 items from GSA. We purchase only as an incidental function to our primary function of military operation. Anything I can get anybody else to buy for me, which is not essential for me to buy, I want to do so. The General Services Administration is now buying for us over \$970 million worth of items. We will be very happy to transfer anything else to them that is in our mutual interest.

Representative CURTIS. Another area is this business of out-of-house procuring instead of in-house performance, the subject of well-known Hoover Commission recommendations. I would like, if we could, to get a report on how we are doing in this area, too. We should be getting out of the laundry business and barbering; there are a thousand and one different fields in which the military used to operate. I think they are not completely out of them now.

(The Department of Defense subsequently supplied the following information:)

## STATUS OF THE IN-HOUSE PERFORMANCE OF COMMERCIAL-INDUSTRIAL ACTIVITIES BY THE DEPARTMENT OF DEFENSE

The number and type of commercial or industrial type activities conducted within the Department of Defense are closely controlled. DOD Directive 4100.15 and DOD Instruction 4100.33 implement the DOD policy that no commercial or industrial function will be started or continued in operation under military control unless necessitated by a clear determination of national security personnel training requirements, excessive costs, commercial unavailability or other compelling reasons.

To assure compliance with this policy, current DOD instructions specify that no new commercial or industrial activity may be started without the specific written approval of the Assistant Secretary of Defense (Installations and Logistics). Further, all military departments and defense agencies are required to make periodic reviews of all commercial or industrial activities now being conducted under their control to assure that only those which conform to established DOD policies are continued in operation.

It is required that these reviews be impartial and searching, with the primary objective of discontinuing activities which do not conform to established criteria. Included in this review procedure is the responsibility to consolidate, wherever possible, commercial or industrial activities that must be continued under military control, and to operate these activities efficiently and economically.

As an indication of the results achieved under this program, continuous reductions have been made in the number of Government-owned industrial plants under military control during the past 4 years. These reductions in the number of Government-owned contractor-operated defense plants now total 63, and their release makes available a substantial amount of production capacity for use by private enterprise.

In addition to the release of these 63 plants, the Department of Defense has terminated Government manufacturing operations in the Naval Ordnance Plant at York, Pa., and is proceeding with announced closure plans for the Watertown Arsenal, Mass.; the Springfield Arsenal, N.Y.; the Naval Ordnance Plant, Macon, Ga.; and the naval shipyards at New York and Portsmouth. Termination of operations at these large production facilities is a major Government withdrawal from commercial-industrial functions, and represents a continuation in the Department of Defense policy of obtaining the maximum practicable amount of its required products or services from private enterprise through ordinary business channels.

DOD efforts toward obtaining further reduction of military controlled commercial-industrial activities is continuing, and a new program is now underway

to develop improved guidelines for use in reaching better cost/effectiveness decisions on whether various base support type functions should be performed in-house or by contract. It is anticipated that this new program will aid DOD in achieving more precisely its objective of performing in-house only those functions which are essential to military readiness, and procuring all other goods or services by the method which involves the lowest overall cost to the Government.

Representative CURTIS. I should not even mention commissaries at this point because there has been a lot of controversy on the subject. But it is useful to illustrate the kind of things that the committee is interested in. That is only one item.

Secretary McNAMARA. On the commissaries, I differentiate that from all other items in the category because we consider that a fringe benefit and take that into consideration on the basic pay scales.

Representative CURTIS. On this item, I would much prefer to have us give compensation rather than the kind of fringe benefits that interfere—

Secretary McNAMARA. I don't disagree with you on that. But, as long as we are counting the commissary privileges as a fringe benefit, we must either maintain the commissaries or give a cash amount equivalent to that benefit. I would also prefer the cash payment.

I think we must seriously consider simplifying the system, getting rid of a lot of these things, giving cash equivalent so that we know what the cost is.

Representative CURTIS. That is what I would like to see. Keep us in the commissary area where you have to because there are not facilities available.

Secretary McNAMARA. And then price accordingly.

Representative GRIFFITHS. Neither of us was up here when it was announced that the Secretary has to go to the White House. So, could you both submit written questions?

Representative CURTIS. Let me do that. I do have a number of other things, but I will reduce these to writing and this will serve the purpose.

(See appendix, p. 331, for additional questions and answers involving DOD, BOB, and GSA.)

Secretary McNAMARA. Mr. Jordan has not had an opportunity. I will be happy to stay long enough to answer his questions.

Senator JORDAN. Mr. Secretary, I appreciate the thoroughness of the progress report.

In the interest of the commitment you have, I will defer any questions I have and present them in writing, if that is agreeable, because I know your commitment is all-important.

It is a very fine progress report. I am particularly impressed by the fact that we are now able to use \$39 billion of supplies supporting \$81.5 billion end items as against \$42 billion supporting \$68 billion in 1960 which, I think, is highly commendable.

Secretary McNAMARA. Thank you very much, sir.

I am very grateful to the committee for its courtesy and past helpful advice.

Representative GRIFFITHS. Thank you, Mr. Secretary.

Our next witness is the Honorable Paul R. Ignatius, Assistant Secretary of Defense, accompanied by Mr. Paul H. Riley, Deputy for Supply and Services; John M. Malloy, Deputy for Procurement; and

Brig. Gen. A. T. Stanwix-Hay, Director of the Office of Technical Data and Standardization Policy.

We are pleased to welcome you, Mr. Secretary. We are aware that you have a difficult problem. You have our sympathy.

You may proceed as you wish.

**STATEMENT OF HON. PAUL R. IGNATIUS, ASSISTANT SECRETARY OF DEFENSE; ACCOMPANIED BY PAUL H. RILEY, DEPUTY FOR SUPPLY AND SERVICES; JOHN M. MALLOY, DEPUTY FOR PROCUREMENT; AND BRIG. GEN. A. T. STANWIX-HAY, DIRECTOR OF THE OFFICE OF TECHNICAL DATA AND STANDARDIZATION POLICY**

Mr. IGNATIUS. Thank you.

I appreciate the opportunity to appear before you today to report on progress we have made in areas of particular interest to this committee.

At the outset, I would like to acknowledge the contributions of my predecessor, Thomas D. Morris, who served as Assistant Secretary of Defense (Installations and Logistics) until December of last year. I had enormous admiration for Mr. Morris and I think he was held in high repute by members of this committee.

Senator DOUGLAS. We found him to be a devoted public servant and very efficient. I hope he is getting a little rest because he worked himself almost to death.

Mr. IGNATIUS. With me today are Mr. Paul H. Riley, my Deputy for Supply and Services, Mr. John M. Malloy, just recently appointed as Deputy for Procurement, and Brig. Gen. A. T. Stanwix-Hay, Director of the Office of Technical Data and Standardization Policy.

In accordance with your instructions to me (see p. 1), I have in general confined my statement to an extension of comments already forwarded to the committee on the recommendations contained in your report issued after last year's hearings (see p. 68). Admiral Lyle will also address certain of these recommendations in his statement. (See p. 75.)

**GOVERNMENT-FURNISHED EQUIPMENT**

During the past year, there has been increased interest in our policies and procedures concerning Government-furnished equipment—GFE, versus contractor-furnished equipment—CEF, in the procurement of major end items.

The General Accounting Office, as you know, has issued several reports on the subject, recommending, in substance, that project managers be directed to review each major component of their weapon systems to determine the feasibility of furnishing it as GFE.

While the committee in its report last year made no specific recommendation as to whether items should be procured by the Government or contractors, it did stress the importance of assuring that available Government supplies and resources be utilized before either the Government or the contractor made new purchases.

As the committee knows, the military departments have traditionally furnished quantities of material, components, and equipments to prime contractors for incorporation into end items. For example,

Government-furnished material represents about 35 percent of the total purchase price of Navy ships. With respect to aircraft, the Navy is furnishing over 35 percent of the dollar value of the equipment being installed in the F-4, a large portion of which is represented by the engines.

The Army furnishes large amounts of Government-procured material to prime contractors; for example, approximately 40 percent of the M-60 tank is furnished as GFE to the Chrysler Corp., the prime contractor.

The Air Force advises me that many of its systems contain a substantial percentage of GFE. For example, the C-141 is 36 percent GFE and the T-38 is 33 percent GFE.

The military departments have recognized the desirability of furnishing selected materials and equipments to prime contractors where substantial benefits, such as cost reduction or standardization, can be obtained.

The Department of Defense has been emphasizing for the past 4 years the importance of incentives for contractors to improve performance in all areas including cost, quality, reliability, and compliance with delivery schedules. Accordingly, we must be careful, in formulating a policy on breakout, not to diminish the effect of the incentives or the responsibility of the contractor for delivering the required item in timely fashion. In addition, we must avoid a situation where the prime contractor may lose interest in improving the reliability or reducing the cost of importance components.

A reduction in the contractor's control over the manufacture of his product runs counter to a philosophy of increased contractor responsibility.

A proposed addition to the armed services procurement regulations has been drafted to expand upon the policy relating to the furnishing of Government material to production contractors. The draft of the armed services procurement regulations coverage has had preliminary coordination with industry and is being reviewed within the military departments.

At this point, we have tentatively concluded that breakout should be encouraged wherever substantial net overall cost reductions are clearly attainable without significant increased risks. The problem we face in developing this policy is one of proper balance. We are, of course, dedicated to reducing costs at every opportunity.

However, there must be real cost savings and in connection with our breakout program any sudden and precipitous acceleration would inevitably create administrative and technical problems of substantial magnitude. Some of the factors that affect a breakout policy are:

- The criticality of the item to safety or military effectiveness;
- The stability of design;
- The effect on the prime contractor's performance responsibility;
- The effect on production schedules;
- The extra administrative costs to the Government.

In summary, we are hopeful that we can develop a policy on breakout that will protect the Government's interest, be reasonable and equitable with respect to our prime contractors, and be consistent with our needs for timely delivery of reliable weapons systems.

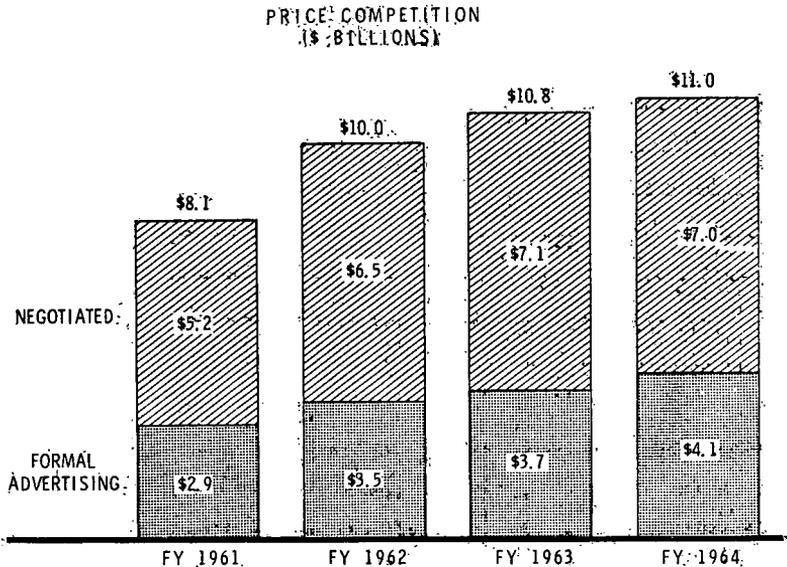
## HIGH DOLLAR SPARE PARTS BREAKOUT PROGRAM

While we are continuing to work on an overall Department of Defense policy on breakout related to major end items, we have already established a procedure for breaking out replenishment spares for procurement, either from the original supplier or on a competitive basis.

In 1961, we began developing procedures for improving the competitive procurement of replenishment spares and repair parts. We have reports on about \$1.8 billion of spares and repair parts purchased in all commodity areas during the period fiscal year 1962 through fiscal year 1964. In the last fiscal year, \$966 million in procurement were reported, of which 42 percent were purchased on a price competitive basis. On an overall basis, we have achieved an increase of approximately 50 percent in the dollar value of competitive procurement for replenishment spares and repair parts during the fiscal year 1962-64 period.

## INCREASED USE OF FORMAL ADVERTISING

We are pleased to report to the committee that our insistence on increased price competition has resulted in an increase of \$1.2 billion in formally advertised procurements from fiscal year 1961 to fiscal year 1964. The following chart illustrates the growth in price competition and the attendant growth in formally advertised procurements:



We believe that this increase in formal advertising is attributable, in the main, to two contracting techniques:

**Two-step formal advertising:** This method of procurement is designed to expand the use and obtain the benefits of formal advertising where available specifications preclude the use of conventional formal

advertising. It is especially useful in procurements requiring technical proposals for the production of complex items.

Under the first step, unpriced technical proposals are reviewed in order to screen out those proposals which are technically unsuitable.

The second step is conducted on the basis of normal advertising procedures, with public opening of bids and award to the lowest responsive, responsible bidder. During fiscal year 1964, \$415 million was obligated under this procedure. We expect to make greater use of this technique in the future.

**Multiyear procurements:** While this technique is not confined to formal advertising, in actual practice we have found that it lends itself particularly well to the two-step advertising procedure. Multiyear procurement permits us to buy items for a period of 2 or more years in situations where requirements are comparatively firm. While the contract covers the multiyear quantity, funds are obligated for only the first year portion.

Under this procedure, we made contracts totaling over \$680 million in fiscal year 1964 by means of formal advertising. The results have been beneficial both to industry and the Government. Industry gains as a result of continuity of production. The Government realizes the saving that this continuity of effort makes possible.

The Government also benefits as a result of the increased standardization that the multiyear technique provides, as well as from the savings achieved as a result of not having to reprocure the item each year.

A study has just been completed on 42 multiyear contracts awarded since fiscal year 1962. This study reveals that average savings attributable to multiyear procurement amounts to about 10 percent. We have proposed legislation this year that would enable us to extend this procurement technique to contracts financed by O. & M. funds.

#### PROCUREMENT MANAGEMENT REVIEW

Our procurement management review program is now in its third year of operation. Under this program, periodic reviews are conducted of all major procurement organizations in order to determine how efficiently procurement is being carried on, to suggest possible areas of improvement, and to assure that our policies are understood in the field.

Activities which together account for 75 percent of our procurement dollars are each reviewed at least once every 2 years. In addition, the program permits us to make quick reviews to determine whether new policies are having the desired effect. We are extending these reviews to our oversea theaters and there is presently underway a joint Army, Navy, and Air Force procurement review in the European theater. Preparations are also being made for a review of procurement operations in the Far East in the next fiscal year.

#### DEPARTMENT OF DEFENSE RELATIONSHIPS WITH SUBCONTRACTORS

Relative to the expressed interest of this committee in the Department's relationship with subcontractors, our basic policy has been, and is today, to look to our prime contractors to properly manage their subcontracting programs in accordance with armed services procurement regulations requirements and sound business practice. We do not attempt to interpose ourselves between prime and subcontractors.

Our major procurement objectives of awarding higher risk contracts (fixed price and incentive) and conversely minimizing the use of cost-plus-fixed-fee contracts, coupled with our emphasis on competitive procurement and our success in achieving our objectives in the past few years, only strengthens our conviction in the soundness of this approach.

In this respect it may be noted that Department of Defense fixed-price contracts increased from 31.5 percent of our procurement dollars in fiscal year 1961 to 50.3 percent in the first 7 months of fiscal year 1965. If, in this current year, we add firm fixed-price contracts with escalation (5 percent) and fixed-price incentive arrangements (16.3 percent), our total fixed-price contracts constitute more than 71 percent of our total procurement program. Hence, in this high-risk procurement environment, we believe it is sound procurement policy to hold the prime contractor accountable for performing the work, including the selection of subcontractors and vendors, and the letting and pricing of subcontracts.

#### DEPARTMENT OF DEFENSE TECHNICAL DATA MANAGEMENT

Technical data and specifications. This committee has noted that we must have adequate data and specifications in order to increase competitive procurement. There are many facets to the technical data problem, and I wish at this point to describe the approach we are taking.

Adequate data are of critical importance to the Department of Defense for three basic reasons: First, experience has proven that we cannot support effective military operations in the absence of reliable and accurate data; second, the expenditure for all categories of data by the Department of Defense represents a very large sum of money, estimated to be \$1.5 to \$2.6 billion per year; and, third, reliable, accurate data are essential to obtaining sound competition.

Substantial progress has been made to improve overall control of technical data at the Department of Defense level during the last year. Secretary McNamara has already mentioned the establishment of the Office of Technical Data and Standardization Policy in order to achieve a single focal point within the OSD for the coordination, integration, and policy management of the total Department of Defense program. In addition, we have:

1. Issued a Department of Defense policy directive governing the determination of data requirements and the procurement of technical data and standardization from exploratory development through production, distribution, use, maintenance, and disposal of military items.
2. Reviewed specifications over 10 years old and as a result canceled 50 percent of those reviewed.
3. Established a Department of Defensewide data managers' training program.
4. Revised and issued Engineering Drawing Specification (MIL-D-70327), to include drawing acquisition.
5. Initiated a Department of Defensewide pilot test program to determine the utility for rapid retrieval by Government and contractor engineers of technical information on components.

6. Established other priority projects to bring into sharper focus problems related to technical manuals, data cost and storage and retrieval systems.

We have greatly facilitated and improved the working relationships between the research and development and logistics sides of our house through the Technical Data and Standardization Policy Council, which was established a year ago and which is chaired jointly by Dr. Fubini, Deputy Director of Research and Engineering, and me.

One of the most important and also most elusive problems before the Council which our staffs are actively studying is how to utilize development data in the procurement process. While we cannot report any specific improvements at this time, we have greatly increased our understanding of the processes involved and are working on a plan we hope to discuss with industry in the near future.

As data management visibility increases, cost reductions are anticipated. It is not our policy, however, to achieve cost reductions at the expense of quality. Interestingly enough, our experience to date indicates that when valid cost reductions can be achieved in data management, quality of data tends to increase. During the next year, I feel our effectiveness in managing data will increase still further.

#### AVOIDING UNNECESSARY PROCUREMENT

Our effort to avoid unnecessary procurement has four main approaches: First, we are refining our requirements calculations in order to avoid purchases beyond our needs.

Second, in selected instances, we are delaying the initial provisioning of reparable components and spare parts until sufficient experience has been gained through the use of the end item to enable us to determine more accurately the items and quantities we need.

Third, we are screening items which are designated as "new items" to assure ourselves that they are, in fact, new and not already in our inventory.

Fourth, we are intensifying and improving our procedures for transferring excess materiel among the military services, thus avoiding new procurement.

Refining requirements calculations for secondary items: Secondary items, that is, repair parts, component assemblies and minor items, comprise the bulk of the 3.9 million items in the military supply system. The inventory of these secondary items is valued at a little over \$17 billion, and annual procurement amounts to over \$2 billion.

We have reduced unnecessary procurement by establishing more realistic safety levels, reducing turn-around time in overhaul facilities, shortening administrative and procurement leadtimes, and other refinements. These and other actions have enabled us to avoid buying \$799 million of secondary items in fiscal year 1966 that would have been bought were it not for these actions.

Phased provisioning: Phased provisioning involves the deferral of quantity procurement of selected high-cost items until reliable usage data are available to confirm our actual needs. This technique requires careful planning and coordination with the contractor producing the major end item.

During this past year, we have exploited this technique on the J79-15 engine, the F-4 aircraft, and the C-141A aircraft. Initial spares pro-

curements on the C-141A prime contract amounting to \$13.2 million were deferred and arrangements have been made with the contractor to hold buffer stock quantities for 95 high-cost repairable items.

Plans are being made to apply this technique to the F-111 program, the UH/2A helicopter and the "Gama Goat," a new Army vehicle.

Item Entry Control: During fiscal year 1964, about 406,000 item identifications were added to the Department of Defense portion of the Federal Catalog File. During the same time period, approximately 398,000 items were deleted.

Although our efforts this past year were more effective than previously, we recognized that we must take further steps to reduce the number of new items entering the Department of Defense inventory. A promising effort was the establishment of the Department of Defense Item Entry Control Office as a part of the Defense Supply Agency.

This Office is responsible for developing techniques and systems to prevent the entry of items already in the system or for which there is a satisfactory substitute on hand. We currently have underway a pilot test of a new item entry control procedure which we are conducting at five locations. The test results are now being evaluated and recommendations will be submitted in the near future.

Utilization of long supply: Over the years, one of our continuing problems has been how best to achieve optimum utilization of the large quantities of materiel we hold in long supply. Until recently, the magnitude of the task of attempting to match, manually, or by conventional cardpunch equipment, the millions of procurement transactions with the stock position of over 3 million items, was almost insurmountable. The advent of computers and the rapid expansion of their capabilities have now provided us with the means of automating the task.

The Defense Logistics Services Center, located at Battle Creek, Mich., in addition to its responsibilities for maintaining the Federal Catalog and supervising the sale of surplus property, now operates a central clearinghouse which matches the items we need to buy with items in long supply. Continuing reports are received from the services, identifying items beyond their authorized requirements and retention levels. Simultaneously, the Center receives reports of service requirements. The two are compared, and when matches occur, the service which needs to buy an item is notified of available long supply to meet its need, and transfer of the available assets is arranged. This procedure is performed on a large high-speed computer.

In fiscal year 1961, we utilized \$956 million of our long supply. In fiscal year 1964, more than \$1.287 billion was utilized, or an increase of \$331 million in our rate of utilization. (See p. 40.)

#### DEPARTMENT OF DEFENSE STANDARDIZATION PROGRAM

The report issued by this committee in September 1964 urged the Secretary of Defense to bring the standardization program under more decisive control and to merge the views of research and development, production, and supply personnel in making final standardization decisions.

On June 12, 1964, the Office of Technical Data and Standardization was established as a part of my Office. In addition to its respon-

sibilities for technical data and specifications management which I mentioned earlier, this Office is the focal point in the Department of Defense for our standardization program. It works closely with the Office of Defense Research and Engineering in the assignment and approval of standardization projects through the Technical Data and Standardization Policy Council and through a working group which is composed of representatives who are Deputy Assistant Secretaries from my Office and O.D.D.R. & E.

The Office of Technical Data and Standardization Policy has assigned to its research and engineering personnel who assist in coordinating the standardization activities of the office with O.D.D.R. & E.

Thus, with these new organizational and staff rearrangements, I believe we have been responsive to the committee's recommendation and have reenergized the standardization program. In fiscal year 1964, we reviewed 500,000 items in the standardization program and eliminated 221,510 of them.

#### CONTRACT SUPPORT SERVICES

This committee has expressed an interest in our policies and practices with respect to obtaining support services by contract as opposed to performing such services in-house. Last September, Secretary McNamara established a special study group to examine our policies and practices in the use of contract support services.

The Secretary's objectives, as outlined in his memorandum which established this project, are quite specific. First, he wants to make certain that the Department of Defense is equipped and staffed to perform efficiently and effectively all of those functions which are essential to military readiness.

Second, in regard to all other functions, the objective is to select the arrangement (that is, performance in-house or by contract) which will produce the lowest overall cost. Where the use of contract support services is inconsistent with civil service laws and regulations, we intend to terminate such use.

The Department of Defense is in complete agreement with the national policy that the Federal Government should not provide for itself commercial and industrial products or services which can be obtained from private industry at lower cost and at no detriment to military readiness. Our current study, which has just been completed, recognizes this policy and any action we take as a result of the study will be consistent with it. (See p. 98.)

The scope of our study was very broad. It included 24 support-type activities such as contract technical services, base telephone exchanges, depot level maintenance, laundry and food services, painting, motorpool operations, and a wide variety of others.

Senator DOUGLAS. Did it include ropemaking, Secretary Ignatius? Is that sacrosanct, protected by Massachusetts?

Mr. IGNATIUS. I recall that issue.

Senator DOUGLAS. Do you know whether there is a recommendation on whether the Government should make rope?

Mr. IGNATIUS. I don't recall a specific recommendation on that. I think that issue got settled after long, long discussion, about the rope walk in Boston.

At any rate, the report on the study was completed on March 31, 1965. It is now being reviewed by the military departments and by the De-

fense Industry Advisory Council. Subsequently, it will be forwarded with appropriate recommendations to the Secretary of Defense. (See p. 72 and appendix, p. 331.)

MANAGEMENT OF ITEMS BY DSA AND THE MILITARY SERVICES

The committee's report pointed out a need to restudy the criteria we use to assign items for management to DSA and the military services. In March of 1964, the Director of DSA was requested to undertake a study of our criteria and identify problems associated with interpretation or application of them and to recommend uniform criteria which could be simply and consistently applied to all items of supply.

The DSA completed its study in November 1964. We have completed a field test of new criteria and the Defense Materiel Council approved them on April 26, 1965.

The military services now manage 912,000 items of the 2,495,000 items in the Federal supply classes assigned to DSA. We estimate that application of the new criteria to these 912,000 items will result in the transfer of over 500,000 additional items to DSA.

Senator DOUGLAS. But the four services will still have control over weapons; isn't that true?

Mr. IGNATIUS. Yes, sir.

Senator DOUGLAS. And over Ordnance?

Mr. IGNATIUS. Yes, sir.

This study was concerned with the Federal supply classes assigned to DSA and generally speaking, there were no major end items included in there, and the ammunition category excluded, also.

To conclude, Mr. Chairman, our overall management improvement efforts are brought into focus by means of the Department of Defense cost-reduction program which Secretary McNamara has reviewed with the committee. The program covers 27 major areas and provides regularly scheduled reports of progress toward specific goals. The savings that have been achieved have been of importance to the Department of Defense and, indeed, to the Nation as a whole. Equally important, they attest to our determination to conduct our affairs in a responsible and business-like manner.

Mr. Chairman, we deeply appreciate the counsel we have received from your committee in the past and we solicit your continuing advice and support. We are prepared now to respond to questions or comments that you or the members of your committee may wish to direct to our attention.

Senator DOUGLAS. Mrs. Griffiths.

Representative GRIFFITHS. I have no questions.

Senator DOUGLAS. I take it you are continuing the tradition of your predecessor, Mr. Ignatius.

Mr. IGNATIUS. Thank you.

Senator DOUGLAS. I understand that after prolonged negotiations and after some prodding from this committee that basic agreements have been reached by DOD, GSA, and others in supply fields such as (a) medical supplies and equipment; (b) subsistence supplies; (c) handtools and paint.

Now, what actual progress has been achieved in each of these three fields?

Mr. IGNATIUS. As Secretary McNamara said earlier, we have encouraged where appropriate, supply to us by the General Services

Administration. In the area of paint and handtools, the General Services Administration has assumed responsibility for large numbers of those items. The dollar value of the amounts transferred, I do not have, Mr. Chairman. Perhaps Mr. Riley has that.

Mr. RILEY. Mr. Chairman, last year, we transferred \$41 million worth of inventory of paint and handtools to the General Services Administration.

Senator DOUGLAS. Handtools?

Mr. RILEY. Yes, sir; paint and handtools. (See appendix, p. 379.)

With respect to the other commodities, the Defense Supply Agency and the General Services Administration have been working jointly on an agreement whereby the Defense Supply Agency, if economy can be achieved, will assume responsibility for managing subsistence, clothing, and electronics.

Senator DOUGLAS. Now, we have here items formerly stocked by the military some of which spoiled because an excessive quantity had been accumulated. I am going to pass them down. I will ask Mr. Gewehr to pass these around.

Some are mere samples of stuff that have gone to waste in the past through excessive stocking. Time has done its work. The taxpayers pay the bill.

Here is some ink ribbon, a dry battery, some film.

As the Secretary said, in a huge program it is inevitable that there should be some miscarriages. I am not bringing this forward as any indication of personal sin at all. I am bringing it forward as an indication that some centralization of supply was necessary. I thought we had reached an agreement on handtools and paints, subsistence supplies, medical supplies, and so forth.

What I would really like to know is what actual progress has been achieved in these fields?

Mr. IGNATIUS. May I respond, Mr. Chairman?

Senator DOUGLAS. Yes.

Mr. IGNATIUS. First, you called to our attention an important matter. There has been some spoilage and wastage in the short shelf life items. Your report issued in September last year called this particularly to our attention and recommended that we establish a joint Department of Defense-General Services Administration project to try to deal with the problem. This we initiated shortly after the issuance of your report. It was jointly conducted by the Defense Supply Agency and the General Services Administration. The report has been completed and it is now being circulated among the military services for review.

The report attempts to establish procedures by which we can know what the shelf life of the item is, to know assets on hand, and to call the attention of inventory managers to the importance of the remaining life in the item so that we can in fact issue them before spoilage occurs.

Senator DOUGLAS. These items were stored and forgotten about?

Mr. IGNATIUS. Yes, sir.

Senator DOUGLAS. And time did its work.

Mr. IGNATIUS. I think we need to improve our control here. The intent of this study that has been completed is to provide procedures that will do that.

Senator DOUGLAS. Now, Mr. Ignatius, I have a suspicion that the loss on paint, for example, would never have been brought to light but for the transfer of stock to the General Services Administration.

Mr. IGNATIUS. That may have been the case. There was as I recall the figure, about 4 percent of the value of the paint stocks transferred that had spoiled. Paint certainly is an item that has a short shelf life and one that we ought to give close attention to.

Mr. RILEY. Mr. Chairman, may I add to that, please?

Senator DOUGLAS. Yes.

Mr. RILEY. When the Defense Supply Agency took over the management of paint for the Defense Department, it recognized this was a problem; they recognized some of the paint items that had been turned over to them in stock were overage. They began working immediately on issuing the old items first and declaring excess those items that were overaged.

I think Admiral Lyle will touch a bit more on what the Defense Supply Agency did in respect to this particular problem. They had already begun to work on it and issue the old age items first and declare as excess the items that had already been spoiled. (See p. 98.)

Senator DOUGLAS. Thank you, Mr. Riley.

Now we can see the situation which has developed in paint.

Are you sure that the same situation does not exist with photographic supplies, still retained by the military and not turned over to the DSA?

The similarity of initials between GSA and DSA confuses people.

We were successful in having an agreement reached on paint, as well as hand tools, to be turned over the General Services Administration, GSA.

Now, what I am asking about: Are you certain that this same situation does not occur in the case of photographic supplies?

Mr. RILEY. Mr. Chairman, I feel reasonably sure that we have made a number of improvements in controlling our photographic stocks in recent years. I think the Cuban situation highlighted our position on that. We have strengthened our procedure and I think our photographic supplies are in good shape.<sup>1</sup>

Senator DOUGLAS. I will get our sleuths to go into that.

Mr. RILEY. We would appreciate knowing any problems.

Senator DOUGLAS. How do you feel about tires, rubber goods in general?

Mr. RILEY. I would like to say it is my belief that the management of our automotive tires, since it is under single management, the Tank Automotive Center in Detroit, is in good hands and I believe our tire inventory is watched carefully and we have little or no spoilage of tires.

Senator DOUGLAS. We will do some additional sleuthing on that.

Mrs. Griffiths, will you accept that assignment?

Representative GRIFFITHS. I certainly will.

Senator DOUGLAS. What about medical supplies? We passed out some chemicals there that had deteriorated.

Mr. IGNATIUS. I think that there is a general problem in the several commodity areas that you have called to our attention both this morning and in the report last year.

As I say, it is our aim through the effort that we have made since last September in studying this problem, to try to devise procedures

<sup>1</sup> See staff report, 1965, p. 224, for GAO study of short shelf-life items.

that will identify the remaining life and call attention to inventory managers to the need to issue in order to avoid loss through spoilage. I don't suppose you can ever eliminate this completely.

But there is no doubt that we can do better and what is needed, it seems to me, is good procedures that identify the stocks that you have on hand with respect to their age.

Admiral Lyle, working with the General Services Administration, has come up with procedures that we are now reviewing.

Senator DOUGLAS. I want to congratulate you on the open-minded way in which you approach this problem and your attitude as a welcome contrast with the experiences that I have had in years prior to 1961 when every suggestion that I made about improving the supply functions was greeted with stubborn opposition and denial that any problem existed.

I remember once when I produced evidence on the floor of the Senate indicating grossly excessive prices paid for common-use items of 10, 15, 20 times, the Defense Department brought over approximately 15 officers to my room and they faced me with a phalanx of a command. I could only conclude it was an effort to overawe me with the weight of military authority.

I want to say that this attitude which the Department now adopts is a welcome contrast to this. These facts are not intended to embarrass you but to suggest ways in which we can work together in the future in a very creative fashion as I think we have been able to do in the last 4 years.

Mr. IGNATIUS. We so regard it in that manner, Mr. Chairman.

Senator DOUGLAS. What about foodstuffs? This is a difficult problem.

Mr. IGNATIUS. In terms of spoilage?

Senator DOUGLAS. Yes.

Mr. IGNATIUS. I don't have any specific comments with respect to food other than the general comments I have made on the problem of shelf life.

Mr. RILEY. Senator Douglas, our principal problem in foodstuffs is combat rations. We have a problem of rotating those from time to time and we do watch them carefully and do rotate them by force feeding during maneuvers and at other times. The perishables are not a problem because we buy them on sight and ship and consume them immediately. As far as I know, we are in good shape on our non-perishable foods.

#### CONSOLIDATION OF HOSPITALS

Senator DOUGLAS. What progress have you made in consolidating hospitals? You have Air Force, Navy, and Army hospitals?

Mr. IGNATIUS. Yes, sir; we do.

Senator DOUGLAS. Do you not sometimes have them in the same area, with idle beds, large percentages of idle beds in one?

Mr. IGNATIUS. We have not consolidated hospitals. There are Army, Navy, and Air Force hospitals. However, we do have cross-servicing in a given area. A Navy hospital, for example, may attend to the needs of the Army people in an area.

Senator DOUGLAS. Is that ever done?

Mr. IGNATIUS. Yes, sir.

For example, in Illinois, I believe the Navy hospital at Great Lakes tends to the needs of the Army personnel, I believe at Fort Sheridan,

as an example. And this is done in other areas. There are, as you say, in a given area, maybe both Navy and Air Force hospitals or of the three services if they are located in a given area.

Senator DOUGLAS. What headway have you been able to make on chaplains—Army, Air Force, Navy, and Marine chaplains? Do the doctrines of Christianity differ from service to service?

Mr. IGNATIUS. No, sir. There has been no consolidation of the chaplains corps. Many of the uniform people feel very keenly that having a chaplain of the same service on the line with them if it is in the Army or Marines, or aboard ship with them if it is in the Navy, is meaningful. There have been no efforts that I am aware of to form a single corps of chaplains.

#### RECORDING SUPPLY ITEMS

Senator DOUGLAS. I was much interested in your statement that when you recode supply items you will transfer the management of 500,000 to the Defense Supply Agency.

Did the buzz saw cut very deeply when you did that?

Mr. IGNATIUS. This was a fairly hard thing to do. We had a preliminary study last November and a great deal of disagreement. I would say the buzz saw was cutting a little deeply last November.

We then established a joint Department of Defense-service group to go into this again. I think they did an excellent job, Mr. Chairman. One of the things that surprised me when we went over the study in the last few weeks was the degree of agreement we got from the services in what is admittedly a controversial area.

Yesterday the Defense Materiel Council met on this matter. As I indicated in my statement, more than half of the 912,000 items retained by the services will go to the Defense Supply Agency.

I have felt that this particular study was a good indication of the ability of the individual services and OSD and DSA to work cooperatively in an area that is bound to be controversial.

Senator DOUGLAS. I want to congratulate you. I hope you don't wake up some morning with a knife planted between your shoulder blades and penetrating the innermost recesses of your body. I hope your sleuths will keep watch over that. Mrs. Griffiths?

#### CHEF'S HATS

Representative GRIFFITHS. There is a picture here that was carried in the Washington Post, Sunday, of the Belvoir cook with his new hat, a tall hat. Isn't this the most expensive hat in the art of the cuisine?

Mr. IGNATIUS. I would like Admiral Lyle to respond to that when he testifies since that is a DSA item.<sup>1</sup> Clearly, that looks to be a more expensive hat than the other ones. It may be a matter of cleanliness or, more likely, prestige for the chefs and perhaps that is the explanation for it. It is a characteristic, I believe, for chefs, this particular high hat.

Senator DOUGLAS. I am afraid I shall have to close on a slightly more solemn note, Mr. Ignatius.

<sup>1</sup>The explanation follows: "High chef hats shown in the photograph appearing in the Washington Post on April 24 are being tested experimentally only at Fort Belvoir by kitchen personnel. They have not been officially sanctioned by Army although Army has interposed no objection up to the present time. If accepted they will be worn by 1st cook only and serve as a morale booster and indicator of rank."

## ALLOCATION OF R. &amp; D. FUNDS

I want to commend you and your associates for the fine work you are doing. It has been a privilege to work with you and do one's best to help.

But, I do have a complaint. I hope you will not regard me as a shameless pork-barrel operator if I mention it. That is on the distribution of research and development contracts and money. On pages 25 and 26 of our staff report of April 1965, the figures are given on the distribution of research and development funds, a total of approximately \$5,800 million for fiscal 1964. These are classified by States. We have computed the percentages of the total.

I would now like to read these off: California, 41.4 percent; Massachusetts, 7.1 percent; New York, 6.8 percent; New Jersey, 5.4 percent; Florida, 4.5 percent; Texas, 4.5 percent; Colorado, 3.9 percent; Maryland, 3.8 percent; Pennsylvania, 3.4 percent; Washington, 3.2 percent; Connecticut, 2.1 percent; Ohio, 1.5 percent; Michigan, 1.5 percent; Indiana, 1 percent; Minnesota, 1 percent; Missouri 1 percent; Virginia, 1 percent; and North Carolina, 1 percent.

These 18 total 93 percent of all the contracts. The remaining 32 States and the District of Columbia have 7 percent of the contracts. My own State of Illinois has eight-tenths of 1 percent.

Now, I have loyally supported you fellows; in fact, I have stimulated some of your action. But, here we have a situation in which California gets four-tenths; if you take these Eastern States, Massachusetts, New York, New Jersey, they have approximately 20 percent between them. If you add in Maryland, Connecticut, Pennsylvania, Virginia, it goes up to around 30 percent.

Now, let me say this: Illinois has always been regarded as having some of the best universities in the country. My own university, the University of Chicago, is generally rated as one of the first 10 universities of the country; the University of Illinois and Northwestern University are truly great universities. In my university, we had at one time more Nobel Prize winners than any university in the world except from Cambridge in England. Now, somehow, the squeaking wheel gets the grease and the patient truck horse gets left. There we are.

Now, this is not merely true of Illinois; it is true of the whole Middle West. The University of Michigan is one of the great universities of the Nation. Indiana has two very fine schools, the University of Indiana and Purdue, and also Minnesota. The Midwest gets left. But, in terms of producing scientists, in producing doctors of philosophy, the middle western universities produce more doctors of philosophy than any other section of the country, but they can't stay in the Middle West because the work moves elsewhere.

I once talked to a scientist about the placement of one of these contracts. I said, "What are you trying to do? Are you trying to make the Midwest a cultural wasteland by concentrating intellectual excellence on the two coasts?" Not at all shamefacedly, but rather brazenly, he stated that was precisely his purpose.

Now, we have been patient, Mr. Ignatius, but our patience does not seem to have paid off. Now voices are being raised in the Midwest, we had better "raise a little hell."

**Representative GRIFFITHS.** The Midwest won World War II.

Senator DOUGLAS. So far as supplies are concerned. Of course, they will argue that that was in the period of tanks and cannon. They will argue that this is the period of missiles.

Mr. IGNATIUS. Let me say we certainly are anxious in our procurement program, whether it be for research and development or production, to have the widest possible participation.

Senator DOUGLAS. Somehow, it does not happen, though.

Mr. IGNATIUS. No, sir; the concentration, particularly in California, as you have noted, and also in certain other States, is quite heavy. The universities often have been a major factor. MIT has been a major factor in Massachusetts, and in California I would think Stanford University is largely or significantly responsible for the concentration in the Palo Alto area. Cal Tech in the Los Angeles area was instrumental in some of the growth in the rocket propulsion field.

My impression, sir, is that there is an increasing interest on the part of some of the universities in the Middle West to participate in programs of this kind. I believe Indiana and Purdue, which you mentioned, are among them.

Senator DOUGLAS. When the kissing takes place, they are never under the mistletoe.

Representative GRIFFITHS. One of the problems in all procurement is that you buy from the people you know so that if you start to buy from one group, then the moment you have a new procurement, you remember, "Oh, they are well set up"; so you proceed on that.

Mr. IGNATIUS. With respect to procurement supplies, our effort, as Secretary McNamara—

Representative GRIFFITHS. You deal with people you have dealt with. You don't really go out into a new field. You don't try to find out. First of all, you are human and it takes too much time.

#### R. & D. AWARDS MADE ON BASIS OF PERSONNEL QUALITY

Mr. IGNATIUS. We award R. & D. work on the basis of the quality of the effort proposed and the quality of the people proposed to do the effort and not on the basis of the price, as you know.

In supply, I think that where we are increasing significantly the amount of our procurement awarded on the basis of price competition, I don't think we have this problem because the lowest, responsive, responsible bidder is the one that receives the award.

In the field of awarding R. & D., clearly one has to make a judgment here in the evaluating of the proposals received in terms of their technical merit and an award is made on that basis.

Representative GRIFFITHS. It is rarely the lowest bidder—not rarely, but there are too many exceptions to the fact that the lowest bidder receives the production work. You get out on the responsible bidder. That is also true on R. & D. The moment you say you will place it where quality is, who determines what the quality is?

The Senator pointed out that the universities in the Midwest are producing the most doctors of philosophy. They are doing the most research; yet they are not the ones to get the contracts. They are not the people who are used.

Mr. IGNATIUS. The assessment of the proposals is made by human beings.

Representative GRIFFITHS. And they choose people they have known.

Mr. IGNATIUS. Certainly, past performance is an indication of future performance. I am certain that is taken into account. I do not

supervise R. & D. procurement, as you know, but my general understanding is that Dr. Brown and Dr. Fubini, the people who do, are very interested in having available to them the widest possible spectrum of interest. They have been out to the Middle West; they have met with some of the people.

Senator DOUGLAS. I have also the figures for 1963 here.

In 1963, Illinois received nine-tenths of 1 percent of the research and development contracts; and in 1964, eight-tenths of 1 percent. So the efforts of Dr. Brown and others apparently did not bear much fruit.

I would like to know: Who is it that makes these decisions on research and development? What are the committees? I would like to know the sections of the country from which they come. I suspect they are people from Harvard and MIT and possibly Columbia—that is not quite the upper point in the Ivy League—and from Stanford and California and Cal Tech, all of them are very fine institutions, but with a distinct geographical bias.

Now, we Middle Westerners are tired of being treated as country cousins. In Great Britain, the northern areas are treated as provinces, and Oxford and Cambridge and the southern counties dominate the intellectual and scientific life of the nation.

In France, Paris dominates the intellectual life of that country.

I think personally this is an unhealthy development. I do not think it is a just development. I urge you to look over the boards that determine these research and development contracts. I don't wish to indulge in indiscriminate denunciation, but I think you will find that there is a distinct educational and geographical bias amongst them.

I cannot believe that an area which has produced more Nobel prize winners than any other area should be put down at the bottom of the list.

Mr. IGNATIUS. I will talk to Dr. Brown when I return. Perhaps you would want him to submit—

Senator DOUGLAS. He is not going to pass on his own work. He is a very fine man, I am sure, but he won't pass on his own work.

I urge you to make a little independent investigation. I am not going to indulge in current denunciation of Harvard. I studied a year there myself. But, I don't want Harvard and Stanford to dominate the scientific life of this Nation.

Mr. IGNATIUS. I will do that, sir.

(The following material relating to preceding testimony was later supplied for the record:)

#### GEOGRAPHICAL DISTRIBUTION OF DOD CONTRACTS

The Department of Defense conducts an extensive program of research, development, test, and evaluation work in order to secure the most advanced and effective weapons now and to establish reservoirs of technical and scientific knowledge upon which to draw for the weapon development of future years. This program is essential to the defense of the Nation. The program is conducted in Government laboratories, and in commercial organizations, educational institutions, and scientifically oriented nonprofit organizations.

Defense research and development is constantly pushing at the forefront of science and technology. Since the goal of our research and development program is the best possible equipment, weapons, and weapons systems, we must seek those firms and institutions which have the best available scientific and technical resources. Competence and a willingness to devote this competence to our work is necessary if the Department is to be assured of the best results at the lowest

cost to the Government. The competent contractor or institution will get the work done faster and with better results and this is likely to be less costly in the end.

It is true that this policy has led to concentration in certain educational institutions and industrial organizations. However, one should understand that these centers of competence did not just happen. There was a lot of planning and hard work on the part of the educational institutions, industrial organizations, and the communities in which they are located, which resulted in these centers of excellence.

In fiscal year 1964, the net value of prime contract awards for R.D.T. & E. work was \$5,765 million. The award of these contracts was made by many different people in many different offices. These awards are made pursuant to criteria set forth in the Armed Services Procurement Regulation (4-205.4). The most important of these criteria is that contracts be awarded to those organizations, including educational institutions, which have the highest competence in the specific field of science or technology involved. The determination of competence is made by the technical personnel of the organization letting the contract.

The source selection for a major contract award is now made pursuant to the procedures established by DOD Directive No. 4105.62, dated April 6, 1965, Subject: "Proposal Evaluation and Source Selection," copy attached. In summary, on the contractor selection phase we believe that contractors are fairly selected and that no undeserved advantages obtain for any contractor selected pursuant to our procedures.

Two tables entitled "Net Value of Military Prime Contract Awards for Experimental, Developmental Test, and Research Work for Fiscal Years 1963 and 1964" are enclosed and will be referred to herein.

There appears to be no consistent pattern of statistical relationships between the level of R.D.T. & E. contracts in a particular State and other defense contracts in that State. This generality is equally pertinent even if limited to awards for R.D.T. & E. contracts. For example, Massachusetts, ranking first in awards to schools and their affiliates with 33.2 percent and 30.8 percent of such awards in 1964 and 1963, respectively, dropped to 7.1 percent and 5.9 percent for the same years when all R.D.T. & E. awards made in the State are considered. On the other hand, California with the highest percentage of total awards—1963, 41.1 percent and 1964, 39.2 percent—was third in awards to schools and their affiliates with 11.6 percent in 1963 and 13.4 percent in 1964. Illinois which ranked fifth among the States in awards to schools and their affiliates ranks low in total awards because of the low participation in awards in the East North-Central region by its business firms. Illinois, which ranked ahead of Michigan in awards to schools and their affiliates, ranked behind Michigan in total awards for R.D.T. & E. work because of awards to business firms in fiscal years 1963 and 1964. There is no question that a flow of R.D.T. & E. funds, requiring the establishment, maintenance, or expansion of scientific and technical organizations, carries with it a potential capability to compete for new R.D.T. & E. projects, and for new production projects in the same category if the contractor has been so oriented. However, the economic and other impacts of military R.D.T. & E. and production vary extensively from one community to another, depending on a complex array of factors. Procurement statistics alone are inadequate to describe these interrelationships.

The following information extracted from a study on the structure of the U.S. R. & D. industry points up some of the factors pertinent to geographic distribution of the defense R. & D. industry.

The work force is the dominant production factor and labor costs are the largest cost element in defense R. & D. Not only does labor play the dominant role in the costs of the industry, but the industry is extremely dependent on labor skills of a high technical level. These are primarily engineering and scientific skills, requiring a large investment both in resources and in time; consequently, their supply is limited. A vital part of the industry's dynamics which has a distinct influence on its efficiency and on its location is the flow of its salaried manpower. This flow is of two types; geographic or interregional and institutional or movement between types of organization. The rate of flow of the salaried work force in defense R.D.T. & E. is much higher than that for U.S. industry as a whole.

Approximately 43 percent of the prime contract dollar awarded for defense R.D.T. & E. is spent for materiel. Regardless of where a major defense R.D.T. & E. contractor is located, he obtains a high percentage of that materiel from the major R.D.T. & E. regions of the country; studies have indicated that a minimum of 60 percent of the materiel dollars will be spent in the west coast and

Northeast regions of the country. Four out of every five dollars spent on product-related materiel by R.D.T. & E. prime contractors is spent on materiel that can be arbitrarily classified as having a "high technology" content, making the contractor even more dependent on the west coast and Northeast regions.

No one environmental factor can be singled out as being necessary and sufficient for the development of a defense R. & D. community. Some of the factors, varying in importance depending on the size of the R. & D. complex are:

- (1) The presence of R. & D.-oriented entrepreneurs or a technically oriented university community;
- (2) The availability of financial support;
- (3) A community attitude that is favorable to such a development;
- (4) Those factors that attract and retain R. & D. professional personnel such as climate, recreational, and cultural amenities, opportunity for advanced education, etc.;
- (5) Good communications and transportation;
- (6) Proximity of a large defense R. & D. complex or Government R. & D. laboratory.

Money alone will not draw and retain the competence required for an effective R. & D. facility or complex.

Despite a number of forces that have been acting in the direction of dispersal of the R. & D. industry during the past decade, the large defense R. & D. complexes have persisted and even grown in their predominance as the major performers of defense R.D.T. & E. prime contract work. One of the forces for dispersal was the "strategic dispersal policy" of the 1950's which, for purposes of security, located a number of major defense R. & D. industry facilities in areas remote from the traditional areas of concentration. Another force for dispersal has been the voluntary action of several major defense R. & D. contractors and subcontractors to transfer divisions or set up new ones in the "sunshine" States as a means of attracting and retaining professional personnel. Other forces include the efforts of a large number of communities to attract R. & D. industry by offering favorable conditions and treatment; internal company pressure for dispersal because of high taxes, living costs, and labor costs. None of these dispersal actions has materially affected the role of the major R. & D. complexes.

In summary, we recognize that defense R. & D. is concentrated geographically and that this concentration will continue for the foreseeable future. The Department of Defense, of all the agencies of Government, is the one that must feel itself most constrained to the purpose of getting the best results in R.D.T. & E. at the least cost. We cannot speak for the remainder of the Government; such agencies as the National Science Foundation and the National Institutes of Health were created in part to support research, and, therefore, have legitimate additional criteria for their operations. We tend to follow competence where we find it and therefore consider that greater uniformity in the geographical distribution of our R. & D. contracts and grants can only be achieved to the extent that more uniform competence is also geographically distributed.

*Net value of military prime contract awards for experimental, developmental, test, and research work, by State and region and by type of contractor,<sup>1</sup> fiscal year 1964*

	Total		Schools and their affiliates		Other nonprofit institutions <sup>2</sup>		Business firms	
	Thou- sands	Per- cent	Thou- sands	Per- cent	Thou- sands	Per- cent	Thou- sands	Per- cent
Total distributed by State.....	\$5,764,904	100.0	\$442,190	100.0	\$208,077	100.0	\$5,114,637	100.0
New England.....	558,221	9.6	152,117	34.4	2,566	1.3	403,538	7.9
Maine.....	139	( <sup>3</sup> )	0	0	0	0	139	( <sup>3</sup> )
New Hampshire.....	11,309	.2	450	.1	0	0	10,859	.2
Vermont.....	8,067	.1	166	( <sup>3</sup> )	0	0	7,901	.2
Massachusetts.....	408,961	7.1	146,752	33.2	1,570	.8	260,639	5.1
Rhode Island.....	6,836	.1	3,490	.8	30	( <sup>3</sup> )	3,316	( <sup>3</sup> )
Connecticut.....	122,909	2.1	1,259	.3	966	.5	120,684	2.4

See footnotes at end of table.

Net value of military prime contract awards for experimental, developmental, test, and research work, by State and region and by type of contractor,<sup>1</sup> fiscal year 1964—Continued

	Total		Schools and their affiliates		Other nonprofit institutions <sup>2</sup>		Business firms	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Middle Atlantic.....	895,388	15.6	58,741	13.3	23,193	11.2	813,454	15.9
New York.....	389,851	6.8	39,187	8.9	2,076	1.0	348,588	6.8
New Jersey.....	310,150	5.4	4,839	1.1	7,826	3.8	297,485	5.8
Pennsylvania.....	195,387	3.4	14,715	3.3	13,291	6.4	167,381	3.3
East North Central.....	309,223	5.5	56,183	12.8	10,160	4.9	242,880	4.9
Ohio.....	83,628	1.5	8,588	2.0	9,487	4.6	65,553	1.3
Indiana.....	57,378	1.0	3,651	.8	0	0	53,727	1.1
Illinois.....	43,750	.8	23,938	5.4	433	.2	19,379	.4
Michigan.....	83,358	1.5	17,946	4.1	31	( <sup>3</sup> )	65,381	1.3
Wisconsin.....	41,109	.7	2,060	.5	209	.1	38,840	.8
West North Central.....	162,563	2.8	4,175	.9	6,043	2.9	152,345	3.0
Minnesota.....	57,273	1.0	1,824	.4	199	.1	55,250	1.1
Iowa.....	2,320	( <sup>3</sup> )	1,202	.3	0	0	1,118	( <sup>3</sup> )
Missouri.....	54,874	1.0	910	.2	5,743	2.8	48,221	.9
North Dakota.....	30,558	.5	0	0	0	0	30,558	.6
South Dakota.....	8,170	.1	80	( <sup>3</sup> )	0	0	8,090	.2
Nebraska.....	124	( <sup>3</sup> )	23	( <sup>3</sup> )	101	( <sup>3</sup> )	0	0
Kansas.....	9,244	.2	136	( <sup>3</sup> )	0	0	9,108	.2
South Atlantic.....	655,548	11.5	82,164	18.5	22,840	11.0	560,544	10.9
Delaware.....	6,249	.1	434	.1	0	0	5,815	.1
Maryland.....	217,772	3.8	60,280	13.6	2,429	1.2	155,063	3.0
District of Columbia.....	31,683	.5	7,545	1.7	14,060	6.8	10,078	.2
Virginia.....	58,255	1.0	2,310	.5	7,754	3.7	48,191	.9
West Virginia.....	17,083	.3	34	( <sup>3</sup> )	-1,722	-.8	18,771	.4
North Carolina.....	57,378	1.0	6,736	1.5	0	0	50,642	1.0
South Carolina.....	274	( <sup>3</sup> )	53	( <sup>3</sup> )	0	0	216	( <sup>3</sup> )
Georgia.....	19,632	.3	1,503	.4	238	.1	17,891	.3
Florida.....	257,222	4.5	3,264	.7	81	( <sup>3</sup> )	253,877	5.0
South Central.....	344,168	5.9	10,380	2.3	4,465	2.1	329,323	6.4
Kentucky.....	975	( <sup>3</sup> )	548	.1	0	0	427	( <sup>3</sup> )
Tennessee.....	45,534	.8	522	.1	151	.1	44,861	.9
Alabama.....	13,630	.2	457	.1	624	.3	12,549	.2
Mississippi.....	500	( <sup>3</sup> )	459	.1	41	( <sup>3</sup> )	0	0
Arkansas.....	248	( <sup>3</sup> )	83	( <sup>3</sup> )	0	0	165	( <sup>3</sup> )
Louisiana.....	1,104	( <sup>3</sup> )	554	.1	0	0	550	( <sup>3</sup> )
Oklahoma.....	21,002	.4	1,725	.4	117	( <sup>3</sup> )	19,160	.4
Texas.....	261,175	4.5	6,032	1.4	3,532	1.7	251,611	4.9
Mountain.....	386,282	6.7	12,057	2.7	6,989	3.4	367,236	7.1
Montana.....	3,180	.1	18	( <sup>3</sup> )	0	0	3,162	( <sup>3</sup> )
Idaho.....	0	0	0	0	0	0	0	0
Wyoming.....	36,210	.6	0	0	0	0	36,210	.7
Colorado.....	225,555	3.9	6,352	1.4	1,144	.5	218,059	4.3
Utah.....	53,345	.9	1,515	.3	0	0	51,830	1.0
Nevada.....	427	( <sup>3</sup> )	30	( <sup>3</sup> )	153	.1	244	( <sup>3</sup> )
New Mexico.....	23,127	.4	3,356	.8	5,162	2.5	14,609	.3
Arizona.....	44,438	.8	786	.2	530	.3	43,122	.8
Pacific.....	2,441,215	42.4	64,196	14.6	131,712	63.2	2,245,307	43.9
Washington.....	182,017	3.2	3,971	.9	106	( <sup>3</sup> )	177,940	3.5
Oregon.....	1,311	( <sup>3</sup> )	1,105	.3	0	0	206	( <sup>3</sup> )
California.....	2,257,887	39.2	59,120	13.4	131,606	63.2	2,067,161	40.4
Alaska and Hawaii.....	2,296	( <sup>3</sup> )	2,177	.5	109	( <sup>3</sup> )	10	( <sup>3</sup> )
Alaska.....	1,856	( <sup>3</sup> )	1,789	.4	67	( <sup>3</sup> )	0	0
Hawaii.....	440	( <sup>3</sup> )	388	.1	42	( <sup>3</sup> )	10	( <sup>3</sup> )

<sup>1</sup> Contracts of \$10,000 or more each.

<sup>2</sup> Includes contracts with other Government agencies.

<sup>3</sup> Less than 0.05 percent.

Source: Directorate for Statistical Services, Office of the Secretary of Defense, Dec. 7, 1964.

*Net value of military prime contract awards for experimental, developmental, test, and research work,<sup>1</sup> fiscal year 1963*

[Dollars in thousands]

	Total		Schools and their affiliates		Other nonprofit institutions <sup>2</sup>		Business firms	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
Total distributed by States-----	\$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	( <sup>3</sup> )	0	0	105	.1	102	( <sup>3</sup> )
New Hampshire-----	7,916	.1	685	.2	0	0	7,231	.1
Vermont-----	4,698	.1	130	( <sup>3</sup> )	0	0	4,568	.1
Massachusetts-----	364,996	5.9	117,772	30.8	554	.3	246,670	4.4
Rhode Island-----	6,124	.1	3,602	.9	16	( <sup>3</sup> )	2,506	( <sup>3</sup> )
Connecticut-----	103,468	1.7	1,028	.3	876	.5	101,564	1.8
Middle Atlantic-----	1,029,674	16.6	48,708	12.8	21,031	12.2	959,935	17.0
New York-----	386,953	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	26,367	6.9	662	.4	30,962	.5
Michigan-----	72,758	1.2	11,689	3.1	66	( <sup>3</sup> )	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	( <sup>3</sup> )	10	( <sup>3</sup> )	0	0	1,160	( <sup>3</sup> )
South Dakota-----	10,686	.2	25	( <sup>3</sup> )	0	0	10,661	.2
Nebraska-----	369	( <sup>3</sup> )	12	( <sup>3</sup> )	49	( <sup>3</sup> )	308	( <sup>3</sup> )
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-----	36,213	.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	( <sup>3</sup> )	0	0	31,523	.6
North Carolina-----	40,847	.7	2,481	.6	20	( <sup>3</sup> )	38,346	.7
Georgia-----	341	( <sup>3</sup> )	192	.1	0	0	149	( <sup>3</sup> )
Florida-----	2,606	( <sup>3</sup> )	1,154	.3	187	.1	1,265	( <sup>3</sup> )
Alabama-----	171,591	2.8	2,455	.6	35	( <sup>3</sup> )	169,101	3.0
South Central-----	208,588	3.4	9,202	2.4	7,589	4.4	191,797	3.4
Kentucky-----	998	( <sup>3</sup> )	376	.1	0	0	622	( <sup>3</sup> )
Tennessee-----	46,396	.7	699	.2	3,507	2.0	41,190	.7
Alabama-----	12,470	.2	453	.1	503	.3	11,514	.2
Mississippi-----	475	( <sup>3</sup> )	450	.1	25	( <sup>3</sup> )	0	0
Arkansas-----	689	( <sup>3</sup> )	23	( <sup>3</sup> )	0	0	666	( <sup>3</sup> )
Louisiana-----	1,340	( <sup>3</sup> )	654	.2	0	0	686	( <sup>3</sup> )
Oklahoma-----	5,958	.1	1,271	.3	72	( <sup>3</sup> )	4,615	.1
Texas-----	141,262	2.3	5,276	1.4	3,482	2.0	132,504	2.3
Mountain-----	566,224	9.1	10,985	2.9	4,999	2.9	550,240	9.7
Montana-----	3,101	.1	78	( <sup>3</sup> )	0	0	3,023	.1
Idaho-----	-49	( <sup>3</sup> )	51	( <sup>3</sup> )	-100	-.1	0	0
Wyoming-----	1,484	( <sup>3</sup> )	0	0	0	0	1,484	( <sup>3</sup> )
Colorado-----	254,346	4.1	3,462	.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	( <sup>3</sup> )	0	0	0	0	1,429	( <sup>3</sup> )
New Mexico-----	17,424	.3	3,692	1.0	641	.4	13,091	.2
Arizona-----	151,123	2.4	717	.2	20	( <sup>3</sup> )	150,386	2.7

<sup>1</sup>See footnotes at end of table.

*Net value of military prime contract awards for experimental, developmental, test, and research work,<sup>1</sup> fiscal year 1963—Continued*

[Dollars in thousands]

	Total		Schools and their affiliates		Other nonprofit institutions <sup>1</sup>		Business firms	
	Amount	Per-cent	Amount	Per-cent	Amount	Per-cent	Amount	Per-cent
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	( <sup>2</sup> )	749	.2	0	0	969	( <sup>3</sup> )
California.....	2,567,016	41.4	44,420	11.6	98,156	57.0	2,424,440	42.9
Alaska and Hawaii.....	2,180	( <sup>3</sup> )	1,610	.4	245	.1	325	( <sup>3</sup> )
Alaska.....	1,559	( <sup>3</sup> )	1,255	.3	245	.1	59	( <sup>3</sup> )
Hawaii.....	621	( <sup>3</sup> )	355	.1	0	0	266	( <sup>3</sup> )

<sup>1</sup> 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.

<sup>2</sup> Includes contracts with other Government agencies.

<sup>3</sup> Less than 0.05 percent.

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

Senator DOUGLAS. Fine. Thank you very much for coming, gentlemen.

Mr. IGNATIUS. Thank you, Mr. Chairman.

(Additional material which was later submitted by the Assistant Secretary of Defense is included at this point.)

ASSISTANT SECRETARY OF DEFENSE,  
INSTALLATIONS AND LOGISTICS,  
Washington, D.C., January 26, 1965.

HON. PAUL H. DOUGLAS,  
Chairman, Joint Economic Committee, U.S. Senate,  
Washington, D.C.

DEAR MR. CHAIRMAN: Attached are brief statements of progress that the Department of Defense has made in areas where your Subcommittee on Defense Procurement of the Joint Economic Committee made recommendations in its September 1964 report. If additional information would be helpful, please let us know.

We again express appreciation for the kind remarks in the introduction to the report, and in your letter of transmittal to the Secretary.

Sincerely,

PAUL R. IGNATIUS.

COMMENTS ON RECOMMENDATIONS OF THE REPORT ON ECONOMIC IMPACT OF FEDERAL SUPPLY AND SERVICE ACTIVITIES, SEPTEMBER 1964, BY THE SUBCOMMITTEE ON DEFENSE PROCUREMENT, JOINT ECONOMIC COMMITTEE OF THE UNITED STATES CONGRESS

Recommendation relating to need to restudy assignment of management of items as between the DSA and the services (p. 4) :

"Since the services are permitted to retain item management on the basis of whether or not they are 'weapons related,' it is recommended that the Office of Secretary of Defense (OSD) make the division of responsibility on the basis of effectiveness, efficiency, and economy in the light of developments in improved inventory controls and advanced systems of distribution."

*Comment*

In March 1964 the Defense Materiel Council directed the Defense Supply Agency to review and comment upon certain proposed revisions in existing item management coding criteria for items within Federal supply classes designated for integrated management. Subsequent to receipt of these comments and review of them with appropriate representatives of the military departments, the Assistant Secretary of Defense (Installations and Logistics)

directed a joint military department/DSA study and test application of these and certain other proposed coding criteria. The objective of the study and test application, as stated in DSA's October 1964 report thereof to the Council, was:

"To develop consistent, clear coding criteria that will insure maximum benefits of integration, identify those items which should be retained by the military departments, be agreed to by all parties, and be uniformly applied throughout the Department of Defense."

In November 1964 the Council met to consider the study report, and tentatively agreed upon certain revised coding criteria. The Council directed that a joint military department/DSA team headed by a representative of the Assistant Secretary of Defense (Installations and Logistics) should conduct a field test of the tentatively approved coding criteria to determine whether they could be easily understood and uniformly applied, and what the results would be if approved for implementation. This test is now underway, and a report to the Council of the results thereof, together with appropriate recommendations, is scheduled for March 1965. Final decision by the Council will result in the promulgation and implementation of appropriately revised item management coding criteria throughout the Department of Defense.

Recommendation relating to standardization of items (p. 4) :

"The subcommittee urges that the Secretary of Defense bring this problem under more decisive control so that accelerated progress may be achieved. Since standardization, as Secretary McNamara previously advised this subcommittee, must begin in the research and development stage, it is necessary that the views of research and development as well as production, supply, and service people be merged in the final decisions."

#### **Comment**

The Office of Technical Data and Standardization Policy has been established within the Office of the Assistant Secretary of Defense (Installations and Logistics). A Technical Data and Standardization Council has been formed under the joint chairmanship of the Assistant Secretary of Defense (Installations and Logistics) and the Assistant Secretary of Defense (Research and Engineering). A working group of the Council, chaired by the Director, Technical Data and Standardization Policy, and consisting of Deputy Assistant Secretary level representation from both ASD (Installations and Logistics) and D.D.R. & E., has also been established to monitor the Defense standardization program for the Council. This management arrangement is set forth in DOD Instruction 5010.13, "Technical Data and Standardization Management," December 28, 1964. Through this medium standardization decisions will be rendered where competing services cannot agree and will reflect the thinking of both logistics and engineering functions. Further, the Office of Technical Data and Standardization Policy has been staffed with research and engineering personnel acting in a liaison capacity and participating in standardization work efforts which insures that R. & E. requirements are integrated into the overall effort.

Since standardization must begin in the research and development stage, the Director, Office of Technical Data and Standardization Policy has requested that DOD Directive 4120.3, "Defense Standardization Program," be revised and updated to reflect this. A committee consisting of members from OTDSP, O.D.D.R. & E., DSA and the three military departments are preparing a new directive establishing current policy governing the Defense standardization program and delineating responsibilities for carrying out its provisions. The provisions apply to all Department of Defense departments and agencies and cover engineering practices, processes, services, items and documentation which support the functions of design, development, procurement, production, inspection, supply, maintenance and disposal. Completion is anticipated early this year.

Recommendation relating to more advertised bidding (p. 5) :

"Of even greater importance than 'contract administration' is improvement in 'contract formulation' which requires among other things :

"1. More advertised bidding."

#### **Comment**

Formally advertised procurement amounted to \$4.1 billion in fiscal year 1964 and was the highest amount of advertised procurement awarded since 1952 (a peak year in the Korean war).

The \$4.1 billion in advertised awards amounted to 14.4 percent of the fiscal year 1964 obligations and this was the highest percentage of advertised dollars

awarded since 1957. There has been a steady increase in advertised awards, both total dollars and percentage of obligations, during the 4 years of fiscal year 1961, 1962, 1963, and 1964. In this period, the total amount has increased from 11.9 in fiscal year 1961 to the 14.4 percentage of the last fiscal year.

Almost 63 percent of the increase in formal advertising during the past 2 years has been provided by the use of two-step formal advertising. Two-step formal advertising has increased from \$84 million in fiscal year 1962, to \$250 million in fiscal year 1963, to \$416 million in fiscal year 1964. In step 1 of this procedure, bidders submit items for test or specifications for evaluation without prices. In the second step, those qualified then submit sealed-bid price proposals, with the award made to the low bidder as in the regular formal advertising procedure. This flexible procedure permits the development of a procurement package for all subsequent procurements; and, with the longer range planning now taking place, this technique can be substituted for negotiated price competition in a large number of cases.

The emphasis on formal advertising, wherever possible, will continue. In those cases where formal advertising is not possible, where it might be dangerous and uneconomical, there will be renewed emphasis on negotiated price competition. Dollar obligations with only one source solicited declined by over \$1 billion last year in fiscal year 1964, and total price competition increased from 37.1 percent in fiscal year 1963 to 39.1 percent in fiscal year 1964—a steady increase under the DOD cost reduction program, and the highest level of price competitive awards on record; our current goal for price competition in fiscal year 1965 is 40 percent and our fiscal year 1966 goal is 40.5 percent. These overall goals provide detailed attention to continuing increases in formal advertising.

Recommendation relating to better engineering data and specifications (p. 6): "Since there has been a consistent record of negotiation of the bulk of defense requirements with the large contractors who gain thereby the experience, know-how, rights, etc., and become entrenched, it is necessary that the trend be reversed."

#### *Comment*

The armed services procurement regulations have been revised (defense procurment circular No. 6) to protect the Government's rights to know-how resulting from Government experience.

The Office of Technical Data and Standardization Policy was established by the Secretary of Defense on June 12, 1964, to deal specifically with problems related to engineering data and specifications, such as those discussed in the report. This Office is now staffed and functioning. As a direct result, new procedures have been established and others are under development. These procedures are intended to accelerate standardization of items and to assure the purchase of technical data adequate for (but not excessive to) the engineering and logistic needs of the Department of Defense.

The basic drawing specification (MIL-D-70327) is being revised to facilitate precise statement of requirements for drawings to suit a specific purpose such as competitive procurement, maintenance, etc.

To organize technical data more effectively for future use, a directory of Department of Defense engineering drawings has been published, and a test program for automated retrieval of drawings and other technical data has been initiated.

DOD instruction 5010.12 (technical data and information: determination of requirements and procurement of) establishes policies and procedures for determining technical data requirements to be levied on contractors to insure economical, timely, and adequate acquisition of such data. A training program is being established to provide a nucleus of data managers trained in policies and execution practices related to this instruction.

Recommendation relating to utilization of excess stocks in the production of end items (p. 10);

"The subcommittee is in complete accord with the Comptroller General's recommendation that the Government should use its available resources, including supplies, equipment, drawings, stockpile materials, etc., before acquiring more either through its own services or through its contractor-agents."

#### *Comment*

The Department recognizes the importance of efficiently managing all of its resources and has for several years been making available to defense contractors selected items of excess military stocks. The Department is currently reexamin-

ing this subject carefully. Efforts are being made to determine the soundness of expanding the existing programs to make available additional stocks in long supply, wherever it is feasible, to production and overhaul contractors. It is not possible at this time to forecast the probable outcome of the current studies; however, as our examination progresses we will be happy to respond to the further interests of the committee or its staff.

The Assistant Secretary of Defense (Comptroller) issued a memorandum to the military departments and DSA on September 9, 1964, directing that "pertinent audit programs should be amended, as necessary, to provide for evaluation of procurement procedures, contract awards and contract provisions to appraise the soundness of decisions as to whether materiel should be furnished by the contractor or by the Government. In this respect, some of the more important audit considerations which should be provided for in audit programs are—

"(1) the adequacy of procurement policies and procedures designed to guide and direct contracting officers in this area;

"(2) effectiveness of procedures and performance concerning the exchange of purchase information (ASPR 1-303);

"(3) availability and extent of use of relevant data concerning sources of supply, prices, and inventory status of items and components thereof being procured which are already in defense supply systems; and

"(4) adequacy and effectiveness of procedures and performance relating to consideration of information of Government sources and prices in review of contractors' 'make or buy' programs and proposals."

Recommendation relating to short shelf-life items (p. 11):

"It is therefore recommended that the GSA and the DSA set up a joint project to identify and use throughout the Government the existing short shelf-life items now in stock and to devise ways and means to reduce losses from these items in the future. The subcommittee will expect a full reporting on this subject at its hearings next year. The GAO is also requested to check into this subject and to report to the subcommittee by March 1965."

#### *Comment*

The Director, Defense Supply Agency is participating in a joint project with the General Services Administration. Its objectives are to—

(a) Identify items managed by each agency that has shelf-life limitations.

(b) Review shelf-life periods presently specified.

(c) Establish standardized optimum shelf-life periods acceptable to DOD and GSA.

(d) Explore possibilities for a systematized method for offering stocks to all Government activities prior to expiration of the shelf life.

The working group is exploring the subject in detail, and has compiled useful data on short shelf-life items in all services. In addition to a report on its work, the group plans to complete a DOD instruction on the control and utilization of short shelf-life item assets, as well as a DOD-GSA agreement on government-wide interchange of inventories of such items.

There follows a memorandum by which we set up this project:

"SEPTEMBER 25, 1964.

"Memorandum for the Director, Defense Supply Agency.

"Subject: Project to identify and use short shelf-life materials.

"Reference is made to the report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, dated September 3, 1964, specifically that portion dealing with short shelf-life items (pp. 10 and 11 of report).

"Losses to the Government by surplus declaration of items on which the self life has expired require the constant attention of our inventory managers. It is imperative that inventories of these items be matched with requirements on a continuing basis. Management must insure maximum utilization of these stocks to include all Government activities prior to disposal action.

"It is hereby requested that the Defense Supply Agency contact the General Services Administration with the view of establishing a joint project for the purpose of identifying items having limited shelf life, standardizing the shelf-life time periods to the maximum extent possible, and exploring the possibilities for increased interservicing arrangements as a medium for providing the maximum Government-wide utilization of such items prior to disposal action.

"The military services will provide the Director, Defense Supply Agency such participation and assistance as may be required in the discharge of this responsibility.

"(S) PAUL H. RILEY,  
*Deputy Assistant Secretary of Defense.*"

Recommendation relating to centralized management of automatic data processing (ADP) (p. 11) :

"The subcommittee noted from the testimony received during the April 1964 hearings that split responsibility exists in this area and should be clarified. This is another instance of long-deferred decisionmaking in an area of expenditures and investments amounting to hundreds of millions of dollars annually and steadily growing for the past decade."

*Comment*

The report refers to pending bills (H.R. 5171 and S. 1577) which relate to the centralized management of ADPE in Government; it acknowledges some progress during the past year and it notes that split responsibility in this area which still exists should be clarified.

The Department of Defense has opposed the enactment of legislation as proposed "To authorize the Administrator of the General Services Administration to coordinate and otherwise provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment by Federal departments and agencies." We have been particularly concerned with that aspect of the proposal which provides for dealing with ADPE in general terms, irrespective of the applicability or function to which it is applied. An additional major concern deals with the applicability of the proposal to ADPE employed by Government contractors, as evidenced by the language contained in the proposal.

The need for any legislation such as has been proposed in this area is yet to be demonstrated. Within current authorities and responsibilities, the Bureau of the Budget is charged with overall responsibility for the administration of the ADPE program in the Federal Government; the General Services Administration is responsible for procurement, excess property utilization, and surplus property disposal; and each of the departments and agencies is responsible for determination of individual ADPE requirements and the use to which ADPE shall be applied. There is an incontrovertible inconsistency in proposed legislation which attempts to recognize the responsibilities discussed above, yet, at the same time, attempts to provide a single central agency with the authority to control ADPE acquisition for the Federal Government as a whole.

Recommendations relating to commercial-industrial activities of Government (p. 12) :

"\* \* \* all new activities proposed to be started should be carefully screened on the basis of essentiality. Second, those in existence should be identified, listed, and eliminated or curtailed in scope. Again, the basis for continuation should be essentiality. \* \* \* While the BOB has still not issued guidance of executive agencies, the subcommittee reaffirms its previous recommendations."

*Comment*

Although BOB has not yet revised and reissued Bulletin 60-2, the Defense Department has taken positive action which is consistent with the recommendations of the subcommittee. Through publication in March 1963, of DOD Directive 4100.15 and DOD Instruction 4100.33, a program was established for effective control of the number and type of commercial-industrial activities operated in DOD. In addition to this, our declarations of excess covering 61 DOD industrial plants, plus the closure of NOP, York, and the announced in-activation of arsenals and shipyards, are major steps toward the transfer to private enterprise of production capacity which need no longer be owned by the Government. The feasibility of further releases of DOD in-house production capacity is now being examined under the current studies covering equipment maintenance activities and all remaining DOD industrial plants.

The effectiveness of these efforts was acknowledged in hearings which the subcommittee conducted, at which Mr. Shoemaker, Chairman of the Committee of Hoover Commission Task Force members, made the following statement concerning DOD efforts in reducing their commercial-industrial activities: "I must in fairness state that the Department of Defense has made substantial progress in this field and I so testified to you in the 1963 hearings."

Recommendation relating to review of common service activities pursuant to the McCormack-Curtis amendment (p. 13) :

"The subcommittee renews its previous recommendation that, as a part of the cost reduction program, a systematic program be pushed in the DOD to establish priorities for the study and analysis of common service activities and determinations made as to the most appropriate way to manage each in terms of effectiveness, economy, and efficiency as contemplated by the McCormack-Curtis amendment."

*Comment*

There is a continuing effort to study various feasible possibilities for integration and consolidation of common service activities. The record of successful continued development of the Defense Supply Agency, and the plans that are progressing for integration of Contract Administration Services and Contract Audit Services, are important examples.

Senator DOUGLAS. At this point in the proceedings we will include the statement of Representative Charles S. Gubser, a Congressman from California and a minority member of the House Armed Services Committee.

**STATEMENT OF HON. CHARLES S. GUBSER, A REPRESENTATIVE  
FROM CALIFORNIA, TO THE JOINT ECONOMIC COMMITTEE**

Mr. GUBSER. Mr. Chairman, I deeply appreciate the opportunity of making this statement and to raise certain points regarding defense procurement policies which I think are harmful to both Government and industry.

I have carefully studied the report of your Subcommittee on Defense Procurement issued in September 1964 and believe it is an excellent piece of work. It dealt at length with the subjects of (1) cost reduction, (2) standardization, and (3) the increased use of advertised competitive bidding. But, Mr. Chairman, one subject was completely untouched which has a direct bearing upon these three subjects—I refer to the matter of buying standard commercial catalog products and the tendency of the Defense Department on increasingly frequent occasions to resist the purchase of such items.

The report appears to be concerned exclusively with products developed at Government expense and makes no mention of incentives for private development or technical contributions available from private industry. In fact, the report strongly suggests that the committee favors Government control of research and development by emphasizing data rights and the acquisition of engineering drawings and detailed specifications to the complete discouragement of independent effort. This emphasis has been interpreted by DOD to mean more Government design and greater concentration of defense buying with those industries already dependent on the Government for survival. How can this policy achieve greater competitive bidding when it narrows the field to defense-oriented industries exclusively?

In stressing acquisition of data and extensive audit of all contracts, including firm fixed-price contracts involving standard commercial equipment, Congress is forcing management to either accept greater interference and control through Government procurement policy or a careful avoidance of Government contracts.

Commercial competition involves ingenuity to advance the state of the art. A better design merits recognition by those standard buying techniques which encourage new and better solutions to a problem.

A policy of greater price competition without incentives for technical advancement is limiting competition to one narrow area of refinement in production. The Defense Department procurement practices are freezing out the most important asset of the free commercial market—the desire to be first with a new and better product.

Government engineers are being intimidated by their contracting officers to avoid sole source or brand name buying. They are being forced to write detailed specifications not limited to one manufacturer, thus avoiding the latest advancement, and often with inadequate technical information on available commercial products or practice. This condition is particularly prevalent in the purchase of very complicated equipment such as electronic systems and instruments.

For example, the Navy Purchasing Office has a policy of buying only on detailed specifications or qualified products lists. Standard commercial catalog electronic instruments, often meeting the Navy's requirements at less cost, are carefully avoided for fear of criticism on sole source or brand name procurement. Many products on the Navy QPL are obsolete by commercial standards. There is an undercurrent in DOD that is discrediting sole source and brand name or equal procurement because of the notion that these buying methods are noncompetitive.

Sole source or brand name or equal specifications are not without competition. There is a strong incentive to achieve the unique position of being first with a new and better product. Used properly, sole source buying is a powerful technique for improving reliability, performance, and efficiency. Brand name or equal procurement is an important technique for the Defense Department to obtain timely products. We should not so discredit this technique that we restrict our DOD agencies to relatively old and outmoded technical gear.

Last year we saw a rash of protests to GAO because of awards to nonresponsive bidders on brand name or equal specifications. These awards were made to the lowest bidders without adequate consideration for their products being equal to the brand name. I refer to GAO decisions, B-153531 (March 20, 1964), B-154560 (July 24, 1964), B-155034 (November 24, 1964), and B-155283 (December 14, 1964).

These cases are only representative of the trend to discredit brand name or equal procurement. The difficulty stems from excessive emphasis on increasing competition when there is inadequate technical information within the procurement agency to prepare detailed specifications or to fairly evaluate "or equal" bids without bid samples. This undue emphasis places a higher priority on low price than meeting specifications. The contracting officer is persuaded that the likelihood of internal criticism for failure to award to the lowest bidder is greater than vendor criticism for failure of a competitor to meet specifications. Vendors don't like to file protests for fear of blacklisting. Hence, abuse of the "or equal" award is increasing.

Utilizing the best products that private industry can develop needs to be placed in its proper perspective. The Defense Department should be encouraged to improve and strengthen those buying techniques which will insure maximum use of appropriate commercial catalog products and the avoidance of duplicating by special design that which is already available.

It should be kept in mind, too, that small business is best supported by incentives to protect its own ingenuity of offering technically ad-

vanced products. The importance of proprietary rights and catalog products was emphasized at hearings of the House Small Business Subcommittee in July 1964.

These trends are not healthy for the future of privately financed technical advancement. If they continue the Government will be forcing private industry to acknowledge Government dominance of technical advancement through absolute control of technical data and the determination of product requirements.

Thank you again, Mr. Chairman, for including my statement in the official record.

Mr. DOUGLAS. We conclude the morning session at this point and will meet here this afternoon to hear Vice Adm. Joseph M. Lyle, Director of the Defense Supply Agency.

(Whereupon, at 12:25 p.m., a recess was taken until 2 p.m. of the same day.)

#### AFTER RECESS

(Whereupon, the subcommittee reconvened at 2:30 p.m., Senator William Proxmire presiding.)

Senator PROXMIRE. The subcommittee will resume.

Our witness, as I understand, is Admiral Lyle, who favored us last year with a short visit with his predecessor, General McNamara.

Admiral Lyle has had a long and notable experience as an expert in logistics in the Navy. We are pleased to know that the DSA continues its important mission under such fine direction.

Admiral Lyle, you may introduce your associate, if you wish, and proceed.

#### **STATEMENT OF VICE ADM. J. M. LYLE, U.S. NAVY, DIRECTOR, DEFENSE SUPPLY AGENCY; ACCOMPANIED BY DR. WILFRED GARVIN, COMPTROLLER**

Admiral LYLE. Thank you, Mr. Chairman.

On my left is Dr. Wilfred Garvin, our Comptroller. In the event that the cold I have overcomes my vocal cords, he will take up the reading of my statement. But I will go as long as I can.

Mr. Chairman and members of the committee, I am pleased to report to you today on the principal changes which have occurred in the missions of the Defense Supply Agency over the past year, the current status of its major programs, and its record of accomplishment in the performance of assigned missions.

At the outset, I want to pay tribute to the extremely valuable contribution made to the development of the Agency by the first Director, and my predecessor, Gen. Andrew McNamara of the Army. Whatever success the Agency has enjoyed is due in significant measure to his leadership, vision, strength, and vigor.

I wish also to express my appreciation for the support which this committee has consistently given to the advancement of a sound concept of integrated management within the Department of Defense. The Defense Supply Agency represents an intelligent application of that concept, and it owes much to the committee's continued interest and support.

## MISSION CHANGES

Since our appearance before you last April, significant changes have occurred in each of our primary mission areas. Some of these were envisioned before last year's hearings; others have been initiated since that time.

Changes in our materiel management mission include:

Assumption of all functions related to integrated materiel management of lighting fixtures and lamps, Federal Supply Group 62, involving approximately 25,000 items with wholesale inventories valued at \$10 million;

Assumption of materiel management of engineer supplies for Army users, involving some 35,000 items with inventories valued at \$24 million; and

Assumption of procurement support for Army oversea users of noncataloged and decentralized items in DSA-managed classes. Similar support for all Air Force decentralized and noncataloged items will be initiated upon disestablishment of Air Force logistic control groups, effective July 1, 1965.

Two major changes were made in our service mission during the past year. The first, and most significant, was the assignment of responsibility for centralized management of contract administration services.

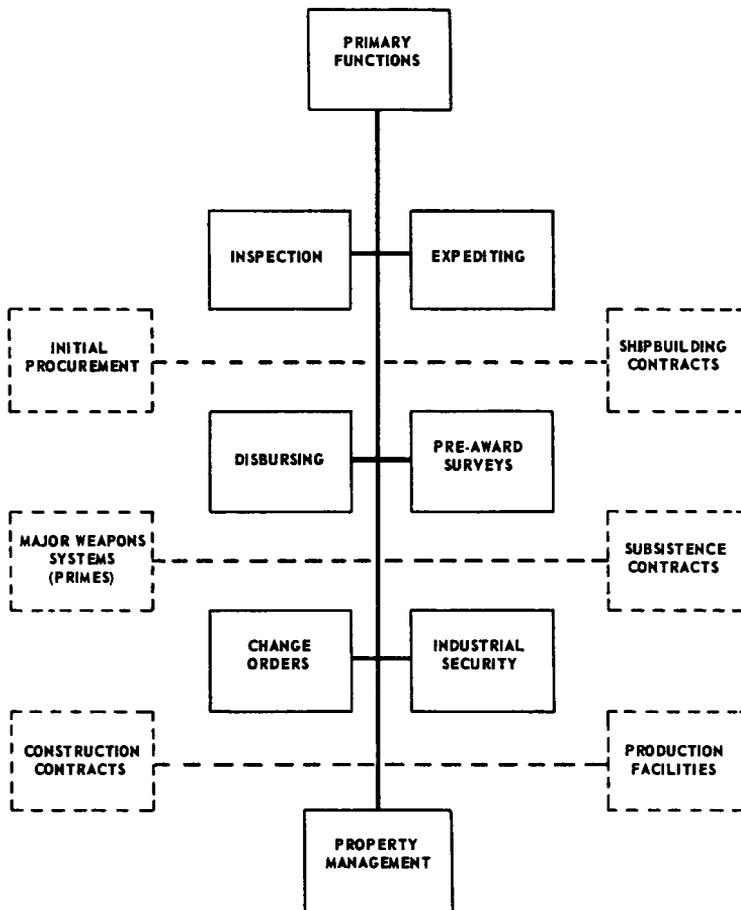
This assignment stemmed from a study directed in early June, 1962, by the Secretary of Defense. The study concluded that improved administration and significant economies could be realized through the consolidation of certain contract administration services field offices of the military departments and DSA which dealt separately with Defense contractors. Concepts developed in the study were subjected to an operational test in the Philadelphia region, comprising a five-State area. In June 1964, the Secretary of Defense assigned central management of the contract administration services mission to the Defense Supply Agency.

The purchase function, that is, the initial placement of contracts, is excluded from this assignment and will remain with the procurement agencies of the military departments. Also excluded are designated major weapons systems producing facilities, construction contracts, shipbuilding contracts, and contracts for perishable subsistence items. The assignment includes, however, a wide range of functions such as preaward surveys of contractors' facilities, quality assurance and inspection, and payments to contractors. The assignment also encompasses the administration of the Defense industrial security program which includes the functions of central clearance of contractor personnel and clearance of contractor physical plant facilities.

EXHIBIT I

## CONTRACT ADMINISTRATION SERVICES

### Functional Assignments and Exclusions



--- Denotes Functions Retained by Procurement Offices/Program Managers of the Military Departments and the Defense Supply Agency

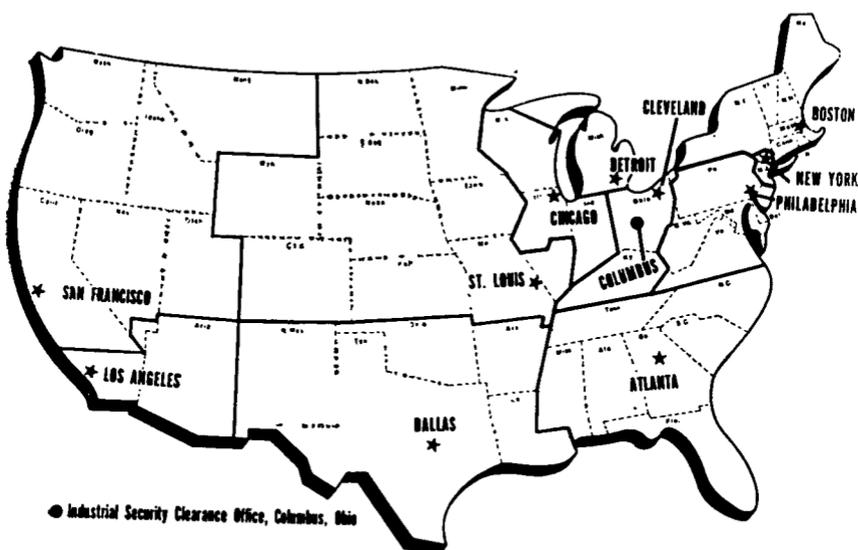
We are currently engaged in manning the headquarters staff and in the phased activation of 11 contract administration services regions, in accordance with the detailed plan approved in December by the Secretary of Defense. Both the headquarters organization and the field activities will be staffed by military personnel of all the services and by civilians who have performed these functions for the military departments.

The 11 contract administration services regions, subdivided into district, plant, and area offices, will cover the entire United States. The selection of regional boundaries and field office locations has been governed principally by considerations of workload concentration. The Philadelphia region was the first to become operational under DSA, in September 1964. The Defense Contract Administration Services

Region, Detroit, was established on April 1 of this year. Regions in Dallas and Boston will be established on or about June 1; New York and Cleveland, August 1; and conversion of the Atlanta, Chicago, and St. Louis regions is scheduled for October 1. The remaining two regions, Los Angeles and San Francisco, are scheduled for conversion December 1 of this year. The system is expected to become fully operational by March 1966. Within this overall time frame, some minor adjustments to the schedule may be required, depending on the operational problems encountered.

EXHIBIT II

## CONTRACT ADMINISTRATION SERVICES REGIONS



### REGIONAL ACTIVATION PLAN

PHILADELPHIA	SEP 1964
DETROIT	APR 1965
BOSTON	JUN 1965
DALLAS	JUN 1965
CLEVELAND	AUG 1965
NEW YORK	AUG 1965
CHICAGO	OCT 1965
ATLANTA	OCT 1965
ST. LOUIS	OCT 1965
LOS ANGELES	DEC 1965
SAN FRANCISCO	DEC 1965

INDUSTRIAL SECURITY CLEARANCE OFFICE

COLUMBUS

MAR 1965.

Our initial estimates indicate that effective performance of the contract administration services mission can be maintained with a reduction of over 2,000 personnel, roughly 10 percent of those now employed by the military departments and DSA, and with ultimate annual savings of over \$19 million by fiscal year 1969 and each year thereafter.

Senator PROXMIRE. How do you estimate those savings of 10 percent, 2,000 personnel? How do you determine there is an actual saving that would not take place otherwise?

Admiral LYLE. There was a very thorough and comprehensive study made by a joint study group that was established to survey this prior to the decision to centralize, and to give the mission to DSA.

Following that decision, there was a careful identification of resources at present committed to this function in the military departments and DSA; and in comparison with that, a careful determination of requirements by DSA to run the consolidated mission. The difference is the savings in people and dollars to which I have referred.

Senator PROXMIRE. Has there been any criticism of this kind of an estimate? The Secretary, I think, has done a magnificent job. But I frequently have seen these assertions that 10 percent has been saved, 2,000 people, \$19 million, and so forth. It is very heartening. But I think it is awfully important to try and establish this clearly, and as emphatically as possible.

Has there been any serious questioning of this from any outside group, to your knowledge?

Admiral LYLE. No, sir, not to my knowledge.

Senator PROXMIRE. In your judgment, is this something that is without question—that it has been established?

Admiral LYLE. Yes. This is a hard figure.

Senator PROXMIRE. A hard figure?

Admiral LYLE. Yes.

Now, to the extent that we are not able to do the job with the people that we estimate are needed, it would be affected. But I have every confidence now that we can do it.

Senator PROXMIRE. Has there been sufficient experience with this kind of thing in the past elsewhere, so you have had a chance to check and determine whether or not your estimates have proven out in practice?

Admiral LYLE. Yes, I think there is. And I think that the experience of DSA in its supply management mission bears this out. By the end of this current fiscal year, we will be doing the job that we inherited from the services with about 7,800 fewer people than the services were using for the same functions prior to our establishment, which yields an annual saving—and this is a hard figure, too—

Senator PROXMIRE. You say you are doing the same amount, or more?

Admiral LYLE. Comparable.

Senator PROXMIRE. Comparable amount with 7,800 less. What percentage reduction is that?

Admiral LYLE. Well, it is 7,800, and we are now at roughly 32,000.

Senator PROXMIRE. I see.

Admiral LYLE. About 25 percent.

Senator PROXMIRE. Yes, that is a very substantial reduction. Thank you.

Admiral LYLE. The second major change in our service mission was initiated in November 1964, when the Secretary of Defense approved the recommendation of a joint study group to designate the Secretary of the Army as single manager of combined military traffic and terminal management missions. This embraces traffic manage-

ment, and control of movement into and out of air and ocean terminals, and the management and operation of common-user ocean terminals. The decision to establish the Military Traffic Management and Terminals Service brought about the transfer to the Department of the Army the major part of the mission and resources of the Defense Traffic Management Service. Included in this was the transfer of the Defense-wide responsibility for consolidated management of household effects of Defense personnel.

The Defense-wide program assignments to DSA have also undergone significant change since I last appeared before you.

The administration of the Defense-wide standardization program, previously assigned to DSA, has been reassigned to a newly established Office of Technical Data and Standardization Policy in the Office of the Assistant Secretary of Defense (Installations and Logistics). This change does not alter either the responsibility or the authority of DSA with respect to the standardization of items assigned to it for management.

Assignment has been made to DSA of a Defense-wide mission to develop and maintain a master file of all Defense owned or leased automatic data processing equipment and to promote maximum reutilization of this equipment within the Department of Defense. The objective of this assignment is to facilitate the release of automatic data processing equipment and related supplies and materials no longer needed by one Defense activity to other activities that need them and that otherwise would be required to purchase or lease them.

The DOD ADPE Reutilization Screening Office is staffed and fully operational. An inventory of excess ADP equipment and materials has been established, and DOD needs are screened against these excesses. In addition, DSA listings of excesses are made available to the General Services Administration for Government-wide screening. During the current fiscal year through March, a total of 378 line items, with an acquisition value of \$20.3 million, have been reported as excess. Transfers of 155 line items of equipment, valued at more than \$7.7 million, have been effected between the military departments and between the Department of Defense and the General Services Administration.

#### MANAGEMENT IMPROVEMENTS

Improved management of continuing and newly assigned missions remains a primary objective of our Agency. I should like to bring to your attention the principal management improvement projects in which we have been engaged over the past year.

In response to a specific recommendation contained in the 1964 report of this committee, the General Services Administration and the Defense Supply Agency set up a joint project to identify short shelf-life items now in stock and to devise ways and means to improve their utilization throughout the Federal Government. A joint study group was charged with the task of identifying assets on which the shelf life might expire if not used promptly; developing standard shelf-life terminologies and definitions for use throughout the Government; devising means of insuring full utilization prior to expiration of shelf life; and formulating standard procedures and controls over item identification, marking, and storage. (See pp. 99, 193, and appendix, p. 379.)

The review of the study group substantiated the findings of the committee concerning losses from short shelf-life items. A report of the study group's findings and recommendations is being staffed among the military departments and the General Services Administration prior to submission to the Secretary of Defense and the Administrator of General Services. In his recent report of April 2, 1965, which has just been received, the Comptroller General has raised certain additional questions concerning the coverage of the study and the group's recommendations; and these, too, are under consideration. You may be assured that the Defense Supply Agency will take all feasible action, within the limits of its authority, to alleviate the conditions which gave rise to your committee's concern. A full report will be made to the committee upon completion of the staffing and approval of the recommendations. (See p. 58.)

Over the past year we have stepped up our efforts to halt or reverse the continued growth in the number of items in the Defense portion of the Federal Catalog. Item reduction decisions, incident to standardization review of 187,000 items, totaled 80,000-DSA and service-managed items during fiscal year 1964 and nearly 90,000 out of the 265,000 reviewed during the first 9 months of fiscal year 1965. In addition to the reviews incident to standardization, items experiencing no demand for 21 months or more are also reviewed. During the current fiscal year through March, we examined over 115,000 inactive items, resulting in decisions to delete approximately 55,000 DSA-managed items.

We believe, however, that major gains in stemming the growth of the catalog will come from the control of new items entering the system. Since this effort was begun in fiscal year 1963, an effort which involves improved initial provisioning procedures and requirements determination, and better screening techniques to identify duplicates or substitutes already assigned Federal stock numbers, a downward trend in the number of new stock number assignments has been noted. The DOD Item Entry Control Office, establishment of which was reported to the committee last year, is presently conducting a pilot test of item entry control procedures. Results thus far have been gratifying. During a 6-month period of the test, 45 percent of the requests for new stock numbers which were reviewed were rejected, and 32 percent of the requests were found to have existing Federal stock numbers or recommended substitutes already in the system.

Another area currently under study is that of engineering data interchange among the military departments, DSA, and industry. At the direction of the Secretary of Defense, pilot testing of an engineering data retrieval system is being conducted under DSA management. The system features the positioning of engineering data microfilm files at both Government and industry activities engaged in research and development, and production engineering. Benefits are expected from reduction in duplication of design, testing, documentation, and engineering search time, all of which lessen the chance of duplicate items entering the supply system. Evaluation of the pilot test will be made in August, after which recommendations for a future course of action will be presented to the Secretary of Defense.

As you will appreciate, most of the effort of DSA toward integrated supply and service management could be accomplished only

through the use of modern automatic data processing equipment. At the present time, we have 16 computer installations. However, DSA inherited diverse equipment and systems from the military departments. The incompatibility of the equipment and systems has created significant problems in programming and in the application of uniform procedures. (See p. 130.)

As one major means of coping with this problem, we have established the Data Systems Automation Office at Columbus, Ohio, to design and develop uniform computer programs and data processing procedures.

We have also established three major projects designed to achieve standardization of mechanized systems, procedures, and programs.

The first of these, mechanization of warehousing and shipment processing, known as MOWASP, addresses itself to data processing for storage depot operations as they relate to warehousing and traffic management functions. The second project is standard automated materiel management systems, or SAMMS, which result in uniform materiel management procedures throughout the Agency. The third project, mechanization of contract administration services, or MOCAS, is a uniform data system for the Defense Contract Administration Services Regions that provides for use of computers in furnishing contract administration services to buying offices and item managers.

Reports of performance or deficiency in the Agency's operations continue to receive special attention. One of the principal sources of these reports is the General Accounting Office. From DSA's establishment through the end of March 1965, DSA has received 71 reports from the General Accounting Office. Of the 116 separate recommendations contained in the reports, final action has been taken on 101.

Generally, the GAO recommendations in the areas of value engineering, standardization, and control of the entry of new items into the supply system have met Department of Defense agreement. However, we do not fully concur with the GAO recommendation that we should override military judgment as to the acceptability of offered substitutes. Not only does DSA, under its charter, lack the authority to force the acceptance of substitute items, but we believe that military requirements should override supply considerations, and that in the event of disagreement between DSA and the services, the Secretary of Defense should make the decision. However, we are alive to the need to maximize utilization of inventory assets and will aggressively promote use of long supply materiel as substitutes wherever practicable.

Still another important area currently under study relates to our responsibility for administering Defense surplus disposal operations. In 1964, DSA accomplished the reutilization or disposal of 6.9 billion in excess and surplus materiel. The program was self-sufficient, costing \$80.5 million and yielding a total of \$111.4 million in proceeds from sales. The Secretary of Defense initiated a study, known as project 26, for improvement of the surplus sales program. A task force report was submitted, with approximately 60 recommendations relating to both the operational and management aspects of the program. The Defense Supply Agency accepted and has implemented those recommendations which fall within its area of responsibility. As a result, a

number of major improvements have already been made. Certain disposal activities were abolished, others were consolidated, without impairing the effectiveness of operations. In addition, DSA initiated other management improvements in the disposal operation. The number of sales offices was reduced from 34 to 18 by the end of fiscal year 1964, at a savings of approximately \$1.7 million a year. Early in this fiscal year, we initiated a further reduction in the number of sales offices from 18 to 12 to achieve additional streamlining of the sales organization. However, action on this phase of the program has been stopped, to minimize the impact on personnel, pending finalization of a plan to transfer the disposal sales function to GSA, and the potential pattern of sales offices under GSA operation. (See p. 131.)

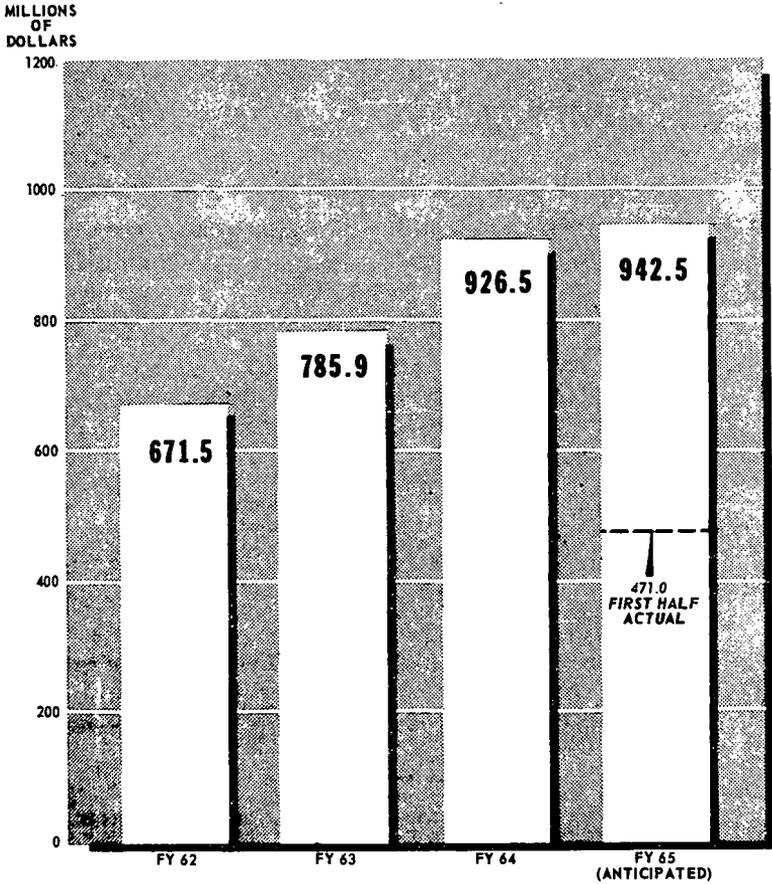
Recognizing the increasing role of the General Services Administration as a supplier for Defense users, we informed the committee, during last year's hearings, that the Department of Defense and the General Services Administration had entered into a tentative agreement delineating their respective roles in a coordinated supply system for the Federal Government. This tentative agreement contained criteria governing the selection of groups, classes, families, or items for management by the Defense Supply Agency for Defense users or by the Federal Supply Service for all Federal Government users. The criteria were subjected to a comprehensive test to insure that they were adequately defined and susceptible to practicable application. The test was completed early last fall. On the basis of the test, mutually agreeable changes were made in the criteria and other provisions of the agreement to insure uniform understanding and application. A final agreement, incorporating changes resulting from the test, was approved in December 1964 by the Assistant Secretary of Defense and the Administrator of General Services.<sup>1</sup> We are now engaged with the General Services Administration in the application of the agreed criteria to all supply classes designated for integrated management by the Department of Defense.

The agreement reached last December also contains a provision requiring the Defense Supply Agency to consider support of all Government agencies for certain supply groups or classes. This provision does not rely upon a principal user criterion as the basis for Defense management. The circumstances under which Defense will consider Government-wide supply support are special and limited in the agreement. (See p. 188.)

---

<sup>1</sup> See staff report, 1965, p. 216, et seq., for wording of agreement.

## TREND IN TOTAL GSA SALES TO DoD



First, the groups or classes in question must qualify, under the agreed criteria, for management by the Defense Supply Agency as an integral part of the military supply system.

Second, the General Services Administration must determine that separate arrangement for support of civil agencies would result in significantly higher costs than management by the Defense Supply Agency.

Third, the Defense Department must agree that such support will not impair performance of its primary military mission or significantly increase operating costs or inventory investment.

Preliminary studies indicate the feasibility of DSA management of clothing, electronics, and petroleum supplies. Accordingly we are now engaged, with the General Services Administration and the principal interested civil agencies, in drawing up detailed plans for this assignment to include identification of specific economies resulting therefrom. These will be submitted to the Secretary of Defense and the Administrator of General Services for their consideration. Further study of medical and subsistence supplies will be required before even tentative conclusions can be reached as to the desirability of DSA management of these commodities for all Federal agencies.

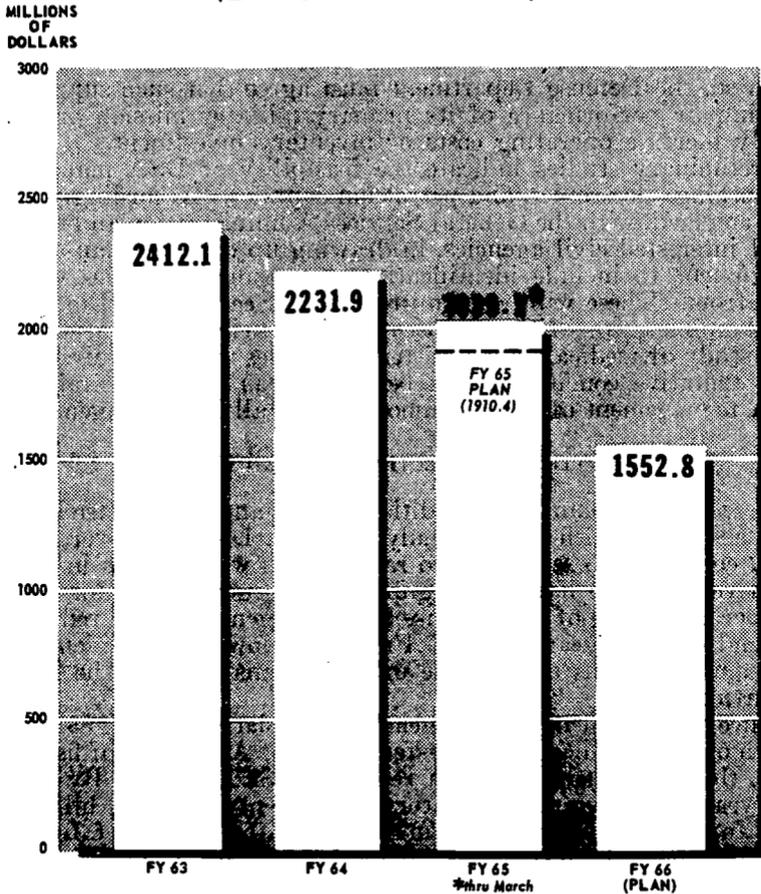
#### OPERATIONAL EFFECTIVENESS AND ECONOMY

In spite of assignment of additional tasks and an increase in workload associated with tasks already assigned, DSA has, over the past year, continued to seek ways to reduce costs without loss in support effectiveness. We have had significant success in this effort.

Operating costs of the Defense Supply Agency will be reduced, by the end of fiscal year 1965, \$57.1 million below the cost identified to the same functions at the time of their transfer from the military departments.

Since establishment of the Agency, a cumulative total of \$3.1 billion worth of materiel has been transferred to it. At the end of fiscal year 1964, this investment had been reduced to \$2.2 billion. By July of this year, we expect our inventory investment to be \$1.9 billion and even further reduced to less than \$1.6 billion by the end of July 1966. I wish to emphasize that these reductions are being made primarily by sale or transfer for use without replenishment of stocks in long supply. They are not being made at the expense of validated and protectable mobilization reserves.

## DSA INVENTORY REDUCTION TRENDS (End of Fiscal Year)



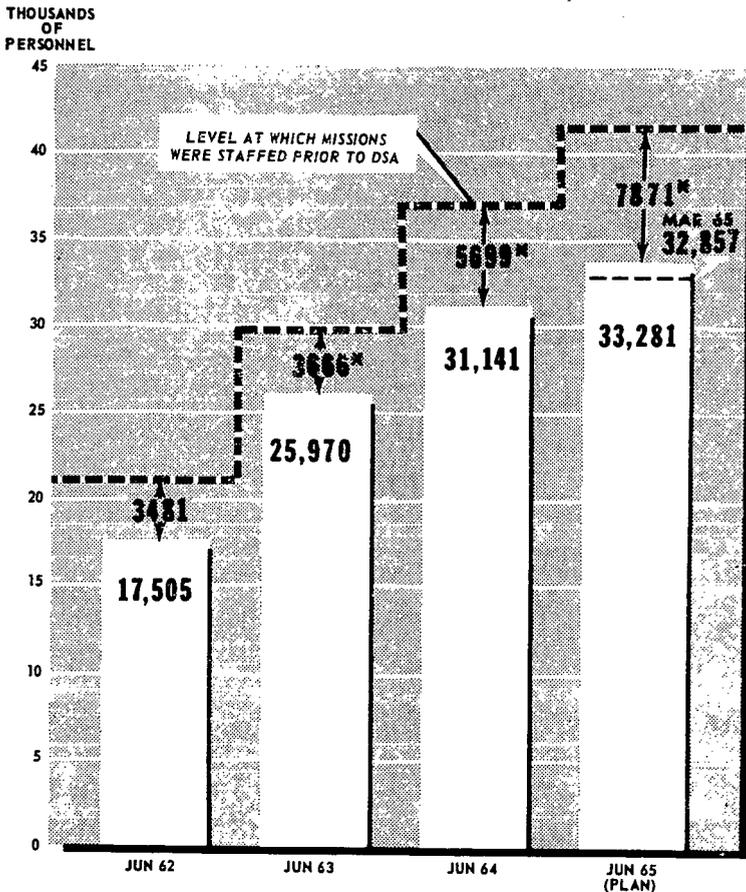
Last year we undertook a comprehensive review of our inventory control point structure to explore feasible realignments which would reduce operating costs while assuring equal or better service to our customers. As a result of this review, we will consolidate the missions and functions of the Defense Medical Supply Center in Brooklyn, and the Defense Subsistence Supply Center in Chicago, with those of the Defense Clothing and Textile Supply Center in Philadelphia. The new center will perform inventory management functions for commodities directly supporting military personnel: food, clothing, and medical supplies. The new, enlarged center will be named, therefore, the Defense Personnel Support Center. We have transferred the inventory management of packaged petroleum and chemical supplies from the Defense Fuel Supply Center in Washington, D.C., to the Defense General Supply Center in Richmond. Transfers will be completed early in fiscal year 1966 and will, after offsetting one-time

moving costs, result in a \$3.6 million reduction in DSA operating costs in that year. Savings will rise to \$5.7 million annually in fiscal year 1967 and each year thereafter.

By the end of this fiscal year, DSA will be performing presently assigned functions with over 7,800 fewer personnel than were required for the same functions prior to consolidation in DSA. These reductions have been and are being accomplished with minimum impact on the personnel involved. I am confident that further reductions in the immediate future will be effected in the same manner. We are extending every effort, as is the entire Department of Defense, to make personnel reductions without adverse impact on those involved by offering them other jobs in the Agency, in the Department of Defense, or in other Government agencies, and by not filling vacancies caused by retirements and resignations.

EXHIBIT V

### DSA PERSONNEL SAVINGS

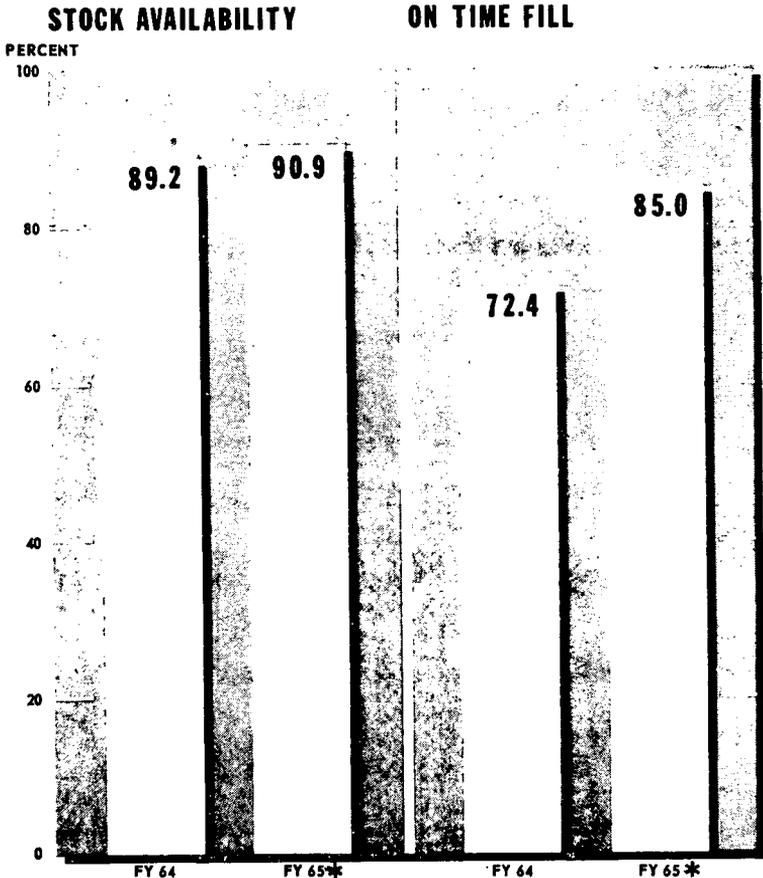


\* Cumulative Totals

The reductions in personnel and consolidation of facilities have been achieved with no loss in the quality of support we furnish our customers. During the past year, we have consistently maintained a stock availability of over 90 percent in relation to requisitions placed upon our supply centers, except for short periods when major management transfers were in process. This indicates that we were able to issue immediately out of available stocks the items requested by the military customers in 9 out of 10 cases.

EXHIBIT VI

## DSA CUSTOMER SUPPORT INDICES



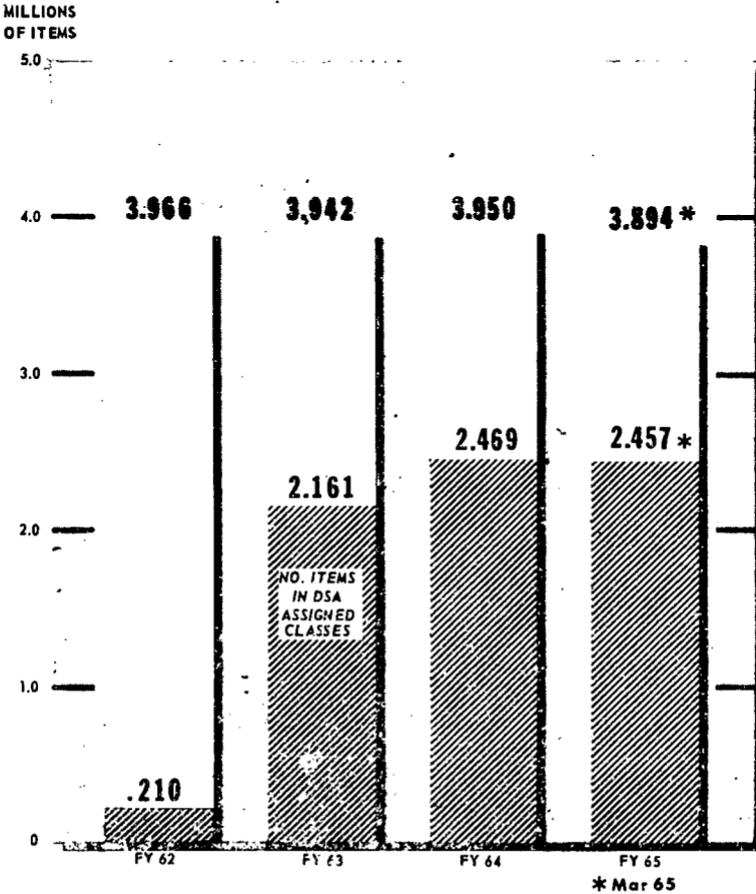
\* Cumulative data thru March 1965

Our on-time fill rate over the past year has averaged 85 percent. This percentage represents issues from our depots, and from stock points operated by the military departments, shipped within the time frames prescribed by the priority system of the Joint Chiefs of Staff.

During the current fiscal year the number of items in the Defense portion of the Federal Catalog has again decreased slightly. In the period 1958 through 1962 the number of active stock numbers in the Defense Catalog increased an average of over 160,000 items per year. From the peak of 3.97 million items in fiscal year 1962 we decreased to 3.95 million items at the end of fiscal year 1964, and as of March 1965 we had reached a new low of 3.89 million items. Of these DSA is responsible for 2.46 million items in our assigned classes or 63 percent of the total items cataloged. This, too, is a slight decrease from the number of items recorded at the end of fiscal year 1964.

EXHIBIT VII

### REDUCTION IN NUMBER OF DoD CATALOGED ITEMS (End of Fiscal Year)

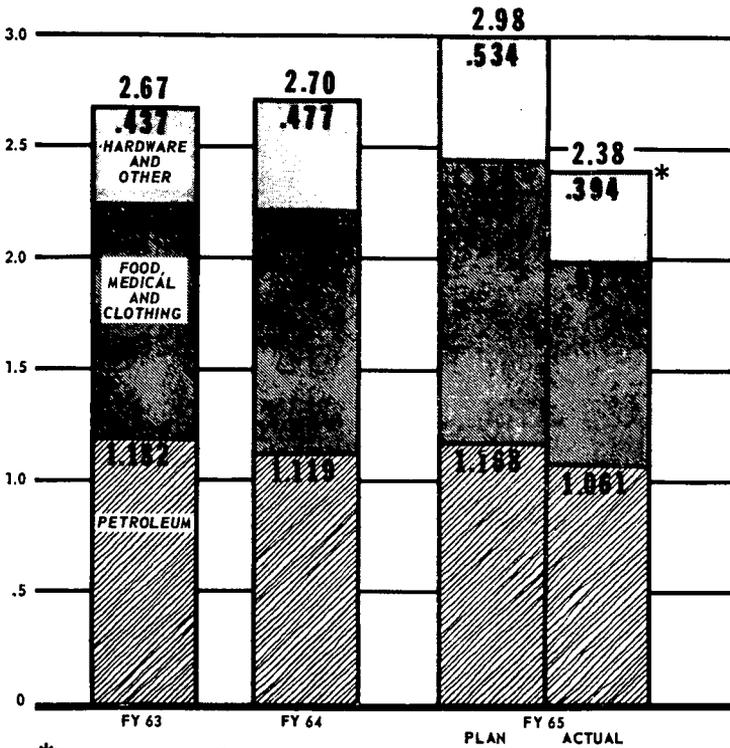


The value of our procurements during fiscal year 1964 aggregated \$2.7 billion. We reached \$2.4 billion at the end of March 1965. Subject to some now unforeseen change in service requirements our fiscal year 1965 procurement goal of \$3 billion should be met.

EXHIBIT VIII

### DSA PROCUREMENT PROGRAM (By Commodity)

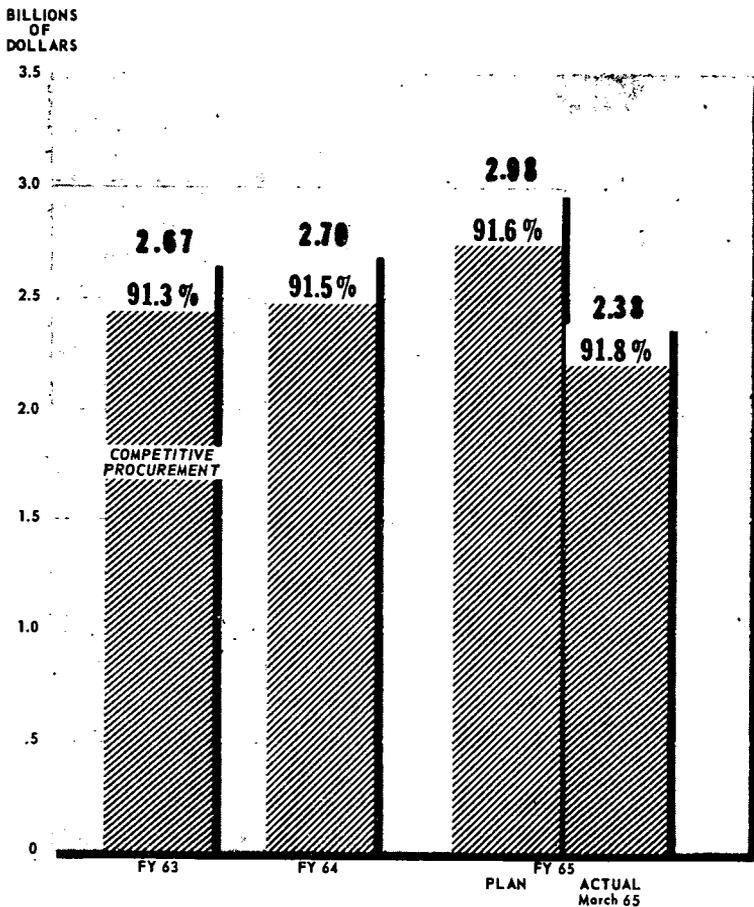
BILLIONS  
OF  
DOLLARS  
3.5



During fiscal year 1964 nearly all of the \$2.7 billion of DSA procurements were subject to competition; of this \$2.5 billion were awarded through competitive-type contracts. As of the end of March 1965 \$2.2 billion of the fiscal year 1965 procurements of \$2.4 billion were made competitively.

EXHIBIT IX

### VALUE OF DSA TOTAL AND COMPETITIVE PROCUREMENT AWARDS



--- Denotes Value of Competitive Procurements

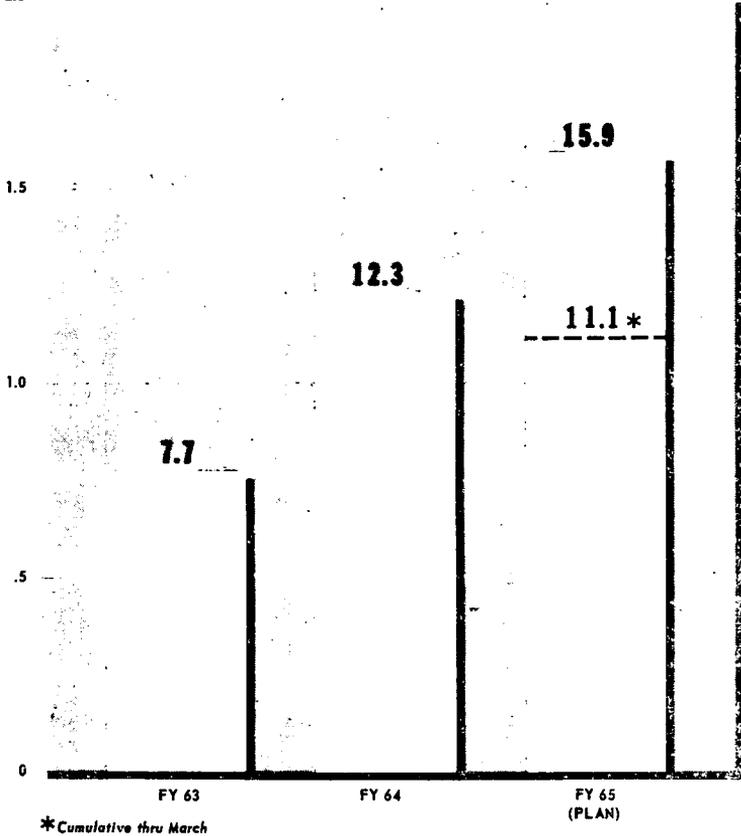
DSA sales from the Defense stock fund amounted to \$1.7 billion in fiscal year 1964. At the end of March 1965 sales had reached \$1.4 billion, well on the way to the fiscal year 1965 goal of \$1.8 billion. The difference between the value of procurement and the value of sales was over \$900 million in fiscal year 1964 and has exceeded a billion dollars thus far in fiscal year 1965. This difference is caused by several factors. One of these is our effort to reduce inventory values by issuing, without replacement, materiel on hand excess to our needs, as indicated by consolidated requirements computations. Another and much more significant cause is that our bulk petroleum assignment is confined to procurement only, with inventory management retained by the military departments.

Line items issued from the DSA system increased to a total of 12.3 million in fiscal year 1964. Fiscal year 1965 issues have exceeded 11 million through March and are expected to reach 15.9 million by the end of the fiscal year.

EXHIBIT X

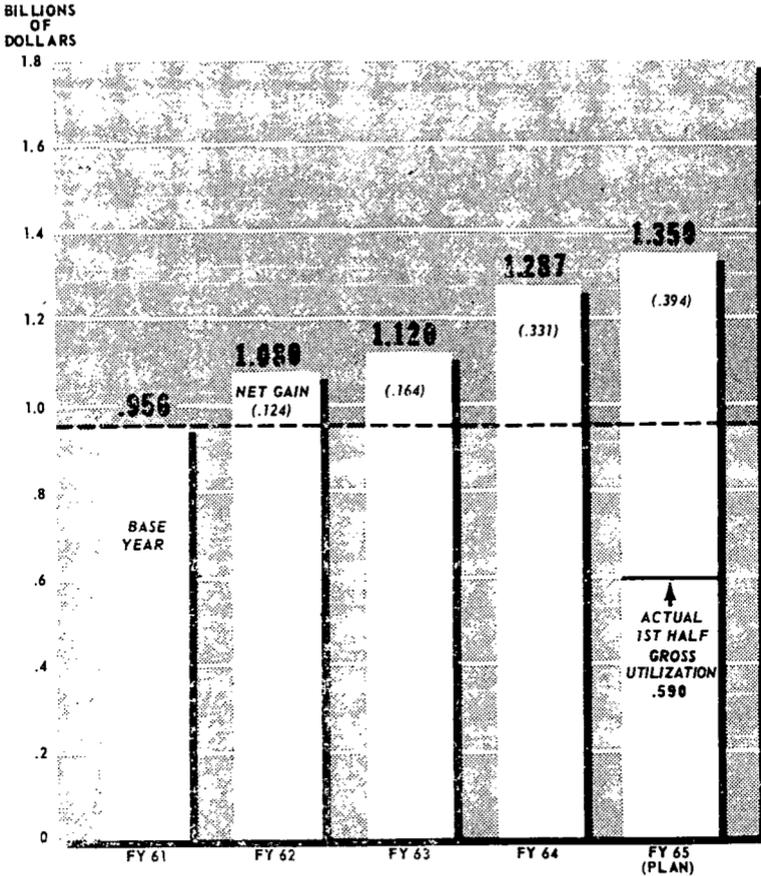
## DSA MATERIEL SHIPMENT WORKLOAD (Line Items)

MILLIONS  
OF  
DOLLARS  
2.0



We have progressively increased the volume of long supply reutilization within the Department of Defense. We expect to achieve reutilizations of long supply materiel worth about \$1.4 billion during this fiscal year. These interchanges of materiel among the military services obviate new procurement or permit users of the materiel to satisfy a valid requirement which would not otherwise be met.

**MATERIEL UTILIZATION COST REDUCTION ACTIONS  
INCREASED USE OF EXCESS INVENTORY**



The Defense Supply Agency is performing all assigned missions and tasks effectively and efficiently. I believe that we have equaled or exceeded the goals set for us when DSA was established, in terms of both effective support of the military services and operational economy.

I do not, however, wish to leave you with the impression that we are fully satisfied with our performance or are complacent about our capability to respond to military emergency or contingency needs. We are continuing to seek ways to improve our responsiveness to the mobilization and contingency plans of the military services; the coordination of our own continuity of operations planning with service plans; and the adaptation of supply procedures to military priority determinations. We are currently engaged with the Joint Staff and the military services in a review of all mutual military concerns.

Mr. Chairman, this concludes my presentation, but, with your permission, I should like to submit a group of exhibits for the record to further amplify several points I touched on briefly in my statement. I am ready for your questions.

Senator PROXMIRE. Those exhibits will be placed in the record at the points you indicate and for the purpose you desire. (Exhibits referred to are those appearing throughout Admiral Lyle's statement to this point.)

#### COMPETITIVE CONTRACTS IN DSA

Senator PROXMIRE. You say, Admiral, that during fiscal year 1964 nearly all of the \$2.7 billion of DSA procurements were subject to competition. Then you talk about \$2.5 billion awarded through competitive-type contracts.

What do you mean by a competitive-type contract? What proportion of this is advertised competitive bidding, and what proportion of it is some other kind of competition? I would like a breakdown.

Admiral LYLE. The figure that I gave, Mr. Chairman, embraces all forms of competitive procurement formally advertised as well as competitive negotiation; 40.9 percent was formally advertised.

Senator PROXMIRE. 40.9?

Admiral LYLE. 40.9; yes, sir.

Senator PROXMIRE. Do you have any further breakdown—can you further refine your types of competition?

Admiral LYLE. I have no further breakdown of the remaining 50 percent, which is merely other forms, but it would be competitive negotiation.

Senator PROXMIRE. Negotiations that are competitive. You mean more than one supplier?

Admiral LYLE. Yes.

Senator PROXMIRE. How does that 40.9 compare with previous years?

Admiral LYLE. In 1964 it was 37.8. It is up 3 points.

Senator PROXMIRE. Do you have any years previous to that?

Admiral LYLE. I do not have that, sir.

Senator PROXMIRE. I am a little surprised it is not higher than that—although I know you are doing your best in working on it, because it seemed to me that GSA has a record that is considerably better. They have a much higher proportion than half of their supplies, as I understand it, by advertising competitive bids—something like three-quarters.

#### PURCHASE UNDER \$2,500 NEGOTIATED

Admiral LYLE. I am not sure that the terms are comparable. For instance, under the Defense system, all small purchases, that is, under \$2,500, shall be negotiated. These, in DSA, represent over 70 percent of the purchase actions and about 8 percent of the dollars spent. While the small purchases are negotiated, they are awarded competitively to the maximum extent possible.

Brand name procurements for the commissaries, which represent a significant dollar value, are not reported as competitive procurement.

Senator PROXMIRE. Well, to the extent that you have items that are less than \$2,500—and many of them would be less than a thousand dollars, I imagine—you would buy, I take it, at the lowest price, and

the sellers would advertise in many cases—perhaps in most cases. Yet you would not call that advertised competitive bidding. For example, if you are buying some kind of food, canned food, and a number of companies have it for sale, you would buy at the lowest price, and they might all advertise.

Admiral LYLE. If you were specifying Campbell Soup, that is all you were looking for to sell your customers at the commissary—

Senator PROXMIRE. You would buy at the lowest price.

Admiral LYLE. You would buy at the lowest price. But still it would not be considered competitive procurement, when you buy by brand name.

Senator PROXMIRE. You would buy in response to what the customers at the commissary requested.

Admiral LYLE. Yes. I did not mean to imply we use this approach for our normal business. This is solely for resale through the commissaries, where we engage in the brand-name procurement, to meet specific brand-name requirements. But our normal business, for support of Defense, for Government, is not on a brand-name basis at all. It is on the basis of specification.

#### IDENTICAL BIDS REPORTED TO DEPARTMENT OF JUSTICE

Senator PROXMIRE. Now, where you solicit bids and get identical bids, do you report that to the Department of Justice?

Admiral LYLE. Yes, sir.

Senator PROXMIRE. You do. Good.

Now, several times in your statement you indicated there have been a number of savings in jobs. You went into some detail indicating you made an effort to do what you could to place these people and see there was no suffering.

As I recall, you said you actually interrupted a program because of its impact on personnel—you felt apparently if you continued that people would be thrown out of work, and it was hard to find provision for them.

Do I interpret that correctly?

#### TRANSFER OF SALES FUNCTION TO GSA

Admiral LYLE. We are in the process of reducing the number of Defense surplus sales offices from 18 to 12. They are the activities around the country that sell Defense surplus.

As perhaps you know, GSA has a parallel surplus sales organization for Federal agencies other than Defense. There are negotiations in process for GSA to take over this function. They have had the fundamental responsibility under law. We have been performing under delegation for many years.

So I had no way of telling, and neither did GSA, on short notice, just where they would locate these combined offices—whether they would close out all of ours and move to theirs, or whether they might shift to ours in some cases, with respect to geographical location. So rather than force people in the six Defense surplus sales offices that we were going to close out to make two moves, I froze the disestablishment of those six until we found out GSA's plans, and then they could make a single coordinated move.

Senator PROXMIRE. I see.

Well, where you do eliminate jobs, do you have any statistics to indicate the number or percentage of people who actually have been discharged and as far as you know did not quickly and promptly find employment?

Admiral LYLE. No, sir; I do not believe I have any reliable statistics on that.

Senator PROXMIRE. You give the impression that you make an effort to place everyone, and I thought it might be helpful to us, in judging the program, if you can qualify it by indicating how many you do place and how many you do not.

Admiral LYLE. I can relate our experience so far.

Senator PROXMIRE. That would be helpful.

Admiral LYLE. Using the last 2 years as a representative period, eight specific cases of management transactions involving consolidations, transfer of function, or reduction in force were examined. In these cases, of the 1,429 employees affected, 1,280 were placed, either within DSA, with other Government agencies, or with local government or private industry; 109 employees retired or resigned, and 40 were separated and not placed. All of the 40 received 1 or more offers of continued employment; 26 of the 40 were separated for failure to accompany their function when it was transferred; and 14 were separated in reduction in force actions after they had refused offers of positions available.

#### SMALL BUSINESS PROCUREMENT

Senator PROXMIRE. Incidentally, do you have any statistics at all on the procurement by small business—from small business?

Admiral LYLE. You mean on the absolute dollar levels or percentage? Our percentage is running about 41 percent.

Senator PROXMIRE. Forty-one percent to small business?

Admiral LYLE. Yes, sir.

Senator PROXMIRE. The Defense Department, overall, as I understand it, procures 15, 16 percent.

Admiral LYLE. We would naturally be on the high side.

Senator PROXMIRE. How does that compare with the past record?

Admiral LYLE. Well, it is going down—it is really about level.

Senator PROXMIRE. It was 42, it is down to 41—about the same?

Admiral LYLE. Forty-three last year, so far we are 41.5, but this may be a seasonal dip.

Senator PROXMIRE. How does it compare with GSA?

Admiral LYLE. I do not know, sir.

Senator PROXMIRE. Do you have a program?

Admiral LYLE. A very strong, vigorous program. We have business counselors who participate to a large degree in regional and local business consultation around the country. We have a staff that engages primarily in business counsel, procurement counseling.

Senator PROXMIRE. Maybe 1½ percent—

Admiral LYLE. It is a change in the product mix.

Senator PROXMIRE. A change from 43 down to 41.5.

Admiral LYLE. It is a change in the product mix, in that a greater proportion of technical items are procured, which have fewer small business sources.

Senator PROXMIRE. You are sure of that?

Admiral LYLE. Yes, I am. We have a dropoff in the labor surplus area, too. This is the result of the fact that we have fewer labor surplus areas.

Senator PROXMIRE. You still have the same small business problem.

Admiral LYLE. Yes, sir.

#### TRAFFIC MANAGEMENT DECENTRALIZED TO ARMY

Senator PROXMIRE. Why was traffic management decentralized in the Army rather than centered in DSA?

Admiral LYLE. Traffic management was transferred to DSA at the time it was established. The function was consolidated back in 1955. It was in the original group of single manager assignments. It was an Army single managership at that time. Then when we were formed, traffic management, along with all of the other then existing single managerships, except MATS and MSTs, the Navy sealift program, were transferred to DSA, and the traffic management element became a component command of DSA. Then, fairly recently, during the course of the past year, following a study by the Joint Chiefs of Staff and the OSD and the military departments, the decision was made to form a consolidated traffic management and terminal service. It was felt there was a natural affinity between the traffic management function which controlled the feed of material to the ports and the management of the ocean terminals themselves. The decision was made to assign this combined function to Army, since it had the predominant interest. The element was then transferred back to Army and merged with the terminal management function. This was done about the 1st of February, I believe.

Senator PROXMIRE. Thank you. I just wanted to revert to the previous question before the last one. It has been called to my attention that the GSA small business program seemed to work in reverse in 1963 and 1964. Fiscal year 1963 the GSA placed 40.5 percent of the dollar volume with small business firms. In the first 6 months of fiscal year 1964 they placed 57.5 percent, or \$210 million, with small business firms.

Do you have fluctuations that are that substantial?

Admiral LYLE. No. I suspect one thing that might have been a big contributor to that was the transfer of the paint and handtool management function from Defense to GSA. This would have had a significant effect. This is what I meant by change in product mix. Some of our high performer elements were lost when the mission was transferred to GSA. This would affect our performance statistics.

#### MANAGEMENT OF ADPE

Senator PROXMIRE. Perhaps the most dramatic and exciting development in our economy in recent years has been the development of computers. You have had by far the biggest experience with this—I mean the Defense Establishment as a whole. I realize that most of these computers are in perhaps the classified area, and do not have as much relevance anyway to the rest of the economy. But your computers do have.

On the basis of your own experience, do you envision that there should be a comprehensive, Government-wide control of computers so

that they could be made available throughout the Federal Government, or do you think that perhaps the future of this would suggest that we should proceed on a department-by-department basis?

Admiral LYLE. I think there should continue to be centralized control of procurement through the use of Federal supply schedules and I think there should be a central system of—

Senator PROXMIRE. It is a huge operation—is it \$3 billion, roughly?

Admiral LYLE. I do not know, sir. I think there should be an organized means of maximizing utilization within the Federal Government, an organized system whereby existing assets can be used to meet new requirements. I think the thing we have got to be careful about in centralization in this particular field is to avoid giving the central organization authority over requirements, and utilization. I think this has got to be left with the users of the computers.

Senator PROXMIRE. How much of the contractor equipment is the DOD paying for?

Admiral LYLE. Would you repeat that question?

#### ADPE USED BY DEFENSE CONTRACTORS

Senator PROXMIRE. How much contractor ADP equipment is the Defense Department paying for? That is, leasing, and not buying?

Admiral LYLE. By defense contractors?

Senator PROXMIRE. That is correct.

Admiral LYLE. I do not have that, sir. I will attempt to furnish it for the record.

(Material below subsequently supplied for the record.)

The Department of Defense does not have an inventory of contractor-leased automatic data processing equipment. A Bureau of the Budget survey in April-May 1964 revealed that ADPE used in cost-reimbursement-type contracts by 65 of the top 100 Government contractors includes 771 computer systems at an estimated purchase price of \$516.9 million. These 65 contractors account for 61 percent of the military contract dollars. However, DOD owned and leased ADP equipment is included in DSA's listing of equipment available for reutilization, whether such equipment is located in Defense or as GFE in contractors' plants.

Senator PROXMIRE. I presume—I do not want to assume anything—is there a study going on constantly to determine the wisdom, on the one hand, of purchasing, as compared with leasing?

Admiral LYLE. Yes, sir. This is a matter that is under constant consideration. As a matter of fact, there has been recently completed a special study on contract support services, which includes consideration of buy versus lease, and contractor buy or lease versus Government furnishing ADP equipment to contractors as GFE. This study has just been completed and is now being staffed prior to submission to the Secretary of Defense. This is a study that Secretary Ignatius has under his jurisdiction. (See p. 55.)

Senator PROXMIRE. I have a couple more questions, but at this time I will defer to Senator Jordan.

Senator JORDAN. Thank you, Mr. Chairman.

#### SHORT-SHELF-LIFE ITEMS

Admiral, in the subcommittee's report last year, they called attention to the short-shelf-life items, indicating that there are many items in the Federal stocks which are subject to spoilage and deterioration, and

obsolescence. They directed particular attention to the supply management of those items.

#### CRITICAL REPORT OF COMPTROLLER GENERAL

I have before me a letter by Joseph Campbell, Comptroller General of the United States, in which he is quite critical of your agency for the deficiency in supply management on paint and other short-shelf-life items.<sup>1</sup>

Have you taken any steps to correct those deficiencies in supply management?

Admiral LYLE. Well, not in specific relation to Mr. Campbell's letter, because we but recently received that letter and the report, sir.

As he states, it of course relates to and amplifies the shelf-life study, a joint study that was inaugurated during the past year as a result of the Committee's recommendation. (See pp. 80, 379.)

We have not taken any final action or taken a final position on either the study or Mr. Campbell's report. We have not completed the staffing of it. So I am not in a position to react in any complete detail to it.

But in general, I think his concern is well founded, his findings, I believe, are generally valid; we would go along with them.

There are some deficiencies in the program that need correction, and we are going to address ourselves to them.

I would like to go on and emphasize that I think we have a good, sound system which has these principal features—that all items which are subject to deterioration by the passage of time are identified, and with the shelf life designated. This fact is taken into account in the requirements process. In other words, you do not buy beyond the shelf life of the material in question.

There are special measures taken at the depot level, the storage point level, to insure the rotation of this material and the issuance of old material first, and as an item approaches its shelf life, to issue it. Even if it goes beyond designated shelf life—since in most cases, in many cases, as a practical matter, although it has reached the technical limit, it may still be in perfectly fine shape—we send it to a laboratory for technical examination. We do this, for instance, as a matter of course, on film. Where film approaches its labeled and designated shelf life, we will send it to a laboratory and have it subjected to test, and if it is found to be in good shape, we will then continue to issue it, although we would never issue such film that is even in that stage to tactical users, only to users ashore, in the administrative establishment.

So we have got basically a good system. But there obviously are flaws in it, we need to tighten it up.

These studies and the GAO report have shown this. We are going to use the experience that has come out of this study and out of the GAO report to do just that.

#### DSA INHERITED PAINT AND HANDTOOLS

The only other point I would like to make on this, Senator, is that we inherited both the paint and handtools from the services not too long ago. We had the handtools altogether about 2 years, from the

<sup>1</sup> Rept. B-150417 is printed in full in "Background Material on Economic Impact of Federal Procurement—1965," p. 224, issued by the Joint Economic Committee, April 1965.

time of our establishment until we turned it over to GSA. And we had the paint about 18 months, from the time we took it over from the services until we turned it over to GSA.

So some of this was inherited probably from Korean war stocks and so forth—material that is overage in wholesale inventories and down at the base level.

This leads me to my last point. Even if you achieve perfection at the wholesale inventory manager's level, you still are going to have some degree of problem down at the base level, where it has been drawn out of the wholesale system and is down at the individual air station or base, airbase, or Army post. You are going to find some cases where it goes over age on the shelf there.

Now, one way we try to cope with this is with a liberal credit return policy, through which we encourage the individual posts and camps and stations to turn back their material as it approaches the end of its life, put it back into the system, so we can issue it to someone else.

Senator JORDAN. I can understand the deterioration by just some products that are short lived—rubber and so on. But the matter of disappearance is mentioned here at one point in Mr. Campbell's letter, and he says, "In addition, our limited review disclosed that prior to the transfers"—that is from the Defense Supply Agency to GSA—"the Defense Supply Agency decreased its inventory down by approximately \$2 million because stocks of these materials could not be physically located or were unfit for use."

Admiral LYLE. I noticed that, sir.

#### INVENTORY SHORTAGE

Senator JORDAN. I can understand a deterioration taking place. But why could they not be physically located?

Admiral LYLE. I have no facts on that, Senator. I noticed that. I am investigating it now. Conceivably this could have been a paper shortage that was transmitted to us at the time the material was transferred to us, when we were established, and the availability of the material may not be traceable. But I cannot respond to you fully.

Senator JORDAN. I am aware that is a relatively small percent, in view of the tremendous volume of material you handle. But by the same token, this is a limited review that he is speaking of.

I was wondering how prevalent that might be.

Admiral LYLE. I thought it was a significant quantity. I was quite concerned about it. I have asked for a report on it. But I do not have the answer to give you now.

Senator JORDAN. Thank you. That is all I have.

Senator PROXMIRE. To go back again to the equipment that we were discussing before, the automatic data processing equipment, the computer systems—as I understand it, your Agency, Defense Supply Agency, handled the systems from the departments, and under these circumstances it seems there perhaps should be more control on procurement and management of this equipment, along the lines suggested by the chairman of the subcommittee, Senator Douglas, in his bill that was introduced on March 22. I do not know whether you have had a chance to read the bill or not.

Admiral LYLE. No, I have not had a chance.

Senator PROXMIRE. This is a bill which would provide for coordination, for economic and efficient purchase, lease, and maintenance operations, along the line that perhaps you will be interested in following after you have had a chance to examine this report.

I understand you say this report has just been made available.

Admiral LYLE. I was referring to the report—the GAO report—on the shelf life.

Senator PROXMIRE. No, this is before that—when I was questioning last. I am not referring to this last question.

Admiral LYLE. Contract support services study report? Yes.

Senator PROXMIRE. I am wondering if on the basis of that report you would be able to make a finding or recommendation on the Douglas bill.

Admiral LYLE. This is a question that is within the purview of Secretary Ignatius. It is in his province, the matter of overall ADP utilization policy. It is beyond mine.

Senator PROXMIRE. I just have a couple more brief questions.

Admiral LYLE. That report that I spoke of, Mr. Chairman, deals only with contractor use of ADP. It would not embrace the total field. I just wanted to complete the record on that point.

#### PURCHASE SPECIFICATIONS

Senator PROXMIRE. I understood you to say that most military purchases are by specification.

Admiral LYLE. Most of ours, I said.

Senator PROXMIRE. Therefore, they are outside the advertised competitive bidding sphere.

Admiral LYLE. No; therefore they are within it. That is what I meant to convey.

Senator PROXMIRE. Obviously, when your specifications are very meticulous and precise, it may be that you only have one or two suppliers who can deliver the particular item to you. In other words, if there are standard-size typewriters and the Government wants one that is an inch broader, it might be pretty hard to find suppliers who can come in and make a competitive bid which is economical.

Admiral LYLE. I was speaking in the context of brand-name procurement. I said this was only for resale purposes. The general range was under specifications.

Senator PROXMIRE. Well, let's forget about that. I am thinking of the fact that so often when the Government procures things, they do have specifications. You see, some of us are concerned about the fact that advertised competitive bidding—I am not critical of your particular agency, but I think this is generally true—you probably have the best record, percentagewise, of any Defense agency—such a small percentage, 15, 16, 17, 12 percent, something like that, are advertised competitive bidding. One of the reasons for it is because they say that the Government has peculiar specific specifications and that these can only be met by one or two suppliers.

I am wondering if you can enlighten me at all on whether you or any other agency, to your knowledge, has any procedure to police this specification procedure, to make sure that it is needed, and not merely an additional method of making sure that you deal with one supplier.

Now, this question does not mean to imply there is any dishonesty on the part of the procurement officials. I am sure there is not. I

have had a lot of experience with them, and I know they are the highest type people. But it is true that it is easier to deal with a supplier you know, have had relationships with in the past, and more difficult to deal with new people. This seems to me to be an element in keeping the procurement costs higher than they otherwise might be.

Admiral LYLE. I would agree, sir.

Senator PROXMIRE. What method is there being used now in the Defense Department to police specifications and make sure they are necessary?

Admiral LYLE. Let me start off by saying it is basic Defense policy, as you probably know, sir, to maximize competition, and wherever possible to buy by formally advertised means. You have to justify any deviation from this.

Senator PROXMIRE. One way of justifying it would be to provide specifications which are so stringent that only one or two suppliers can meet them. Recognizing this as a policy, I am wondering, is there any method that you know of, by which the Defense Department or the GSA polices its procurement, to make sure whatever specifications that are provided are reasonable?

Admiral LYLE. No. Basically we are not primarily concerned with this—except where as a result of our procurement experience we would point out to the specifying authorities that this seems to be unnecessarily restrictive.

#### THIRTY-NINE PERCENT ADVERTISED COMPETITIVE BIDDING—DSA

Senator PROXMIRE. Good, that is what I had in mind—60 percent of your procurement is not advertised competitive bidding—39 percent is. It would seem to me, therefore, that there should be some procedure—might be some procedure—so that when the procurement officials say this is not subject to competitive bidding because of the nature of the specifications, that you can police it, determine whether it is reasonable or not.

Admiral LYLE. We would do this.

Senator PROXMIRE. You would do this?

Admiral LYLE. Yes.

Senator PROXMIRE. How?

Admiral LYLE. As I indicated, under our procurement experience, when we have found that the specification was unduly restrictive, we would go back to the specifying authority, the service that had technical cognizance over that item, and ask if it could be liberalized and broadened to permit better competition.

I want to go back to a basic point.

I think that you will find—we have talked in dollar terms up to now.

Senator PROXMIRE. I know there is a very good reason. If you are procuring missile systems, or these enormous procurements that have to be done, there are only a few companies in the world that are capable of doing this—maybe there is only one or two. Obviously that kind of procurement cannot be by advertised bid. But I am just trying to find out what procedures there are to make sure that we maximize that area of competitive bidding as much as possible. This is the only external discipline there is.

Admiral LYLE. One discipline we have besides the GAO, which is a very effective one, is that Defense has a formally organized procure-

ment review program—that as a regular process they go around and audit the procurement function at the major procurement offices to be sure that their procedures are sound in this respect.

There is also the matter of promoting the preparation of standard specifications, which is aimed at achieving what you are talking about, competitive procurement, formally advertised procurement, where you can refer to a specification rather than in restrictive terms to a product “similar” to that of a particular manufacturer, or to a performance specification.

*Formal advertising statistics—DSA*

(a) Formal advertising rate:

	Fiscal year 1964	Fiscal year 1965 (July- March)
Subject to competition.....	\$2, 677, 540, 000	\$2, 365, 542, 000
Formally advertised.....	1, 012, 298, 000	967, 918, 000
Rate.....percent..	37.8	40.9

(b) By regulation, DSA is precluded from formally advertising or including in the formal advertising rate the following-type procurements:

(1) Small purchases (under \$2,500) shall be accomplished by negotiation (ASPR, sec. 3-603.1). The dollar value of small purchases negotiated under 10 United States Code 2304(a) (3) were:

Fiscal year 1964.....	\$213, 798, 000
Fiscal year 1965 (July-March).....	166, 060, 000

(2) Oversea procurement (10 U.S.C. 2304(a)(6)) are similarly precluded from advertising by ASPR, sec. 3-206.2. Dollar value of such purchases were:

Fiscal year 1964.....	\$250, 280, 000
Fiscal year 1965 (July-March).....	219, 048, 000

(3) Set-asides: A substantial dollar amount of small business and labor surplus set-asides was awarded as a part of procurements that were solicited under formal advertising procedures, but were required to be reported as negotiated, in accordance with ASPR 1-706.2 and 1-804.4, under an appropriate negotiation authority. Due to this reporting requirement, the advertised rate was diminished by:

Fiscal year 1964.....	\$298, 411, 000
Fiscal year 1965 (July-March).....	254,453, 000

DSA SUPPORT TO CIVILIAN AGENCIES

Senator PROXMIRE. Is DSA actually providing any supply support to any civilian agencies now?

Admiral LYLE. Yes, sir.

Senator PROXMIRE. Which ones?

Admiral LYLE. We support NASA, FAA, in the electronics area primarily. We support the Coast Guard across the entire spectrum.

Senator PROXMIRE. By support you mean you provide—

Admiral LYLE. The source.

Senator PROXMIRE. You do the procurement.

Admiral LYLE. We buy for NASA, FAA, in the area of electronics. I do not mean to claim or imply that we are their sole support, but we have agreements and they do rely on us for many items in the electronics category.

We support Public Health Service, the Veterans' Administration in the medical area from time to time. We are supporting the Job Corps now pretty heavily in clothing, nondistinctive items of clothing, and in the food area, and in general supplies, in the opening of their youth centers.

I think that about covers it.

Senator PROXMIRE. Does this represent a substantial additional cost to DSA—this kind of service?

Admiral LYLE. I would think not. It is small, really, compared to our total operation.

Senator PROXMIRE. What is the date for completion of the study of medical and subsistence items to see if DSA should handle them for civilian agencies?

Admiral LYLE. We do not have a definite date on that. I would certainly think within 6 months we will have a final determination of those. I should have added to that earlier category that in the three commodity areas for which we have taken a decision principally to support them—the clothing and food and electronics—we will be supporting civil agencies across the board in those areas, as soon as we can formulate the necessary procedure in consultation with GSA and the civil agencies concerned.

#### FEDERAL SUPPLY SYSTEM

Senator PROXMIRE. How is the Federal supply system developing, whereby GSA does some things for Defense?

Admiral LYLE. As I indicated in the statement, we recently finalized the formal agreement between Defense and GSA that delineates the responsibilities of the Federal Supply Service versus DSA, in the construction of a complementary national system. That has been signed out. We now have a joint implementing group which will oversee the implementation. They are now engaged in drawing up a schedule to identify the classes that in their entirety will go to GSA, those in their entirety which should be managed by Defense, under the criteria set forth in the agreement, where complete classes can be so segregated and broken out and moved down into groups and families, and finally on an item-by-item basis.

The idea is to eliminate duplication as much as possible.

Senator PROXMIRE. Do you have any further questions, Senator Jordan?

#### AWARDED BY STATUTORY AUTHORITY

Senator JORDAN. I am looking at a table, Admiral, awards by statutory authority, July 1962 to June 1963, covering a 1-year period.

The formally advertised awards by statutory authority amounted during this period to \$3 billion \$677 million, but other authority, \$25 billion. This other authority includes a number of categories, but it seems that rather than the 39 percent or the 40 percent being formally advertised, that it has been a much higher percentage than that in years past.

Is that a correct statement?

Of course this is for the entire Department of Defense.

Admiral LYLE. I think it would probably be less than our percentage, because of the type of material that we have. We tend to be at

a higher level than the rest of the Department. We do not have weapons and equipment like that.

Senator JORDAN. This for the Department would include weapons, of course.

Admiral LYLE. Yes.

Senator JORDAN. Well, that is a reasonable explanation.

Your participation would be a very small, minute part of that.

Senator PROXMIRE. Admiral, I want to thank you very, very much. This has been most enlightening and helpful. I did not mean in my questioning to imply that I was particularly critical of your agency. I think this is a model for the Federal Government; I think you have done a magnificent job in the last few years especially. I think that you can give us a great deal more advice and assistance than we can possibly give you.

The subcommittee will stand in recess until tomorrow morning at 10 o'clock, when the witness will be Joseph Campbell, the Comptroller General of the United States.

We will meet in room 318, Old Senate Office Building.

(Whereupon, at 3:35 o'clock p.m., the subcommittee stood in recess until 10 o'clock a.m., Wednesday, April 28, 1965.)

# ECONOMIC IMPACT OF FEDERAL PROCUREMENT

WEDNESDAY, APRIL 28, 1965

CONGRESS OF THE UNITED STATES,  
SUBCOMMITTEE ON FEDERAL PROCUREMENT AND  
REGULATION OF THE JOINT ECONOMIC COMMITTEE,  
*Washington, D.C.*

The subcommittee met at 10:05 a.m., pursuant to recess, in room 318, Old Senate Office Building, Senator Paul H. Douglas, chairman of the subcommittee, presiding.

Present: Senators Douglas and Jordan; Representative Griffiths.

Also present: Ray Ward, economic consultant; James K. Knowles, executive director; and Hamilton D. Gewehr, administrative clerk.

Senator DOUGLAS. The committee will come to order.

I want to apologize for being 5 minutes late. I never have known the pressures to be as great on the Hill as they have been this week.

We have with us this morning the Honorable Joseph Campbell, Comptroller General of the United States, and members of his staff whom he may introduce if he wishes when he begins his statement.

For the record I want again to state that Mr. Campbell is one of the outstanding public servants of our time. His work in behalf of the taxpayers cannot be measured in terms of dollars or other benefits, though I think he has saved the taxpayers many hundreds of millions of dollars. I want to say that the country has been very fortunate to have Mr. Campbell for Comptroller General, as it was for 14 years before to have Lindsay Warren, who was a Member of the House of Representatives and then Comptroller General and who was a man of equal integrity and competence.

Before beginning your statement, Mr. Campbell, I have two short statements to make.

First, I am aware that one of your assistants, Mr. Stanley Warren, who rendered valuable assistance to this subcommittee on reports on the stock funds was untimely killed in line of duty overseas during the past year. Will you please furnish his family a copy of this record wherein public recognition is given to his valuable contribution to public service?

Secondly, through a misunderstanding of one of our suppliers, the improper impression was given yesterday that all the short-shelf items that we had on display were actually outdated and useless. Some were outdated and have been declared surplus. Others had not. All were short-lived items, however.

Mr. Campbell, your statement is quite short. You may read it in its entirety and then we will ask you a few questions. I will include my letter of April 7, 1965, to you at this point.

APRIL 7, 1965.

HON. JOSEPH CAMPBELL,  
*Comptroller General of the United States,  
General Accounting Office, Washington, D.C.*

DEAR MR. CAMPBELL: The Subcommittee on Federal Procurement and Regulation will held hearings on April 27, 28, and 29, 1965, as a continuation of the program of the former Subcommittee on Defense Procurement.

You are scheduled to testify, accompanied by such staff as you desire, on April 28, 1965, at 10 a.m., in room 318, Senate Office Building.

It will be helpful to the subcommittee if your testimony covers progress made in procurement and management of ADP equipment, standardization of military supply items, utilization of existing supply inventories, and the management of short-shelf-life items in the Federal establishment.

In addition to the above, your opinion will be valued as to any other prime areas requiring improvement.

It is noted that you have issued 201 reports during the past year which relate to subjects of interest to the subcommittee. The digests of these reports and the index thereto which you have furnished will be printed in the staff report we plan to issue before the hearings.

Faithfully yours,

PAUL H. DOUGLAS.

**STATEMENT OF HON. JOSEPH CAMPBELL, COMPTROLLER GENERAL OF THE UNITED STATES; ACCOMPANIED BY ROBERT KELLER, GENERAL COUNSEL; WILLIAM NEWMAN, DIRECTOR OF DEFENSE ACCOUNTING AND AUDITING DIVISION; HAROLD RUBIN, ASSOCIATE DIRECTOR OF DEFENSE ACCOUNTING AND AUDITING DIVISION; AND EDWARD J. MAHONEY, ASSOCIATE DIRECTOR OF THE ACCOUNTING AND AUDITING POLICY STAFF, GENERAL ACCOUNTING OFFICE**

Mr. CAMPBELL. Thank you very much, Mr. Chairman.

This morning I have with me our General Counsel, Mr. Robert F. Keller; Mr. William Newman, Director of our Defense Accounting and Auditing Division; Mr. Harold Rubin, Associate Director of that Division. All of these men have been involved in the preparation of my statement and in various other reports which have come to your committee.

We appear before you today at your request to discuss some of the more significant matters presented in our reports issued since last year's hearings. Since last appearing before this subcommittee, we have issued over 200 reports to the Congress relating to Department of Defense activities. Brief digests of most of these reports are contained in the background material prepared for your use by your staff. Also, your staff has been furnished copies of these reports.

Our reports this year again point out examples of the need for improved management in logistics operations in order to achieve significant cost savings. This is not to say that the military departments are not making progress toward the correction of many of the problems.

We are of the opinion that Department of Defense officials give careful consideration to the matters we bring to their attention. This is demonstrated by the fact that collections and other measurable realized or potential savings in defense operations attributable to action taken or planned on findings developed by the General Accounting Office totaled an estimated \$255 million during fiscal year 1964. We are reasonably certain that the potential savings in fiscal year 1965 will be substantially greater.

Yet, many of our reports still pointup weaknesses in the administration of activities similar to those discussed previously with this subcommittee. In our opinion, this can be attributed in large part to an apparent lack of sufficient awareness of individual responsibility for appropriate actions and indicates that constant attention must be

given to emphasizing this underlying and basic concept of efficient management.

In this statement we will discuss our findings with respect to (1) standardization, (2) failure to use available material, equipment, and facilities, (3) lease versus purchase of equipment, and (4) short-shelf-life items. These are areas of defense activities warranting immediate attention.

#### STANDARDIZATION

Defense officials estimate that the standardization program has cost approximately \$310 million since the enactment of the Defense Cataloging and Standardization Act of 1952, through fiscal year 1964. Almost \$35 million is being spent annually on the program. These amounts do not include the salaries and expenses of military personnel working in the standardization area.

Approximately 4 million active items are now in the military supply system, and it has been estimated that for each item eliminated from the supply system, a savings of about \$1,000 a year in supply management costs will be realized.

Last year when we discussed our initial report on lack of satisfactory progress under the defense standardization program, we stated that this program had not received the emphasis and central direction it required to achieve its objectives. During the past year, the Secretary of Defense established the Office of Technical Data and Standardization Policy under the Assistant Secretary of Defense (Installations and Logistics) to administer defensewide standardization efforts.

While this office will likely strengthen the administration of the standardization program through more centralized management, we believe that continued surveillance by the Secretary of Defense is necessary to assure that appropriate action is taken to preclude the recurrence of deficiencies such as we have identified in our reports.

We recently issued a second report to the Congress resulting from our continuing review of the standardization program. This report discloses that potential savings of over \$30 million in supply management costs were lost because of delays in processing the necessary paperwork to record completed standardization decisions so that future procurements of unneeded items could be avoided. As an example, we found that 12 item-reduction projects for motion picture cameras had been completed; however, in some cases, almost 4 years expired before the resulting decisions to eliminate the unneeded items were recorded and made known to inventory managers.

In commenting on our findings, the Assistant Secretary of Defense (Installations and Logistics) advised us that procedures have been revised to insure the timely recording of standardization decisions.

In another recent report to the Congress, we have identified an additional phase of the standardization program that warrants the attention of management officials. We have a limited review of new items that had entered the supply system after completion of item reduction studies. We examined 722 items and found that 350 were identical to or essentially the same as those that had been previously eliminated or those that had been retained as standard items. The failure to prevent reentry of items previously eliminated or the entry of duplicate standard items has resulted in the loss of potential annual

savings in supply management costs of about \$350,000. In view of the small number of items covered in our review, we feel that the total potential loss may be very substantial.

We believe this problem exists because proposed new items are not reviewed and analyzed by an organization with the technical capability to determine whether a standard item already in the supply system can serve the same purpose. The Department of Defense has advised us that a defense item entry control office has been established and new procedures have been issued for controlling the entry of new items.

Because of the large quantities involved, the potential savings available by standardizing on the most economical and equally serviceable items are significant even though the difference in cost between one item and another may only amount to a few cents.

Last year, I referred briefly to a review being conducted on variations in utility caps used by the military services. As shown in our subsequent report to the Congress the Army incurred unnecessary cost of about \$1.4 million through December 1963 for the development and procurement of a more expensive utility cap than that used by the Navy and Marine Corps. In addition, the Army will have incurred unnecessary procurement costs of about \$1.3 million through fiscal year 1965 because of the continued use of this cap.

The Army cap is made of polyester and rayon gabardine, and costs about \$1.08 each. The Navy and Marine caps are made of cotton sateen and cost \$0.67 and \$0.57, respectively. Furthermore, tests of the Army cap indicated that it had serious drawbacks, while the Navy and Marine Corps caps have proved acceptable through use. Nevertheless, the Defense Clothing and Textile Supply Center, despite its responsibility to control the introduction of new items into the supply system, procured material worth more than \$3 million to fill requirements for the more expensive utility cap which the Army insists on using.

Senator DOUGLAS. Mr. Campbell, do you have specimens of these three caps here?

Mr. CAMPBELL. We do not, Mr. Chairman. However, pictures of these caps are contained in our report to the Congress.

Based on our findings in this report we recommended that the Director, Defense Supply Agency, direct and control projects that involve two or more military services in order to achieve greater objectivity, attain maximum practical standardization, and prevent unnecessary introduction of items into the supply system, especially where there are other acceptable items available in the system.

In a recent report to the Congress, we disclosed that additional costs of almost \$650,000 were incurred in fiscal years 1962 through 1964 because the Army, Navy, and Marine Corps purchased raincoats with more costly back vents. The Army and Marine Corps raincoats were designed with a cantle piece, which is a triangular-shaped piece of cloth sewn on the rear vent. The Navy raincoat is designed with a slit vent but without the cantle piece.

The original purpose of the cantle piece was to provide a rider on horseback with additional protection from inclement weather since it spreads over the cantle or back part of the saddle when the vent opens. The Air Force has been satisfactorily using a closed back without slit vent or cantle piece. The use of a closed back would decrease the cost

of each Army raincoat by about 47 cents, each Marine Corps raincoat by about 51 cents, and each Navy raincoat by about 28 cents.

As a result of our bringing this matter to its attention, the Army has changed its design which eliminates a portion of the excess costs and will result in procurement savings of over \$200,000 during fiscal years 1965 through 1967. The Navy is currently conducting user tests of the closed back design.

However, the Marine Corps has decided to retain the cantle piece, in our opinion, without adequate justification. Additional savings of over \$700,000 could be achieved during fiscal years 1965 through 1967 if the Army, Marine Corps, and Navy would agree to use a more economical closed-back design.

We have recommended that the Director, Defense Supply Agency, establish a project to promptly evaluate the need for vents in military raincoats. We have been informed that such a project is now underway.

#### FAILURE TO UTILIZE AVAILABLE MATERIAL

We continue to find instances where the military services failed to use items available in long supply or excess to foreseeable needs, to avoid unnecessary procurement.

We have noted cases where the military services refuse to accept substitute items, insisting that the requisitioned items be purchased, and the Defense Supply Agency has been reluctant to bring this situation to the attention of higher authority because it believes that such action would antagonize the services and thereby create an undesirable supplier-customer relationship.

We recognize that this could be a management problem and that the acquisition of more costly preferred items may be warranted at times because of special purpose applications. However, we do not believe that public funds should be spent for new procurement when assets which can adequately perform the necessary functions are in an excess supply position and will otherwise be disposed of at a fraction of their original cost, particularly where the items are of a non-tactical nature.

Senator DOUGLAS. Mr. Campbell, isn't this true that virtually all of the items are of a nontactical nature? You are not dealing with munitions or combat material, you are dealing with supplies. Isn't that true?

Mr. CAMPBELL. That is true, Mr. Chairman.

Consequently, we feel that the refusal by the military services to accept the available items should be referred by the Defense Supply Agency to higher authority for resolution.

In a recent report to the Congress, we identified unnecessary past and anticipated future procurements totaling \$1.8 million for warehouse platform trailers caused by the failure to effectively distribute and use available assets. Trailers with 6,000-pound capacity were being procured and issued for purposes which could have been adequately served by 4,000-pound trailers which were being disposed of as excess to Defense Department needs. Our review showed that generally the quantity of 6,000-pound trailers which were required could have been met by an equal number of 4,000-pound trailers.

As a result of corrective action being taken by the Department of Defense after we brought this matter to their attention, future

planned procurement estimated at approximately \$215,000 can be avoided.

In another report to the Congress we disclosed that the Defense Supply Agency was buying a substantial number of 40- by 48-inch general-purpose pallets even though excess quantities of 48- by 60-inch pallets were available that could be cut down to the size of the general-purpose pallet with little expense, thereby avoiding procurement of the smaller pallet.

We estimate that by modifying the larger pallet to fill existing requirements for the smaller, a savings of \$1.5 million would result. Department of Defense advised us that the larger pallets are being modified and will be offered to the services at a reduced cost to avoid unnecessary procurements of the pallets.

In other reports to the Congress, we identified instances where disposal action was being initiated for items needed by other users in the supply system.

In one case, we found that the Army was disposing of various quantities of aircraft parts valued at about \$414,000 which they needed. When we brought this to their attention, disposal action was discontinued.

Also, we found that the Army was about to buy \$484,000 worth of radar test sets. When we pointed out that sufficient stock was in the supply system to satisfy their needs, the Army canceled the plans to buy new sets. We found that the Navy had over a million dollars worth of submarine spare parts stocked in Western Pacific supply depots while, at the same time, it was buying additional quantities of identical items. When we notified Navy of this fact, spare parts valued at over \$700,000 were returned to the United States to meet needs that otherwise would have been met by purchase of additional quantities.

#### LEASE VERSUS PURCHASE OF EQUIPMENT

Since we last appeared before this subcommittee, we have seen some additional benefits accrue to the Government in the form of economies resulting from the emphasis placed on purchasing rather than leasing of automatic data processing equipment. As a result of increased consideration given within the Government to purchasing ADP equipment, by June of this year over 45 percent of all computers used within the Government will have been purchased. However, there remains a very definite problem in regard to the purchase of automatic data processing equipment used by Government contractors.

Since last year we have submitted reports to the Congress disclosing that the cost of leasing the equipment used by certain Government contractors included in our limited examination will exceed the total cost of purchasing by about \$50 million over a 5-year period. For each year thereafter that the equipment may be used, the Government will incur additional costs of about \$40 million.

The Department of Defense has consistently taken the position that it would be impractical for it to purchase equipment and furnish it to contractors as Government-furnished equipment. The Department has advised us that it intends to avoid furnishing data processing equipment to contractors as Government-furnished equipment unless it is already Government owned and in an excess status. Contractors

also have opposed this approach and have generally discarded the possibility of purchase.

On March 2, 1965, the Bureau of the Budget released its report on its study of the management of automatic data processing in the Federal Government. It concluded that the establishment of a central management office, with authority and responsibility to make decisions on the procurement and utilization of ADP equipment, would not be desirable.

Included in the reasons expressed for this conclusion were that existing organizational arrangements were basically sound while a central organization would dilute responsibility of agency heads for the management of their organizations and would interfere with agency-contractor relationships unnecessarily.

We disagree with this conclusion. We believe that significant unnecessary costs will continue to be incurred until centralized management responsibility is established and appropriate authority provided to manage this important function from the standpoint of the overall interests of the Government.

We have found also that costs to the Government increase significantly when Defense contractors lease rather than purchase other equipment.

In a report issued to the Congress in October 1964, we disclosed that the leasing of some 1,600 motor vehicles by an Air Force contractor resulted in increased costs of about \$1,800,000 above what the Government would have paid, had it purchased these vehicles and furnished them to the contractor. These vehicles were being used in the assembly and checkout operations at missile launch sites.

As an example of these increased costs, we estimate that the cost of leasing a Ford sedan was over \$1,000 higher than the cost that would have been incurred if the Government had purchased the vehicle; the cost of leasing a Plymouth station wagon was over \$1,100 higher; and the cost of leasing a Chevrolet one-half-ton truck was \$1,140 higher.

The increased costs are attributable to the fact that rental charges are based on (1) purchase prices of the vehicles which are substantially higher than the purchase prices for comparable vehicles obtained through the General Services Administration and (2) on other costs, such as contractor's overhead and profits, which would not be incurred if the Government purchased the vehicles.

In addition, we found that the Air Force required the contractor to make available for use by Government personnel as many as 188 vehicles a day during the period covered by the review. Thus the leasing method provides a means of avoiding limitations established by the Congress over the numbers, types, cost, and utilization of vehicles to be obtained for use by Government personnel.

The Department of Defense recently informed us that it was in general agreement with our recommendation that the Government should purchase vehicles for contractor use under the circumstances described in our report.

#### SHORT-SHELF-LIFE ITEMS

Mr. Chairman, on the recommendation of your subcommittee in September 1964 and following discussions with your staff, we have examined into the supply management of paint and other short-shelf-

life items in the Department of Defense, the General Services Administration and, to a limited extent, other Federal agencies. Our selective review effort in this area disclosed that existing control procedures are inadequate and there is a need for closer supervision over the implementation of existing procedures. Our report was submitted to your subcommittee on April 2, 1965, and, pursuant to arrangements with your staff, copies of the report were furnished to the agencies involved. (See pp. 71, 80.)

In this report we bring out that, with respect to the transfer of paint and related products from the Defense Supply Agency to the General Services Administration and to the Department of the Navy, items costing approximately \$3.6 million were identified as (1) excess to requirements, (2) deteriorated and unfit for use, (3) not on the records but physically in the supply system, or (4) on the records but missing from stock.

In addition, prior to these transfers, the Defense Supply Agency reduced its inventory balances by \$2 million because stocks could not be located or were unfit for use.

We found evidence that these conditions were attributable basically to (1) the use of inaccurate data in computing requirements, (2) the failure to issue the oldest stocks first, (3) the failure to fill requisitions of items in short supply from excess stocks of substitutable material, (4) the failure to promptly return excess stocks to the supply system for reissue, and (5) the failure to terminate procurement actions when requirements for items have decreased.

For example, as of January 1965, the General Services Administration had 15,000 units of a certain paint kit valued at about \$400,000, in excess of current needs. This situation resulted from the use by the Air Force of inaccurate data in computing requirements. During 1959 and 1960, 25,300 of these kits were procured in excess of actual Air Force requirements. However, approximately 19,500 of these kits were still available years later and were transferred to the General Services Administration during the latter part of 1963.

Losses due to the failure to use older supplies first are illustrated by the existence of about 7,700 gallons of a certain type of paint which was declared unfit for use when Department of Defense stocks were transferred to the General Services Administration in October 1963. During the period ending June 1963, the military services were issued over 5,300 gallons of this paint manufactured after October 1962 even though more than 6,800 gallons of the same type of paint manufactured in September and October 1960 were on hand.

Our report also shows that, because of failure to use excess substitutable stocks, over 10,600 gallons of enamel paint were declared unfit for use when defense stocks were transferred to the General Services Administration.

We noted during March 1963 that the Department of Defense had about 12,400 5-gallon containers of this paint on hand with a shelf life of 2 years. The average annual usage was only about 4,000 containers. Therefore, it was likely that about 4,400 units, or 22,000 gallons, would be on hand beyond the expected shelf life. Nevertheless, the Department of Defense procured 20,800 gallons of this same paint in 1-gallon containers causing the paint in 5-gallon containers to become subject to total loss. (See p. 136.)

## ROTATION OF MEDICAL STOCKPILE

From our review of selected items in the civil defense medical stockpile, managed by the Public Health Service, it appears that deterioration losses might be reduced by transferring limited-life items to the Department of Defense and Veterans' Administration for current use.

For example, the Public Health Service estimates that during the next 3 years about \$8.2 million worth of potency-dated antibiotics will need replacement. We observed that the Veterans' Administration purchased \$600,000 worth of these antibiotics, while the Department of Defense purchased about \$3.1 million. Large quantities of these items were in the civil defense stockpile, and their issuance for current use by these agencies would enable replacement of the stockpile with fresh stock, thereby reducing deterioration losses which undoubtedly will otherwise occur.

Efforts of the Public Health Service to arrange such transfers to other agencies have been impeded, we believe, by the divided agency responsibilities and the reluctance to accept items that have been in storage for some time.

We have brought this matter to the attention of the Secretary of Health, Education, and Welfare, the Secretary of Defense, and the Administrator of Veterans' Affairs, suggesting that they review the feasibility of using limited-life items in the civil defense medical stockpile for current Government requirements and establishing programs for the systematic rotation of items that can be used in the current activities of other agencies. At the present time, we have not received the comments of the agencies. (See pp. 120-124.)

In a report to the Congress in March 1964 covering a review at several Air Force depots we disclosed that \$4 million worth of spare parts had been condemned and committed to disposal without any examination to determine their serviceability.

## AIR FORCE POLICY QUESTIONED

This happened mainly because of an unrealistic and inflexible policy of the Air Force Logistics Command that required that age-controlled items whose prescribed shelf lives had expired be automatically condemned without regard to their possible remaining usefulness.

At one location, for example, we found that they had condemned 990 valves valued at \$6.75 each or a total of \$6,682. Later the valves were processed for sale as scrap although, at that time, a requirement existed for 380 valves of this type. The scrap value of the condemned valves was estimated to be \$26. The component of the valve on which the shelf life was based was a rubber washer, priced in Air Force records at 24 cents. Our test showed that the washer could be replaced in a minimum of time at a fraction of the cost of a valve.

After we brought this matter to the attention of the Air Force, corrective action was taken in the form of revisions to existing regulations and directives. The Air Force estimates that the savings resulting from the retention in active inventories of age-controlled items which were previously subject to automatic condemnation and disposal may reach \$15 million by June 1965.

This concludes our statement, sir. We will be pleased to answer any questions.

Senator DOUGLAS. Thank you very much, Mr. Campbell. This is a characteristically admirable, concise, and specific statement of the concrete ways in which waste has existed and in which it could be corrected.

I will ask Senator Jordan if he has any questions.

Senator JORDAN. Thank you, Mr. Chairman.

I want to commend Mr. Campbell for a very forthright statement.

#### SCOPE OF GAO REVIEW

The first question that comes to my mind is this: What percent of the items in Government stockpiles do you cover in your review? I know you are limited to a number of items that you can inspect, but what percentage would you say you cover?

Mr. CAMPBELL. It would be probably as little as 1 percent.

Senator JORDAN. Then we might expect that the difficulty that you find and the waste and extravagance you find could be multiplied at least by a hundred if you had the time and the manpower to go over the whole inventories of stock items.

Mr. CAMPBELL. That would be possible.

We mention these items, Senator, some of which may seem very small in amount because, as you say, when multiplied by thousands, in the aggregate they come to a very, very substantial sum.

#### PROCUREMENT AND MANAGEMENT OF ADPE

Senator JORDAN. You mention the recommendation you made for the establishment of a central management office with authority and responsibility to make decisions on the procurement and utilization of ADP equipment. The administration is not apparently willing to follow your recommendation. I think you made a good sound case for that kind of central management office. I do hope that the administration will reconsider its attitude.

You point out very aptly that substantial waste has taken place in this area.

I was interested in your comment on car leasing as against car buying. I know from experience that the rates that people in the business charge for leasing automobiles has to be substantial. They intend to write them off in the first 18 months or so, the total purchase price. If used beyond that period rather than a very short time, it certainly would seem that the recommendation to buy this transportation is very much in order.

Now yesterday we talked some about these short-shelf-life items with the witnesses from the Department of Defense.

#### INVENTORYING OF ITEMS

I can understand the deterioration that takes place in this type of merchandise when it is stored, but I can't understand the disappearance of these items. You mentioned in your report here today that some items can't be accounted for. Would you suspect that there is theft or pilfering going on or would you be more inclined to think there is a foulup in the recordkeeping?

Mr. CAMPBELL. Our impression is that the pilferage is not too serious—undoubtedly there is some; I think it is more a matter of careless or poor recording.

Mr. NEWMAN. In this area I believe there are certain practices that we normally find in a business concern, that of taking inventories periodically. In many cases when the warehouses in the different services have to keep under their personnel ceilings, it seems the last thing they do is to take an inventory.

#### INADEQUATE RECORDS

Basically in business today, that is large and small companies, in order to issue a financial statement to its stockholders, public accountants come in, inventories are taken under their observation. This does not exist in the services and in many cases in order to get the daily job done they have sacrificed the taking of cycle or annual inventories. As a result, there are many item transactions that don't get on the warehouse records so they are lost. Also, the inventories deteriorate, no one makes mandatory periodic inspections to see that the items are up to par for issuance.

It is in this area that we have to put some emphasis, on the type of short-shelf items we are talking about.

Senator JORDAN. You mentioned, too, Mr. Campbell, that in one instance a lapse of some 4 years occurred between your recommendation and the implementation of your recommendation. This, it seems to me, could result in disasters if we can't get faster action.

Mr. CAMPBELL. Senator Jordan, our followup, now is somewhat more prompt than has been possible for us in the past. I think that we are going to press on a more current basis for the Department to make these corrections.

#### ADPE SERIOUS PROBLEM

I would like to go back for a moment to the matter in which Chairman Douglas has been very much interested. That is ADP. I don't want you to feel that because I have spent so little time in my statement on this problem that we don't feel very strongly about it.

Senator JORDAN. That is one where the big dollars are.

Mr. CAMPBELL. It is a very serious problem. (See p. 207.)

Senator JORDAN. A big sum.

#### DISAGREEMENT WITH BOB AND OTHER AGENCIES

Mr. CAMPBELL. We are in complete disagreement with the Bureau of the Budget and with other agencies in this matter of control of the ADP situation.

Senator JORDAN. I hope you continue to press your point. I agree with you.

Mr. CAMPBELL. I think it is coming regardless, but I would like to see it come sooner. But they will come to it because this is such an enormous development that there is no way to estimate what it will cost the Government in the next 4 or 5 years.

#### STOCKPILING OF MEDICAL ITEMS

Senator JORDAN. Now there is a smaller item, but one of concern to me, that is the stockpiling of medical supplies for Civil Defense. We all know that those stockpile items will deteriorate on the shelves if we can't get some kind of rotation system where in 6 months or a reasonable time some items are removed from Civil Defense and put in use in veterans hospitals or where they are buying similar items currently.

Obviously there will be a waste when the useful life of these items has expired and the quality is questionable, then they will go into the garbage can. I hope you can work that out. You have made an important suggestion in your system of rotation so that we can keep fresh supplies at all points of use.

Mr. CAMPBELL. You will find in the matter of handling food, for example, if you visit some of these sites where large quantities of food have to be available, that the rotation system seems to be moving smoothly. The average man on the job is more aware of the possibility of food going bad. But this matter of drugs is something else; they require a more technical understanding. From what I've seen of the food program I think the rotation is really remarkable.

Senator JORDAN. You keep harping on the medical supply, the drug end of it. We need the same kind of attention paid to that as has apparently taken place with respect to foodstores.

Mr. CAMPBELL. Yes, sir.

Senator JORDAN. Thank you.

Thank you, Mr. Chairman.

Senator DOUGLAS. I want to thank the Senator from Idaho for his characteristically constructive questions which go right to the point.

I would like to start at the back part of your statement, Mr. Campbell and work forward, if I may.

Do I understand that you have samples of these valves which were condemned as being unfit?

Mr. RUBIN. Yes, sir.

Senator DOUGLAS. I wonder if they could be produced?

Mr. RUBIN. Yes, sir.

Senator DOUGLAS. The only trouble with them is this rubber washer?

Mr. RUBIN. That is right.

Senator DOUGLAS. And the valve cost \$6.75?

Mr. RUBIN. Yes, sir.

Senator DOUGLAS. The rubber washer cost—

Mr. RUBIN. 24 cents. You can lift the washer. The washer comes right off.

Senator DOUGLAS. So they threw 990 away because a 24-cent item was overage?

Mr. RUBIN. Yes, sir.

Senator DOUGLAS. Are the representatives of the Department of Defense here?

Commander DURKIN. Yes, sir.

Senator DOUGLAS. Your name, please?

Commander DURKIN. Commander Michael F. Durkin, Office of the Secretary of Defense, Legislative Affairs.

Senator DOUGLAS. Do you know of this?

Commander DURKIN. Not that specific one, Mr. Chairman.

Senator DOUGLAS. I would like to ask the representative of the Department of Defense if he would go into this matter and make a report to the committee with a copy to the Comptroller.

Commander DURKIN. Yes, sir.

(The following was subsequently supplied:)

#### DOD STATEMENT ON GAO REPORT

1. Title: "Wasteful Practices in the Management of Age-Controlled Aeronautical Spare Parts," B-146865, March 10, 1964 (OSD Case No. 1795).

2. GAO finding: The Air Force had condemned and committed to disposal age-controlled spare parts without any examination to determine their suit-

ability. After the GAO's findings were brought to the attention of Air Force, corrective action was begun. The Navy, based on information furnished by the Department of Defense, also follows the practice of committing to disposal, upon expiration of shelf life, those parts categorized as "consumable" items.

3. GAO estimate of unnecessary costs: \$4.8 million.
4. Time period of GAO report: July 1961 to June 1963.
5. DOD comments on GAO finding: None.
6. DOD comments on costs: No exceptions were taken to the GAO alleged unnecessary costs incurred.

7. DOD corrective action: Actions taken by Headquarters, AFLC, prior to and subsequent to the GAO review should result in rapid correction of the deficiencies cited by GAO. Significant Air Force actions taken include (1) a symposium attended by personnel of all air materiel areas, (2) regulations were revised providing new policy and guidance, (3) technical orders were changed, (4) each air materiel area has established monitors to maintain a review of the age-controlled program and (5) AFLC plans to make regular visits to air materiel areas to review progress. Since the GAO draft report, the Navy has made a review of its age-controlled aeronautical items. Of the 7,600 categorized as consumable, 800 have been singled out as assemblies and will be subject to repair. The remaining 6,800 items are low-cost items, such as individual parts, which are not considered economically repairable.<sup>1</sup>

Senator DOUGLAS. As the Senator from Idaho suggested, this is only one sample. This may have been occurring elsewhere.

Mr. RUBIN. We have another sample.

Senator DOUGLAS. You have another sample from another place?

Mr. RUBIN. Yes, sir.

Senator DOUGLAS. Is this in the 990?

Mr. RUBIN. No, sir; this is another item.

Senator DOUGLAS. What was thrown away here? The whole item was thrown away? What part was defective?

Mr. RUBIN. There is a little rubber ring.

Senator DOUGLAS. Could you tell me what the part as a whole cost?

Mr. NEWMAN. The draincock was \$9.

Senator DOUGLAS. And this rubber ring would cost how much?

Mr. RUBIN. A few cents.

Senator DOUGLAS. Do you know how many of these were discarded?

Mr. RUBIN. I believe in this case they were not thrown away. They were condemned and restocked for practice in this particular case.

Mr. NEWMAN. 630 were condemned.

Senator DOUGLAS. Had they been scrapped or did you stop them?

Mr. RUBIN. As I recall this case, they were stopped before they were scrapped.

Senator DOUGLAS. I will say in my judgment the top brass in the Department of Defense is doing everything they can in these matters. I don't know whether Mr. Campbell will agree with me, but in general he agrees. But it is a huge organization, and it is very hard to correct every instance, and these individual illustrations are very good and they should cure some of the cockiness which the lower echelons in the Department of Defense at times display, a feeling that they are infallible and they should not be criticized. Certainly not by civilian authority.

What you are saying is very valuable.

Mr. CAMPBELL. As I have said, we are receiving the greatest of consideration from the top authorities in the Defense Department. As you say, this is an enormous organization and it takes a long time for even those at relatively high levels to become aware of the problems.

<sup>1</sup> See staff report, 1965, p. 122, for synopsis of GAO Report B-146856, Mar. 10, 1964.

Mr. RUBIN. Mr. Chairman, these two items we have shown you are covered on page 9 of our report to Congress in March 1964. They are described in detail there. It is B-146865.

Senator DOUGLAS. If the representatives of the Department will take notice of that.

#### ROTATION OF MEDICAL STOCKPILE ITEMS

Now on this matter that the Senator from Idaho very properly called attention to: namely, the fact that the medical items given to the Department of Civil Defense I suppose are to be used in case of a nuclear attack, and which age rather quickly, and which are kept there because nuclear attack fortunately does not occur, I think your suggestion that before their lifespan is over they be transferred either to the military or to the Veterans' Administration, or to both, would involve, would it not, each item having pasted upon it the date of purchase and the date of expiration of potency?

Mr. CAMPBELL. Probably so.

Senator DOUGLAS. It would carry with it, would it not, a provision for X number of months before its potency was exhausted that it be transferred and used currently?

Mr. CAMPBELL. Yes, sir.

Senator DOUGLAS. This would require periodic inspection of the warehouse and classification of the material on the basis of when the time expired, would it not?

Mr. CAMPBELL. Yes.

Senator DOUGLAS. It would put up a warning signal?

Mr. CAMPBELL. Yes, sir.

Senator DOUGLAS. Now you say you have had trouble in getting this done?

Mr. CAMPBELL. Yes. The agency now has our draft report in this matter. We haven't had their comments returned to us so we do not know whether they will agree with us that it is possible to monitor this kind of supply.

Senator DOUGLAS. I wonder if we could have a report from the Department of Defense and from the Veterans' Administration.

(The Department of Defense later supplied the following statement:) (See also p. 115.)

#### DOD STATEMENT ON GAO REPORT

1. Title: "Opportunities for Reducing Costs by Using Limited Life and Excess Items in Civil Defense Medical Stockpile for Current Government Requirements" (OSD Case No. 2265).

2. GAO finding: Opportunities exist for cost reductions by transferring items acquired for the civil defense medical stockpile that have a limited life or are in excess of stockpile requirements to DOD and VA for current use in medical care programs of these agencies. Also, new procurements for medical care programs could be reduced if transfers could be made to these programs of usable items in the stockpile that are in excess of stockpile requirements.

3. GAO estimate of unnecessary costs: During fiscal year 1963, Defense Medical Supply Center contracted for 18 items at a total cost of about \$725,000, and Veterans' Administration purchased 16 items at a total cost of about \$2.4 million. of the same types that were in the stockpile in quantities substantially in excess of established requirements.

4. Time period of GAO report: Latter part of fiscal year 1962, and fiscal year 1963.

5. DOD comments on GAO finding: A review of the seven items reported by the GAO as excess to the stockpile in December 1962 disclosed that substantial

quantities of these items are carried by DMSC in mobilization reserve stocks and require rotation as do those in the PHS stockpile. It is the policy of the Defense Medical Supply Center to utilize PHS stockpile items where their availability is made known, the condition and quality of the materiel are satisfactory, and PHS is in a position to accept funded requisitions. PHS officials have indicated an unwillingness to accept funded requisitions from DMSC, preferring instead to effect the transfer on a stock exchange basis. Discussions are continuing in an effort to resolve the funding aspects.

6. DOD comments on costs: No comment.

7. DOD corrective action: The DOD has entered into two agreements with PHS. One agreement provides that DMSC will obtain its requirements of gamma globulin from the PHS stockpile. The second agreement, dated March 1965, revises an earlier agreement whereby DMSC provides medical materiel through purchase or from stocks to PHS. This latter agreement also provides that DMSC will assist in the utilization of PHS stockpile materiel on an item-by-item basis as requested when such action is in the best interest of the Government and would not jeopardize the DOD support mission, or detract from the high quality of the DOD medical care program.

Mr. CAMPBELL. Our draft went up in the latter part of February.

Senator DOUGLAS. Of this year?

Mr. CAMPBELL. Of this year.

Senator DOUGLAS. I wonder if we could have a reply in the not too distant future and also a letter from the Public Health Service of HEW, on this. I wonder if Mr. Ward would notify the agencies not present; namely, the Veterans' Administration and HEW. Defense does know about it. We appreciate Defense coming here this morning, too.

(Letter of Senator Douglas, May 3, 1965, to Veterans' Administration and response follows; also responses from DOD and HEW to similar letters from Senator Douglas:)

MAY 3, 1965.

Hon. WILLIAM J. DRIVER,  
*Administrator, Veterans' Administration,*  
*Washington, D.C.*

DEAR MR. DRIVER: At hearings of the Subcommittee on Federal Procurement and Regulation, held April 28, 1965, the Comptroller General of the United States testified at some length concerning the need for better management of short shelf life (perishable) items in order to prevent the excessive losses we have had in the past.

Mr. Campbell stated that a draft report dealing with medical supplies and the need for rotation of stocks, etc., had been forwarded to your Administration for comment.

We should like a reply on this subject, by May 7, for inclusion in the printed hearings.

Faithfully yours,

PAUL H. DOUGLAS.

MAY 6, 1965.

Hon. PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Federal Procurement and Regulation,*  
*U.S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: This has reference to your letter of May 3, 1965, in which you requested our comments to the General Accounting Office draft report concerning the management of short shelf life medical supplies.

I am enclosing a copy of our letter to Mr. L. H. Drennan, Jr., of the General Accounting Office, which presents our views on the draft report. If I can provide further assistance to you on this subject, please let me know.

Sincerely,

A. H. MONK,  
*Associate Deputy Administrator*  
(For and in the absence of  
W. J. Driver, Administrator).

MAY 4, 1965.

Mr. LORIN H. DRENNAN, Jr.,  
*Assistant Director, Civil Accounting and Auditing Division,*  
*U.S. General Accounting Office,*  
*Washington, D.C.*

DEAR MR. DRENNAN: We have reviewed the draft of your proposed report concerning the use of the civil defense medical stockpile and concur with your recommendation that (a) the Department of Health, Education, and Welfare, the Department of Defense, and the Veterans' Administration review the feasibility of using current excess and limited life items from the stockpile; and (b) that action be taken to establish programs for the systematic rotation and transfer from the stockpile of those items which can be used in the medical programs of the respective agencies.

Your report acknowledges that Veterans' Administration had exchanged penicillin G tablets with stockpile tablets having an earlier expiration date. In addition, we have recently agreed to procure a number of class 2 and 3 items from the stockpile. Acquisition of other excess items, however, was not advisable because of short expiration dates and differences in dosage forms. For example, two of the items mentioned in your report—namely, oxytetracycline and tetracycline—are available in the civil defense stockpile only in tablet form. The capsule form of these antibiotics is commonly used in our medical program and it has been professionally determined that the interchange of these dosage forms would not be desirable.

We feel that increased coordination between the concerned agencies could result in establishing within the stockpile many items comparable with those used in active medical programs. This would permit the rotation and transfer of common use items on a planned basis and reduce possible loss to the Government because of obsolescence or deterioration.

My staff is available for any further discussion or followup action you feel is necessary. Enclosed are the draft copies of your report.

Sincerely,

(S) A. H. MONK,

*Associate Deputy Administrator*

(For and in the absence of Cyril F. Brickfield, Deputy Administrator).

---

ASSISTANT SECRETARY OF DEFENSE,

*Washington, D.C., May 8, 1965.*

HON. PAUL H. DOUGLAS,

*Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, Congress of the United States.*

DEAR MR. CHAIRMAN: This is in response to your letter of May 3, 1965, requesting comment on a General Accounting Office (GAO) report dealing with medical supplies, and the management of short shelf life items in order to prevent excessive losses.

The GAO draft report (OSD Case No. 2265) is entitled "Opportunities for Reducing Costs by Using Limited-Life and Excess Items in Civil Defense Medical Stockpile for Current Government Requirements." The draft report states that opportunities exist for cost reductions by transferring items acquired for the civil defense medical stockpile that have a limited life or are in excess of stockpile requirements to the Department of Defense (DOD) and the Veterans' Administration (VA) for current use in medical care programs of these agencies. Also, that new procurements for medical care programs could be reduced if transfers could be made to these programs of usable items in the stockpile that are in excess of stockpile requirements. According to the draft report, Public Health Service (PHS) attempts to arrange transfers to DOD and VA have had only limited success and further efforts in this regard are needed. According to the draft report, new procurements were made by the Defense Medical Service Center (DMSC) and VA for items which were also in the civil defense medical stockpile in excess quantities. The GAO recommendation is that the Secretary, Health, Education, and Welfare (HEW) in cooperation with the Secretary of Defense and the Administrator of Veterans' Affairs, review the feasibility of using for current Government requirements excess items and limited-life items acquired or to be acquired for civil defense medical stockpile and, on the basis of this review, take action to establish programs for the systematic rotation and transfer from the stockpile of those items that can be used in the programs of other agencies.

During 1964, PHS forwarded to DMSC lists containing about 66 items with releasable quantities. At that time, a review of these lists disclosed approximately 36 items which could be used to meet peacetime and/or mobilization reserve requirements. The other items were either non-standard, obsolete or no requirement existed. One of the above-mentioned lists submitted in July 1964 contains 61 items reported as excess to the needs of the civil defense medical stockpile. Inspection was begun to determine the items that could be utilized but was subsequently discontinued when PRS officials indicated an unwillingness to accept funded requisitions from DMSC preferring instead to effect the transfer on a stock exchange basis. DMSC and PHS are continuing their discussions in an effort to resolve the funding aspects so that the items and quantities available from the PHS stockpile may be utilized within DOD. Of the above items inspected, however, significant deficiencies of varying degrees were found, such as shelf life was about to expire, some materiel was at least 10 years old, field dressings were not camouflaged, and some original intermediate packages had been removed and replaced with materiel from other than original lots. DMSC is prepared to submit funded requisitions to PHS for acceptable items, or to accept transfer of these items as excess or to rotate them on an identical item and quantity basis.

It is DMSC policy to utilize PHS stockpile items where their availability is made known, the condition and quality of the materiel are satisfactory, and PHS is in a position to accept funded requisitions. In this connection, two agreements have been entered into with PHS. One agreement dated in November 1964 provides that DMSC will obtain its requirements of gamma globulin from the PHS stockpile. The second agreement, dated March 1965, revises an earlier agreement whereby DMSC provides medical materiel through purchase or from stocks to PHS. This latter agreement also provides that DMSC will assist in the utilization of PHS stockpile materiel on an item-by-item basis as requested when such action is in the best interest of the Government and would not jeopardize the DOD support mission, or detract from the high quality of the DOD medical care program.

With respect to the recommendation in the draft report to establish a program to maximize utilization of PHS limited-life items, the Department of Defense is of the opinion that such a program is in existence.

In regard to the broad subject of the management of short shelf life items, the Department of Defense jointly with the General Services Administration have recently completed a study which was recommended in September 1964 by the Joint Economic Committee. This study has been sent to the military departments and the Defense Supply Agency for comment. Upon receipt and evaluation of these comments, the military departments and DSA will be directed to implement procedures development to assure optimum utilization of such items.

Sincerely,

PAUL R. IGNATIUS,  
*Assistant Secretary of Defense*  
*(Installations and Logistics).*

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE,  
 Washington, D.C., May 13, 1965.

HON. PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Federal Procurement and Regulations,*  
*Joint Economic Committee, U.S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: Your letter of May 3, 1965, requested information on action taken by the Department on the draft report of the Comptroller General concerning rotation of medical supplies in the defense stockpile.

In the draft report General Accounting Office states that its review indicated that opportunities exist for cost reductions, without impairing civil defense medical stockpile objectives, by transferring items acquired for the stockpile that have a limited life or are in excess of stockpile requirements to the Department of Defense and the Veterans' Administration for current use in the medical care programs of these agencies. The General Accounting Office recommended that the Secretary, Department of Health, Education, and Welfare in cooperation with the Department of Defense and the Veterans' Administration take full advantage of the rotation program and transfer from the stockpile those items that can be used in the programs of other agencies.

In our reply to the General Accounting Office on the draft report we indicate our concurrence with the recommendation. The following examples represent

some steps taken in an effort to accomplish this objective. The Public Health Service has attempted to rotate limited shelf life items with other agencies. We have established rotation contracts with industry insofar as this has been practicable. Recently, we completed a rotation agreement with the Department of Defense to cover gamma globulin.

We will continue to work with the Department of Defense and the Veterans' Administration in order to take the fullest advantage of a rotation program.

Sincerely,

ANTHONY J. CELEBREZZE, *Secretary.*

#### MANAGEMENT OF PAINT AND HANDTOOLS

Senator DOUGLAS. Now to come back to the subject of paint, due to the very efficient work of Mr. Ward who is sitting beside me, and who is our expert, we found pressure against transfer of management of paint from the military services to General Services Administration. An agreement to that effect was worked out.

Have you been able to tell whether this agreement has been carried out in practice?

Mr. RUBIN. Yes, the transfer has been made to a great extent.

Senator DOUGLAS. Made on paper, but has this transfer actually occurred?

Mr. RUBIN. A substantial amount has been transferred.

Senator DOUGLAS. Now I have heard rumors by the grapevine that opposition to this transfer is nevertheless still strong and that final and effective transfer may not be carried out. Do you have any statement to make on that?

Mr. RUBIN. We have no information in that regard. We do know there has been a transfer to some degree. It is still in progress.

Senator DOUGLAS. Will you ride herd on this question and see that the actual transfer does occur?

Mr. RUBIN. Yes.

Senator DOUGLAS. Do you think in general it is a good thing?

Mr. RUBIN. Yes, we do.

Senator DOUGLAS. What about handtools?

Mr. RUBIN. We haven't made the same type of survey on handtools that we made in connection with paint. We do know again that there has been a transfer to some degree, but we are not quite as current on that position.

Senator DOUGLAS. Will you look into that and see how real the transfer has been?

Mr. RUBIN. Yes, sir.

Senator DOUGLAS. Because you know it is a favorite device of Washington bureaucrats to give verbal approval to a protest and then to sabotage it in operation. This is one reason why I am very glad the General Accounting Office is under the direction of Congress rather than under the control of the executive department, which was I think very improperly suggested by the Hoover Commission some 18 years ago.

Mr. CAMPBELL. There wouldn't be any General Accounting Office.

Senator DOUGLAS. You would be a rubberstamp for the executive departments.

Mr. CAMPBELL. If we existed at all.

Senator DOUGLAS. I think on this point the members of the continuing Hoover Commission should admit that they were wrong. This

is very hard to get from the Hoover Commission because they tend to regard themselves as being as infallible as the bureaucracy does.

I want to say that the work of the two Comptrollers General has helped.

#### PURCHASE VERSUS LEASING OF AUTOMOBILES

Now let us come back to this leasing of automobiles question.

You have recommended purchase of the automobiles rather than leasing.

Mr. CAMPBELL. It appears to be the practical thing to do.

Senator DOUGLAS. And purchase for use by contractors rather than allowing them to lease and charge?

Mr. CAMPBELL. Yes, sir. I might qualify that, Mr. Chairman. In the case which we have looked into, we feel there should have been purchase. It may be in some cases the lease arrangement is better.

Senator DOUGLAS. You say that the leasing cost of a Ford sedan is a thousand dollars higher than the purchase cost would have been? In the case of a Plymouth, \$1,100 higher. Chevrolet pickup truck, \$1,140 higher. Did this primarily prevail in the Air Force, this practice of leasing, or does it run all through the Department of Defense?

Mr. CAMPBELL. We just covered one contractor which happened to be an Air Force contractor.

Senator DOUGLAS. I think this would be worth further probing to make a few more investigations and find out how widespread the practice is, if your staff can take it.

Mr. CAMPBELL. We can do that. Obviously it is a snare and delusion because it is very convenient to lease any kind of equipment as against buying it.

Senator DOUGLAS. Now I notice that the Department of Defense has written you saying that they are in agreement with your general recommendation.

Mr. CAMPBELL. That is correct.

Senator DOUGLAS. I wondered if after a decent interval of time you would be willing to report the degree to which this program is being carried out?

Mr. CAMPBELL. We will, sir.

Senator DOUGLAS. Now this raises a cognate question.

I have been deluged with mail and probably the Senator from Idaho has been deluged with mail from rural carriers, post office carriers. Apparently they have been furnishing their own cars largely for the delivery of mail and have received a mileage charge for it. The Post Office Department is now proposing to furnish cars. I must admit I can't remember whether the cars are to be paid for by the Post Office Department on a leasing basis or by outright purchase.

The Post Office Department claims that there are savings to be made.

Have you been able to go into this question at all?

Mr. CAMPBELL. I believe we have done something in that area, Mr. Chairman.

Senator DOUGLAS. I wonder if you could inform us of the comparative cost?

Mr. CAMPBELL. Yes, sir.

Senator DOUGLAS. I am not quite certain what the precise mileage charges are that the rural carriers receive, whether it is 12 cents a mile or 10 cents a mile. I wonder if you could include some estimates of

this because this is obviously buoying up a political issue of real magnitude. Have you received such letters, Senators?

Senator JORDAN. Yes, I have.

Senator DOUGLAS. I think I have received 500 from all the rural carriers in the State.

#### PURCHASE VERSUS RENTAL OF ADPE

Now on this automatic data purchasing question, we have tried when practicable to support you in your recommendation for purchase rather than leasing because we became convinced by your studies that it was often cheaper to purchase than to lease. I am glad there has been an increase in purchase, but as your report indicated, only about 45 percent of the Government-used computers have been purchased rather than leased.

Mr. CAMPBELL. Yes, sir.

Senator DOUGLAS. We make estimates that a billion dollars a year cost—approximately—either is or will shortly be paid for the use of computers by the Government. What is your estimate as to the savings, percentage savings per computer effected by purchase rather than by lease?

Mr. CAMPBELL. Mr. Mahoney is our expert in this field.

Senator DOUGLAS. He has done very valuable work. Mr. Mahoney, I want to congratulate you.

Mr. MAHONEY. For the record, I am Edward J. Mahoney, Associate Director of the Accounting and Auditing Policy Staff, General Accounting Office.

Mr. Chairman, we have made some very detailed lease studies by individual months. Quite often in these individual cases over a period of 5 years the payoff would be about 100 percent of the purchase price.

Senator DOUGLAS. You mean it has doubled the cost over 5 years of leasing rather than purchasing?

Mr. MAHONEY. In many cases, yes.

Senator DOUGLAS. And that you, therefore, could cut the cost in half by a policy of purchase over 5 years?

Mr. MAHONEY. For many of the major components.

Senator DOUGLAS. Approximately?

Mr. MAHONEY. Right.

Senator DOUGLAS. That means if you are now spending a billion dollars a year that the same work could be done under purchase price by \$500 million, approximately?

Mr. MAHONEY. Yes; we have not gone quite that far, Mr. Chairman.

Senator DOUGLAS. I know, but I like to deal in rough figures, there is approximately \$500 million a year, that 45 percent, has now been switched to purchase, so they are saving \$225 million, but there is \$275 million yet to be saved.

Mr. MAHONEY. We certainly think it runs into hundreds of millions annually.

Senator DOUGLAS. Let me paraphrase the common remark by saying that I think, "There is gold in them thar hills."

Mr. CAMPBELL. Mr. Chairman, may I interrupt?

Senator DOUGLAS. Yes.

## SCOPE OF ADPE COSTS

Mr. CAMPBELL. You use this figure of a billion dollars a year. I hope you understand that this will be much larger than that in a few years. This is an increasing figure.

Mr. MAHONEY. Actually, Mr. Chairman, the billion dollars we talk about is in-house Government expenditures. This is not including contractors.

Senator DOUGLAS. It does not include contractors?

Mr. MAHONEY. No.

Senator DOUGLAS. That is merely direct payments?

Mr. MAHONEY. We are talking of expenditures of over \$3 billion annually in the ADP area.

Senator DOUGLAS. Let us start simply on Government-operated computers.

Mr. MAHONEY. Yes.

Senator DOUGLAS. The potential saving there of \$275 million a year over and above the savings now effected by 45 percent purchase policy.

Mr. MAHONEY. We feel this is a combination of purchase and full utilization of the equipment.

Senator DOUGLAS. Yes; we will come to full utilization in a moment.

Now, let us take up the use of computers by Government contractors. You say this results in a further cost of \$2 billion a year.

Mr. MAHONEY. Well, if this is broken down again, by \$1 billion in Government contractors, another billion dollars in military operational uses.

Senator DOUGLAS. Is the \$1 billion in military use included in the first billion dollars or was that simply for civilian use of computers?

Mr. MAHONEY. If we start with \$3 billion, roughly \$1 billion in-house commercial-type and engineering-type uses in the Government for all agencies, excluding certain intelligence-type activities, military operation uses. Now over in that area we are talking about another billion dollars roughly. Now this includes personnel as well as the equipment.

Then the third area is the contractor area, roughly another billion dollars.

So our estimates of savings, when we talk in terms of saving hundreds of millions of dollars annually, you have to recognize that of course a lot of this money involved is for personnel and so on.

Senator DOUGLAS. Let us take the billion dollars spent by contractors on computers on an annual basis. The Government pays for this; does it not?

Mr. MAHONEY. Yes.

## GOVERNMENT FURNISHED ADPE TO CONTRACTORS

Senator DOUGLAS. We had testimony yesterday that in certain branches of the supply system that the Government furnished from 35 to 40 percent of the component parts. Why could not the Government furnish computers to the contractors?

Mr. MAHONEY. This is certainly our position. We are in full agreement that it should be furnished in many cases.

Senator DOUGLAS. Do contractors in the main pay for the computers or do they lease them?

Mr. MAHONEY. These are almost always 100 percent leased.

Senator DOUGLAS. So there is the potential savings of \$500 million a year here?

Mr. CAMPBELL. There would be no advantage to the contractors themselves to purchase because from an income tax viewpoint and other factors the leasing is by far the most convenient thing for them to do.

Senator DOUGLAS. I wish you would explain this tax situation a little bit.

Mr. CAMPBELL. The rental is fully deductible whereas the machine itself would be written off over a period of many years.

Senator DOUGLAS. Whereas the rent is deductible from the current gross income?

Mr. CAMPBELL. Yes, sir.

Senator DOUGLAS. Now have you taken this up with the Defense Department?

Mr. CAMPBELL. Yes, sir.

Senator DOUGLAS. What is their reply?

Mr. CAMPBELL. We have issued about 30 reports on contractor use of ADP equipment in the past year and a half or two.

#### DOD POSITION IN GOVERNMENT FURNISHED ADPE

Mr. NEWMAN. It is just as Mr. Campbell stated in his statement that he read, that the Department of Defense feels that they do not want to give or furnish the contractors with ADP equipment unless it is excess to the Government. We feel that in many plants that are practically 100 percent Government business that we should furnish the ADP equipment. You must understand, also, Mr. Chairman, that the lease cost which is now being charged to the Government contracts also increases the fees of these contractors.

In other words, if you have a million dollars in rentals on ADP equipment, why, he would make it another 5- to 10-percent fee on that figure.

#### CONTRACTOR FEES RE ADPE

Senator DOUGLAS. Now this is a very interesting question. The cost-plus-percentage contracts which were abused in World War I have been removed now, and what we now have is cost-plus-fixed-fee, which is not as bad as the cost-plus-percentage contract. You say in practice the fixed fee becomes a percentage fee, that the fee tends to become a percentage of the original contract?

Mr. NEWMAN. Of the cost.

Senator DOUGLAS. Of the cost.

Mr. NEWMAN. In other words, in a negotiated contract or cost-plus-fixed-fee, they negotiate a total cost and based on that cost, depending on the risks in some areas, the contractor would receive a fee or profit on the total cost. Now maybe on ADP the services would only allow the contractor 5 percent.

Senator DOUGLAS. You mean that in part the cost-plus-percentage contract has come back wearing the disguise of a cost plus fixed fee?

Mr. NEWMAN. This all is set in advance, Mr. Chairman.

Senator DOUGLAS. Yes, but what about changes, when the changes are made in specifications?

Mr. NEWMAN. He may get more fee or he may not. The services may reduce the fee.

Senator DOUGLAS. If the fee goes up as the changes are made, this becomes almost a cost-plus percentage.

Mr. NEWMAN. In each change they would negotiate what the cost would be as well as what the fee would be.

Senator DOUGLAS. You know, we are opening up some new avenues of inquiry.

In any event you feel very strongly, first, that the computers should be purchased rather than leased in direct Government operations?

Mr. CAMPBELL. In general, yes.

Senator DOUGLAS. And second, that this should be extended to direct contractors for the Government?

Mr. CAMPBELL. Yes, sir.

Senator DOUGLAS. And that the savings will run into the hundreds of millions of dollars.

Now Congressman Brooks and I have had bills in to this effect for some years. We have not been able to make much progress.

#### BOB POSITION ON ADPE

Now it becomes my painful duty to ask you this question: Has not one of the chief sources of opposition to this bill come from the Bureau of the Budget?

Mr. CAMPBELL. I regret that is correct. We can't understand it, but that is true.

Senator DOUGLAS. Now this is the agency which is supposedly your opposite number in the executive branch, isn't that true?

Mr. CAMPBELL. Its function in the executive branch does parallel ours in the legislative to a degree.

Senator DOUGLAS. And I want to say in general I think its work is very good.

#### CENTRALIZED MANAGEMENT OF ADPE

I have been unable to understand this opposition. Now there is a third question, the centralized management in the handling of these computers.

We have been stressing the fact that these computers can work a long working day without great fatigue. There may be a fatigue of metals but they can work at least 22 or 24 hours a day with shifts of people working on them. And that it is an uneconomic use of resources to work them only a few hours of a day.

Granted that they are status symbols, granted that each agency wants to have a computer in order to show that it is right up with the times, still if they are under central management in convenient places this would make possible one agency using a computer for 6 hours a day and another agency for 3 or 4 hours a day, and so forth.

Mr. CAMPBELL. Yes, sir, that is correct.

#### ROLE OF BOB IN ADPE MANAGEMENT

Senator DOUGLAS. It could be handled centrally. I have heard rumors that what the Bureau of the Budget wants is for them to be the central agency. Have you ever detected possibilities in this direction?

Mr. CAMPBELL. Our original suggestion that I think was discussed with you, Mr. Chairman, is that this was such a vital thing to the

Government that it should really be part of the President's own office.

Senator DOUGLAS. The President's?

Mr. CAMPBELL. Yes, we directed our recommendation toward direct Executive control.

Senator DOUGLAS. That would be the Bureau of the Budget?

Mr. CAMPBELL. No, we did not think that would be a good idea.

#### BUREAU OF THE BUDGET—OPERATING OR PLANNING AGENCY?

Senator DOUGLAS. Now that raises the question, should the Bureau of the Budget be an operating agency or should it be a planning agency and to some degree a supervisory agency?

Mr. CAMPBELL. I think that was the reason we felt as we did, that this was an operating matter and that the Bureau of the Budget—

Senator DOUGLAS. Some years ago I crusaded against Government Cadillacs. I resented esthetically seeing the streets here blocked in the morning with Cadillacs of bureaucrats. My wife drives me down in a 1960 Chevrolet. I use the Chevrolet for 7 years and discard it. I am very proud I have a Chevrolet. I have no jealousy of Cadillacs but it seems to be a status symbol which people embrace. I crusaded on this for several years, drew down on my head the derision of the Secretaries, the Deputy Secretaries, and Under Secretaries, the Deputy Under Secretaries, the Assistant Secretaries, and the whole hierarchy of governmental officials.

I was pleased to see the President put in an Executive order reducing the number of Cadillacs and making a saving. I want to congratulate him on it.

Now who is managing the assignment of these cars? Is it the Bureau of the Budget?

Mr. CAMPBELL. Of course, the General Services Administration handles most of the car problem in the Government.

Senator DOUGLAS. The chief abuse has not been the White House but in the departments scattered around. I am informed by Mr. Ward that the authorization for cars is fixed by the budgetary-legislative process and Congress handles its own somewhat liberally.

Then each Department more or less administers its own vehicles where there is no GSA motor pool. I think that is right. There have been real reforms of it on the whole. Would you not say, that the Bureau of the Budget should not be an operating agency but should be a planning and inspecting agency?

Mr. CAMPBELL. I think that was the genesis of the Bureau's organization.

Senator DOUGLAS. I have been asking questions for some time. I think I will stop for a moment and let Mrs. Griffiths have a chance.

#### COMPATIBILITY OF COMPUTER SYSTEMS

Representative GRIFFITHS. I would like to ask you, Mr. Campbell, what about the difference in these computer systems.

Did not DSA inherit a good many different computer systems and would it not be of more value if they were all the same system or at least compatible? (See Admiral Lyle's statement, p. 82.)

Mr. CAMPBELL. That is a technical problem which I probably am not competent to discuss. I will say, however, that we are aware that

these computers do serve different purposes. Mr. Mahoney is better qualified on that.

Mr. MAHONEY. I think what we are asking the Government is a degree of compatibility between computers so that we can interchange data between the various systems.

We are not particularly interested in who the manufacturer is as long as we can speak computer to computer language back and forth not only in Government but between Government and industry. We have been searching for this for a number of years. At the moment we have quite an incompatibility problem.

Representative GRIFFITHS. Thank you.

#### TRANSFER OF DISPOSAL FUNCTION TO GSA

I would like to ask you also, Is not General Services about to take over the disposal function of the Defense Supply Agency? (See p. 83.)

Mr. CAMPBELL. To some extent.

Representative GRIFFITHS. Do you have information on cost differentials in this? And the economies, if any, that would be effected or the speed with which it could be done?

Mr. RUBIN. We have no information on that. We are aware of the fact that there is an agreement between GSA and the Defense Supply Agency to make this transfer which will go into effect, we believe, the first of July but we have not made a study as to the relative cost.

Representative GRIFFITHS. Do you know whether or not in actuality the General Services Administration is now recouping less per dollar than Defense is?

Mr. RUBIN. We have no information here on that.

Representative GRIFFITHS. In addition to this, the General Services do not have the automatic processing data that the Defense Supply Agency has, does it?

Mr. RUBIN. We have no information here as to GSA's ADP capability.

Representative GRIFFITHS. So in reality they will take over the thing and make it into a manual operation and the real advantage that the Defense Supply Agency has now is that they have an automatic operation?

Mr. RUBIN. We do not know what their plans are. We are not too familiar with that phase of the problem.

#### GAO TO REVIEW CAPABILITIES AND COSTS OF DSA AND GSA RE DISPOSAL FUNCTION

Representative GRIFFITHS. Would you mind looking into it?

Mr. RUBIN. We would be glad to.

Representative GRIFFITHS. I think the result would be that it would simply cost the Government additional money. Why should any additional equipment be purchased or why should these people take it over and run it manually when it is already being run from an automatic basis.

Second, I think it is true that the Defense Supply Agency recoups more money per dollar than General Services recoups.

Mr. RUBIN. We will be glad to look into that.

Representative GRIFFITHS. Thank you.

## TREATMENT OF SUBS BY PRIME CONTRACTORS

Now I would like to ask you a question. For a long time, as you are aware, I have been very much interested in the treatment of subcontractors by primes. Over and over it has been brought to my attention that subcontractors really get a very rough deal. I was told yesterday, I think, by a subcontractor that they, of course, are not given the same type of contract that a prime has from the Government—the prime does not give them the same type of contract, the prime simply tells them what they will pay.

Now I think there is some merit to this. I think this is generally the practice of business. They simply make the determination how much they will pay for the part and they will find somebody who will make it at that price.

But I would be very much interested in knowing whether or not the prime treats their own corporate children the same way they are treating the independents. That is, if the prime has an interest in the plant of the subcontractor, or if there are people in the management that have an interest in the plant of the sub, are they being given exactly the same deal as the absolutely independent contractor is being given?

Now I think in business they are not. I do think that the Government should be fair.

Mr. CAMPBELL. We recall last year we discussed this and we know your interest, Mrs. Griffiths. We can go into this matter you mentioned, the matter of the corporate children as against the outsider in connection with our future audits. I don't know whether Mr. Keller has any comment; there are a great many problems involved here.

Representative GRIFFITHS. Yes; I realize that.

## PRIME AND SUBCONTRACTS

Mr. KELLER. Mrs. Griffiths, generally you don't find the same clauses in the subcontract that you do in the prime. The Government contracts with the prime and the prime makes his own contract with the sub. Some of the terms of the subcontracts are more strict than the Government uses with the prime.

The Government agencies have been quite reluctant to step in between the prime and the sub for several reasons. First, the Government is paying the prime to manage the contract and to produce results, and therefore it does not want to be between the prime and the sub.

Second, there is always the possibility that any moves in this direction might establish a privity of contract between the Government and the subcontractor which most people in the Government procurement field think would be undesirable. I personally think so myself. Take for example a substantial aircraft contract where there might be as many as a thousand first and lower tier subs. If the Government gets in the business of administering each sub and sub-sub it would have quite an administrative job and a costly one. Also, there would be disputes to settle, possible litigation, and other matters.

On Thursday and Friday of last week there was a conference at George Washington University on subcontracting problems at which some of the matters we are talking about were discussed for 2 days

among the experts; that is, lawyers from private practice, Government officials, representatives of the primes, and representatives of the subs.

While I was not there, we had one of our attorneys at the conference and I gather that after 2 days no one found any real good solutions to the problems. There was a considerable discussion along the lines we are talking about—that the same contract conditions should be in the subcontract that the Government puts into the prime contract. But, I gather there was no general agreement on this point.

Representative GRIFFITHS. I should think that if the prime sends out a change order to the sub, that at least the sub should have some opportunity to increase the price, or decrease it. But I think also some place along the line the Government should have sufficient supervision to determine whether or not every sub is being given the same type of treatment and whether or not in fact the primes are taking the work of the subs at less than fair value and then discarding the sub as a contractor.

I am quite sure that in many instances they are, they permit the sub to perfect the item and then simply get rid of them.

Mr. KELLER. I have heard of some cases like that.

Representative GRIFFITHS. I have heard enough to know that it is happening on some occasions and I think it is reprehensible. I don't think the rest of us feel that is the way the Government should be treating anybody.

Senator DOUGLAS. Senator Jordan.

Senator JORDAN. Thank you, Mr. Chairman.

#### CHANGE ORDERS IN CONTRACTS

I have just one question. You mention the word "change order" in contracting. Have you ever done any research on change orders on Government contracts, Mr. Campbell?

I am thinking now of contracts that are awarded under competitive bid to the successful contractor, then there will be a great many change orders perhaps before the contract is completed. Have you ever had any occasion to do research in this area?

Mr. CAMPBELL. Yes, sir. We have issued a number of reports including comment on change-orders.

Senator JORDAN. Those reports are available?

Mr. CAMPBELL. Yes, sir.

Senator JORDAN. Thank you. That is all, Mr. Chairman.

Senator DOUGLAS. Thank you, Senator.

#### GENERAL POLICY AND EXCEPTIONS IN PROCUREMENT AND MANAGEMENT OF ADPE

Let me expound a statement on automatic data processing before we dismiss the subject.

I can well understand that in certain governmental agencies such as the FBI, for example, that they would not want to have their computers shared with other agencies. It is also possible that in individual instances the leasing arrangement might be superior to purchase. But as a general policy, it would seem to me that Government operated computers where the material is not classified should be shared and that even where it may be confidential it could be operated within a

department so that each subdivision would not necessarily have to have its own computer.

Second, so far as possible it be owned rather than leased, that this be extended into the field of prime contractors as rapidly as possible.

I hope you will pursue this, Mr. Campbell. It seems to me this may be the most important source of immediate savings that we can effect.

Mr. CAMPBELL. We feel that way about it, Senator.

Senator DOUGLAS. I wish we could get some publicity on this subject.

#### ATTITUDE OF MANUFACTURERS TO ADPE

Mr. CAMPBELL. I am sure that the manufacturers are well aware of our feelings and are well aware of the problem.

Senator DOUGLAS. The manufacturers are opposed to this, are they not, because they make more money by leasing?

Mr. CAMPBELL. Not entirely. Some may be, some may not be for various reasons.

Senator DOUGLAS. What is the attitude of IBM?

Mr. CAMPBELL. I haven't discussed it with IBM.

Senator DOUGLAS. If IBM would cooperate that would be a great advance.

#### INDUSTRY GENERALLY CENTRALIZES

Mr. CAMPBELL. I don't know whether you have seen the transcript of a recent hearing on this matter, Mr. Chairman. There has been some question about what private industry does in this area of computer control. We were asked that question. We recently made a survey and found that although the Government should be leading the way in these things we find that industry generally centralizes.

Senator DOUGLAS. Centralizes purchases?

Mr. CAMPBELL. Centralizes purchases, leases, or management.

Senator DOUGLAS. Within the giant companies?

Mr. CAMPBELL. Within the large companies, yes.

#### DISPOSAL OF SURPLUS PROPERTY

Senator DOUGLAS. Now let me deal with this question of disposal of surplus property. Do you want to make a general statement on that, on the progress in this field? What has been the degree of progress?

Mr. CAMPBELL. Do you mean, Mr. Chairman, how they are progressing in disposal?

Senator DOUGLAS. Yes, what progress is being made, whether we are realizing a higher percentage on disposal?

Mr. CAMPBELL. We have done very little this year in that area, Mr. Chairman.

#### DOD RETURNS FROM SURPLUS DISPOSALS

Senator DOUGLAS. I regret that Mrs. Griffiths is not present but as you know we have just issued background material on the economic impact of Federal procurement. I would like to put in the record tables 16 and 17, page 28, from the publication "Background Material on Economic Impact of Federal Procurement, 1965"; these are comparative tables. The military figures are that they realized in fiscal 1964 gross receipts of 2.14 percent of acquisition cost and on other than scrap and salvage, 6.2 percent.

*Proceeds from disposal sales of surplus personal property by the military departments, fiscal years 1958-64*

[In millions]

Proceeds from disposal	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
From sale (other than scrap) and salvage.....	\$128	\$140	\$124	\$106	\$87	\$59	\$61
From sale of other property.....	55	72	70	61	48	40	42
Total.....	183	212	194	167	135	99	103
Acquisition cost (total).....	5,460	7,366	5,983	6,123	3,482	3,446	4,815
Percent of total gross proceeds to total acquisition cost.....	3.38	2.88	3.24	2.71	3.87	2.87	2.14
Percent of proceeds to acquisition cost (other than scrap) and salvage.....	5.18	5.2	5.25	5.98	7.02	6.66	6.22

*Costs of disposal sales of surplus property by the military departments, fiscal years 1958-64*

[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	Fiscal year 1964
Cost for demilitarization.....	\$24.0	\$20.5	\$26.6	\$19.1	\$9.1	\$9.5	\$12.7
Costs for preparation and selling.....	18.5	37.8	61.8	65.5	69.0	62.6	64.6
Total.....	42.5	58.3	78.4	84.6	78.1	72.1	77.3
Gross proceeds.....	183.0	212.0	194.0	167.0	135.0	99.0	103.0
Percent of sales costs to gross proceeds.....	23.0	27.5	40.4	50.6	58.0	75.2	75.0

Senator DOUGLAS. Now if we could get comparative figures on the percentage of gross proceeds of General Services Administration disposal compared with the military on substantially similar items, that would be very helpful to deal with this question that Mrs. Griffiths raised.

Mr. CAMPBELL. I think we can obtain those, Mr. Chairman.

Senator DOUGLAS. I hope you can make a report on that and we will see that it gets publicity. Is there anyone here from GSA?

Mr. CAMPBELL. Yes, sir, Mr. Chairman. John O. Tressler, Deputy Director, National Supply System Division, General Services Administration, is here.

Senator DOUGLAS. Would you come forward, please? You are very modest in sitting in the back part of the room. We hope you will come and sit up here at the front table.

Did you hear the questioning?

Mr. TRESSLER. Yes, sir.

Senator DOUGLAS. I wonder if you can assemble material on this over the noon hour so that when Mr. Knott appears this afternoon we can have some GSA statistics to compare with these figures. You have seen our report, have you? Will you look at tables 16 and 17 on page 28 of the Economic Impact Report of April 1965?

Mr. TRESSLER. I will get the word back to them, sir.

Senator DOUGLAS. You can telephone back and see if we cannot get some figures this afternoon. If not this afternoon, as speedily as pos-

sible so that they can be included in the transcript of the hearings. (See p. 204.)

Mr. TRESSLER. Yes, sir.

#### POSSIBLE COLLUSION AT AUCTION SALES

Senator DOUGLAS. Mr. Campbell, years ago I became suspicious of these auction disposal sales, suspicious as to whether or not there was a ring of purchasers who would come to these sales and the bids would not be truly competitive and would be unduly low.

We had a number of talks about this. I never made any public charges because I didn't have any evidence, but I did think it was possible just to have suspicions because of things I picked up. I toured a lot of so-called Army-Navy stores and found clothing items and shoe items which obviously had come from the surplus sales which seemed to be in very good condition and which were offered at extraordinarily low prices, implying that the purchase price at the auction had been low.

Have you ever been able to give that any attention or have you been so swamped with other jobs?

Mr. CAMPBELL. We have not, Mr. Chairman. We realize that the same names seem to appear in these sales, a few names, and very large organizations. But we have not—

Senator DOUGLAS. I have always felt that this was a subject for inquiry as to whether or not there were buying rings so that the auction prices were not real competitive prices.

Mr. NEWMAN. We did have one contractor in Florida, Aerodex, Inc., who was out buying surplus aircraft parts and furnishing them under a contract with the Federal Government to overhaul engines. He was charging the Federal Government an exorbitant price for these parts which he had bought at surplus sales at a very low price.

#### BALANCING REQUIREMENTS AGAINST STOCK

Senator DOUGLAS. Now as to the system of balancing requirements against stock, is that proceeding inside the Government, the comparison of current orders and future requirements as balanced against amounts of stock in inventory? (See pp. 40, 54, 70, 114.)

That problem was highlighted largely as a result of your pressure and to some degree possibly from the work of this committee.

Is the system working?

#### PROBLEM OF SUBSTITUTABILITY

Mr. RUBIN. We feel there has been a substantial improvement. However, we continue to find problem areas as we have brought out in our reports, particularly where we find that they have an excess of stock which is substitutable for the item that is being ordered. (See p. 82.)

We still have some problems in that area. In other words, the excess item may not be quite the same as the item that is being ordered but it might be able to meet the mission requirements. (See comments on paint, p. 136.)

Our position there is that basically they should tend to use the old stock if it will serve the purpose rather than spend additional money for new stock.

## REDUCTIONS IN ITEMS IN SUPPLY SYSTEMS

Senator DOUGLAS. Now on the question of the reduction in the number of items in the supply systems. Mr. Ignatius said yesterday that in fiscal 1964 they reviewed 500,000 items in the standardization program and eliminated 221,510. (See p. 55.)

I believe in his testimony, yesterday afternoon, Admiral Lyle gave another substantial figure. (See p. 81.)

Now your testimony seems to indicate that in some cases an item will disappear from the catalog but will reappear under another name. So that it comes back again under a disguise. Is this widespread or did you find this in just a few instances?

Mr. RUBIN. We made a very limited survey but we found a significant occurrence of this situation. There is a project underway in defense to improve this. It is still in the test phase. It has not progressed very far. (See p. 81.)

Although we feel the procedures being set up are worth while we feel it will take quite a while and a considerable amount of pressure to get this project going.

Senator DOUGLAS. Do you think this comes about from a willful disregarding of the order or how widespread is it; does it come from the local supply officer?

Mr. RUBIN. We feel the problem basically is the lack of technical capability by the people who review the requests for new item numbers.

In other words, they don't recognize this is the same as the one already in the system. What we recommend is that they have people with technical capability to review these to determine that they are not the same as those already in the system. This is one of the things they are doing in this current project and have shown some rather significant results.

Senator DOUGLAS. I notice that in fiscal 1964 they added slightly more items to the list than they took off, so that the total number of items somewhat increased. Is that correct?

Mr. RUBIN. Their report shows this; yes, sir.

Senator DOUGLAS. But they say during the last 8 or 10 months that they have made very substantial improvements and that their program is now working and they are reducing the total number. Is that true?

Mr. RUBIN. We have seen their report which states this. We have not reviewed it that currently.

## COMPETITIVE CONTRACTING

Senator DOUGLAS. Now, on the question of competitive contracts, both of us have crusaded against negotiated contracts and have urged the extension of competitively bid and advertised contracts. I think the Secretary of Defense has been making honest efforts to increase this percentage.

## INCREASE IN FORMALLY ADVERTISED PROCUREMENT

I think he has caused an increase from somewhere around 12 to 14 percent according to the figures of yesterday, with an anticipated increase perhaps to 18 percent if the current trend continues. I would like to put into the record table 10 from page 21 of the committee's recent publication "Background Material on Economic Impact of Fed-

eral Procurement, 1965," which we have issued, showing an increase from 12.1 to 14.8 percent from 1951 through 1964.

(The table referred to follows:)

TABLE 10.—*Net value of military procurement actions, with business firms for work in the United States, classified by method of procurement, fiscal years 1951-64*

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
1964	26,221	3,889	14.8	22,332	85.2
Total, 1951-64	331,764	44,390	13.4	287,374	86.6

Source: "Military Prime Contract Awards and Subcontract Payments, July 1963-June 1964," Office of the Secretary of Defense.

#### SAVINGS FROM COMPETITIVE BIDDING

Senator DOUGLAS. The Secretary has said that the savings he effected on the advertised and competitively bid contracts amount to as much as 25 percent.

Mr. CAMPBELL. I have heard that figure; yes.

Senator DOUGLAS. If this is so, is there not room for further extension of this system? Granted that progress has been made, is there not room for greater progress?

Mr. CAMPBELL. We feel, as you know, that this should be extended far more widely than it is.

Senator DOUGLAS. Have you marked out certain types of commodities where you think this system could be used without compromising security? We have never thought that this need apply to weapons or missiles.

Mr. CAMPBELL. That is correct.

#### CHAIRMAN PUZZLED AT LACK OF PROGRESS

Senator DOUGLAS. With the savings so great and the approval of the Secretary of Defense and the actual efforts of the top brass in the Defense Department to do this, I am a little bit puzzled by the slowness of actual progress. Now it may be that fiscal 1965 and 1966 will show a great improvement. I hope our friends from the Defense Department will realize that in their efforts to increase the percentage they not only have our support but our vigilance as well on this.

## FORMAL ADVERTISING 19.5 PERCENT FOR FIRST HALF FISCAL 1965

Mr. NEWMAN. This morning I had an opportunity to look at the last 6 months ending December 1964. The formal advertised had jumped to 19.5 percent.

Senator DOUGLAS. I remembered some such statistics as that.

Mr. NEWMAN. That is on 6 months. That is a 6-percent increase.

Senator DOUGLAS. Yes. That would be a great improvement. I remember that. I want to congratulate the Department of Defense on that. This has been a sudden jump upward above fiscal 1964.

Mr. NEWMAN. The trend is increasing as indicated by the first 6 months.

Senator DOUGLAS. The momentum is moving on this. I hope that any internal sources of opposition may be weakened.

## TWENTY-FIVE PERCENT SAVING—A CONSERVATIVE FIGURE

Mr. NEWMAN. The figure of 25 percent saving, Mr. Chairman, I would say is conservative, based on our audit work.

## COMPETITIVE NEGOTIATION

Senator DOUGLAS. Now the Secretary has instituted a second type of contract which he terms a competitive contract which is, I think, a competitively negotiated contract where the bid is not advertised but where the most prominent suppliers are interviewed. That is true; it is not?

## TWO STEPS

Mr. CAMPBELL. Yes. Also, the Department has established the two-step procurement procedure. (See p. 50.)

Senator DOUGLAS. The savings on this are less but they have increased the percentage. Do you have any comment you want to make on the so-called two-step competition or, as I prefer to call it, competitively negotiated?

Mr. CAMPBELL. Mr. Keller is more familiar with that, I think, than I am.

Mr. KELLER. Mr. Chairman, we have seen a number of procurements where competitive negotiation and two-step procurement have been used in lieu of sole source procurement.

You can argue that competitive negotiation is not quite as good as advertised procurement but certainly it is far better than sole source or limited competitive negotiation.

Some of the same procurements we examined 3 or 4 years ago that were negotiated as sole source are now being handled by competitive negotiation or two-step procurement. I think the Department of Defense is making a real effort to put their procurement more and more on this basis.

Senator DOUGLAS. You are going to keep watching this?

Mr. CAMPBELL. Very much so.

## PROCUREMENT OF C-5 PLANE

Mr. NEWMAN. Mr. Chairman, recently we were briefed by the Secretary of the Air Force on the proposed procurement of this C-5 plane.

That is that enormous big transport. They have called certain companies in, I think there were three or four involved.

Senator DOUGLAS. Of course the number of airplane companies is very limited.

Mr. NEWMAN. That is right. Just like the production of TFX, there are only a certain number of companies you can go to. But they are trying to put this on a highly competitive basis.

#### INCENTIVE-TYPE CONTRACTS

Senator DOUGLAS. Now in the so-called fixed price, cost reduction program, in which the portion of the costs is returned to the contractor if the actual costs fall below fixed cost, what percentage does the contractor get of the reduction? Is it 25 percent?

Mr. CAMPBELL. That is the incentive-type contract?

Senator DOUGLAS. What is the general figure? Do you know?

Mr. NEWMAN. It will vary, Mr. Chairman. It may run 5 and as high as 25.

Senator DOUGLAS. Twenty-five tends to be the upper limit?

Mr. NEWMAN. It may go as high as 30.

Senator DOUGLAS. It is not on a 50-50 basis.

Mr. NEWMAN. No. I don't think we have ever seen a 50-50 basis.

Senator DOUGLAS. Do you think this effects real economies?

Mr. NEWMAN. What is that, sir?

#### GAO STUDYING INCENTIVE-TYPE CONTRACTING

Senator DOUGLAS. Do you think this effects real economies?

Mr. NEWMAN. Well, we have our doubts. We are testing on a few of these incentive contracts to be sure that the proposal is really down to the ground and not up in the air as far as cost and estimates.

Senator DOUGLAS. There would be a temptation of course to fix the price high so that then you can share in the reductions.

Mr. NEWMAN. That is right, sir. We are reviewing a few incentive contracts now. They have not been in operation long enough for us to make a safe test but we will keep you posted on our progress in this area.

I know Secretary McNamara is very much concerned about this. Of course, you win or lose at the negotiating table.

#### QUALITY OF GOVERNMENT NEGOTIATIONS

Senator DOUGLAS. Now I was somewhat concerned and I think you were too over the fact that our negotiators were generally not as able as the negotiators for the companies, and that it was in a sense pitting minor leaguers—bush leaguers—against major leaguers. Have you had any feelings on that score? <sup>1</sup>

#### GOVERNMENT NEGOTIATORS OFTEN NOT EQUIPPED WITH AVAILABLE FACTS

Mr. NEWMAN. We have found that negotiators have had the means whereby to get the information but in many cases they don't get the information before they reach the negotiating table.

<sup>1</sup> Report, 1960: "Economic Aspects of Military Procurement and Supply," report of the Subcommittee on Defense Procurement of the Joint Economic Committee, 86th Cong., 2d sess.; p. 32.

Naturally I would say if any of us here were trying to negotiate with General Motors, we are in a different ball park and we don't know the operation of the plant completely as well as the General Motors negotiators. But if we could get the Government negotiators more and more to rely on the information available and use that information, I think they would have more success at the negotiating table.

Senator DOUGLAS. Now some of us have adopted a rule of not letting anybody buy us a lunch on the grounds that under the influence of a lunch and the convivial attributes which frequently attend it, that the resilience of the individual increases and the tensile strength of his resistance diminishes.

Do you know if the President's advice not to let people buy them lunches, people in the Government service not to allow others to buy them lunches applies to these negotiators?

Mr. CAMPBELL. Do we what?

#### POLICY ON NEGOTIATORS ACCEPTING FAVORS

Senator DOUGLAS. Is there a prohibition against negotiators accepting lunches at the hands of contractors?

Mr. CAMPBELL. The Department of Defense has issued a rather comprehensive directive, I believe.

Senator DOUGLAS. When was that issued?

Commander DURKIN. There was one issued several years ago, Mr. Chairman, but last fall Secretary Vance issued a revision to that directive which includes the items you are referring to.

Senator DOUGLAS. I wonder if you could supply that for the record.

Commander DURKIN. I will be happy to, Mr. Chairman.

(The directive referred to follows:)



May 17, 1963  
NUMBER 5500.7

GC, DoD

## Department of Defense Directive

SUBJECT Standards of Conduct

- Refs.: (a) DoD Directive 5500.7, subject as above,  
December 12, 1961 (hereby cancelled)  
(b) DoD Directive 5500.8, "Standards of Conduct  
(Advisers and Consultants)," March 12,  
1962 (hereby cancelled)  
(c) DoD Directive 1005.3, "Decorations, Awards,  
and Gifts from Foreign Governments,"  
September 27, 1958  
(d) DoD Directive 1442.1, "WOC Appointments,"  
July 20, 1951 (hereby cancelled)

### I. PURPOSE AND OBJECTIVES

- A. This Directive prescribes the standards of conduct, relating to possible conflict between private interests and official duties, required of all Department of Defense personnel, regardless of assignment. Close adherence to these principles will insure compliance with the high ethical standards demanded of all public servants.
- B. This Directive is in consonance with (1) the President's memorandum (Inclosure 2) concerning Special Government Employees and (2) the Code of Ethics for Government Service contained in House Concurrent Resolution 175, 85th Congress, which applies to all Government personnel (See Inclosure 4).
- C. This Directive includes standards of conduct based on the revisions of the conflict of interest laws enacted

\*DoD personnel, as used in this Directive, unless the context indicates otherwise, means all civilian officers and employees of all the offices, agencies, and departments in the Department of Defense (including non-appropriated fund activities) and all officers and enlisted members of the Army, Navy, Air Force, and Marine Corps (officers includes commissioned and warrant).

in 1962 (P.L. 87-777 and P.L. 87-849). (See Inclosure 3).

## II. CANCELLATION

References (a), (b) and (d) are hereby superseded and cancelled on the effective date of this Directive.

## III. APPLICABILITY

This Directive applies to all components of the DoD.

## IV. ETHICAL STANDARDS OF CONDUCT

### A. General

DoD personnel are bound to refrain from any private business or professional activity which would place them in a position where there is a conflict between their private interests and the public interests of the United States. Even though a technical conflict, as set forth in the statutes cited in this Directive, may not exist, DoD personnel must avoid the appearance of such a conflict, from a public confidence point of view. DoD personnel will not engage in any private activity which involves the use of, or the appearance of the use of, inside information gained through a DoD position for private gain for themselves, their families or business associates. DoD personnel must not use their DoD positions in any way to induce, or give the appearance of inducing, another person to provide any financial benefit to themselves, or persons with whom they have family, business or financial ties.

### B. Dealing With Present and Former Military and Civilian Personnel

DoD personnel will not knowingly deal with military or civilian personnel, or former military or civilian personnel, of the Government, if such action will result in a violation of a statute or policy set forth in this Directive.

### C. Presidential Appointees

Executive Order 10939 of May 5, 1961, prescribing special standards for Presidential appointees and others (Inclosure 1) is self-explanatory.

## V. BRIBERY AND GRAFT

In general, DoD personnel may be subject to criminal penalties if they solicit, accept, or agree to accept anything of value in return for being influenced in performing or in refraining from performing an official act (See 18 U.S.C. 201).

VI. GRATUITIES

A. DoD personnel will not accept any favor, gratuity, or entertainment directly or indirectly, from any person, firm, corporation, or other entity which is engaged, or is endeavoring to engage in procurement activities or business transactions of any sort with any agency of the DoD except as provided in Paragraphs 1, 2 and 3 of this section. Favors, gratuities, or entertainment bestowed upon members of the immediate families of DoD personnel are viewed in the same light as those bestowed upon DoD personnel. Acceptance of entertainment, gifts, or favors (no matter how innocently tendered or received) from those who have or seek business dealings with the Department of Defense may be a source of embarrassment to the Department and to the personnel involved, may affect the objective judgment of the recipient and impair public confidence in the integrity of business relations between the Department and industry.

1. In some circumstances the interests of the Government may be served by participation of Defense personnel in widely-attended lunches, dinners and similar gatherings sponsored by industrial, technical and professional associations for the discussion of matters of mutual interest to Government and industry. Participation by Defense personnel is appropriate where the host is the association and not an individual contractor. However, acceptance of entertainment or hospitality from private companies in connection with such association activities is prohibited.

2. In some circumstances the interests of the Government may be served by participation of Defense personnel in activities at the expense of individual Defense contractors. These activities include public ceremonies of mutual interest to industry, local communities and the Department of Defense, such as the launching of ships or the unveiling of new weapons systems; industrial activities which are sponsored by or encouraged by the United States Government as a matter of United States Defense or economic policy, such as sales meetings to promote off-shore sales involving foreign industrial groups or governments; and luncheons or dinners at a contractor's plant, on an infrequent basis, where the conduct of official business within the plant will be facilitated and where no provision can be made for individual payment.

3. There may be a limited number of additional situations where, in the judgment of the individual concerned, the Government's interest would be served by participation by Department of Defense personnel in activities comparable to those enumerated above. In any such cases in which Department of Defense personnel accept any favor, gratuity or entertainment directly or indirectly from any person, firm, corporation, or other entity which is engaged or is endeavoring to engage in business transactions of any sort with the Department of Defense, a report of the circumstances will be made within forty-eight hours to the designee of the Secretary of the military department concerned, or to the designee of the Secretary of Defense in the case of Department of Defense personnel not within one of the military departments.

B. Procedures with respect to gifts from foreign governments are set forth in DoD Directive 1005.3, reference (c).

VII. PROHIBITION OF CONTRIBUTIONS OR PRESENTS TO SUPERIORS

No officer or employee in the United States Government employ shall at any time solicit contributions from other officers or employees in the Government service for a gift or present to those in a superior official position;

nor shall any such officials or superiors receive any gift or present offered or presented to them as a contribution from persons in Government employ receiving a salary in an amount smaller than their own; nor shall any officer or employee make any donation as a gift or present to any official superior. Every person who violates this section shall be summarily discharged from the Government employ (See R.S. 1784; 5 U.S.C. 113).

VIII. USE OF GOVERNMENT FACILITIES, PROPERTY, AND MANPOWER

Government facilities, property, and manpower, such as stenographic and typing assistance, mimeograph services and chauffeur services, shall be used only for official Government business. This section is not intended to preclude the use of Government facilities for activities which would further military-community relations provided they do not interfere with the military missions.

IX. USE OF CIVILIAN AND MILITARY TITLES IN CONNECTION WITH COMMERCIAL ENTERPRISES

- A. All civilian personnel, and military personnel on active duty, are prohibited from using their civilian and military titles or positions in connection with any commercial enterprise or in endorsing any commercial product. The foregoing shall not be deemed to preclude publication by such personnel of books or articles which identify them as author by reference to their military or civilian title or position, provided that publication of such material has been cleared under existing DoD procedures.
- B. All retired military personnel and all members of reserve components, not on active duty, are permitted to use their military titles in connection with commercial enterprises. Such use of military titles shall in no way cast discredit on the military services or the DoD. Such use is prohibited in connection with commercial enterprises when such use, with or without the intent to mislead, gives rise to any appearance of sponsorship, sanction, endorsement, or approval by the military services or the DoD. The Military Departments may restrict retired personnel and members of reserve components not on active duty, from using their military titles in connection with public appearances in overseas areas.

X. OUTSIDE EMPLOYMENT OF DOD PERSONNEL

- A. DoD personnel shall not engage in private outside employment, with or without compensation, which:
  1. interferes with the performance of their Government duties,
  2. may reasonably be expected to bring discredit upon the Government or the agency concerned,
  3. is inconsistent with paragraph IV. A. above.
- B. No enlisted member of the armed forces on active duty may be ordered or permitted to leave his post to engage in a civilian pursuit or business, or a performance in civil life, for emolument, hire, or otherwise, if the pursuit, business, or performance interferes with the customary or regular employment of local civilians in their art, trade or profession.
- C. An active duty officer of the regular Navy or Marine Corps may not be employed by any person furnishing Naval supplies or war materials to the United States and continue to receive his service pay.

**XI. INFORMATION TO PERSONNEL**

- A. New DoD personnel will be informed of the standards of conduct specified in this Directive upon employment or entry on duty. These standards of conduct will also be brought to the attention of all DoD personnel by appropriate means at least semi-annually.
- B. DoD personnel will be advised how to obtain additional clarification of standards of conduct and related laws, rules and regulations. For this purpose each of the Military Departments and Defense Agencies shall designate one or more legal officers who shall be responsible for providing advice and assistance on all matters relating to conflict of interest covered by this Directive.
- C. Appropriate officials in the office of the Secretary of each Military Department and Head of each Defense Agency shall be designated as responsible for proper coordination and final disposition of all problems relating to conflict of interest, in accordance with regulations to be prescribed by the respective Secretaries or Agency Heads. In the Office of the Secretary of Defense, the General Counsel of the DoD or his designee will be responsible for these matters.

**REPORTING SUSPECTED VIOLATIONS**

DoD personnel who have information which causes them to believe that there has been a violation of a statute or policy set forth in this Directive will promptly report such incidents to their immediate superiors. If the superior believes there has been a violation, he will report the matter for further action in accordance with existing procedures. Any question or doubt on the part of the immediate superior will be resolved in favor of reporting the matter.

**XIII. CONFLICT OF INTEREST LAWS****A. Full-time Officers and Employees**

1. **Definition.** The term "full-time officer or employee" includes all civilian officers and employees, and all military officers on active duty, except those who are "special Government employees" (See Section XIII. B.). It does not include enlisted personnel.
2. **Prohibitions.** Inclosure 3 A contains a discussion of these criminal laws and the exemptions therefrom. In general, a full-time officer or employee is subject to the following major prohibitions:

- a. He may not, except in the discharge of his official duties, represent anyone else before a court or Government agency in a matter in which the United States is a party or has an interest. This prohibition applies both to paid and unpaid representation of another (See 18 U.S.C. 203 and 205).
  - b. He may not receive any salary, or supplementation of his Government salary, from a private source as compensation for his services to the Government (See 18 U.S.C. 209).
  - c. He may not participate in his Governmental capacity in any matter in which he, his spouse, minor child, outside business associate or person with whom he is negotiating for employment, has a financial interest (See 18 U.S.C. 208). Instead of participating in such a matter, he must promptly disqualify himself in accordance with Paragraph 4, below, except as provided in Paragraph 3, below.
3. Nondisqualifying Financial Interest. A full-time officer or employee need not disqualify himself under Paragraph 2c, above, if his financial holdings are in shares of a widely-held diversified mutual fund or regulated investment company.

The indirect interests in business entities which the holder of shares in a widely held diversified mutual fund or regulated investment company derives from ownership by the fund or investment company of stocks in business entities is hereby exempted from the provisions of 18 U.S.C. 208a, in accordance with the provisions of 18 U.S.C. 208b(2) as being too remote or inconsequential to affect the integrity of the Government officers' or employees' services.

4. Disqualification Procedure.

- a. In any case where a full-time officer or employee must disqualify himself under Paragraph 2c, above, he will promptly notify his superior thereof and make a full disclosure of the financial interest. The superior will thereupon relieve him from his duty and responsibility in the matter, unless the Government official responsible for his appointment makes a written advance determination that the interest is not so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from the officer or employee. Such written determination shall be retained in the agency records.
- b. In the case of a military officer or a civilian employee, the "official responsible for his appointment" shall, for purposes of this Paragraph, be his immediate superior or an official designated to perform this function.

- c. In addition, where a superior thinks anyone responsible to him may have a disqualifying interest, he will discuss the matter with that person, and, if he finds such an interest does exist, he will relieve the person of duty and responsibility in the particular matter.
- d. In cases of disqualification under this paragraph, the matter will be reassigned for decision and action to someone else who is not subordinate to the disqualified person.

**B. Special Government Employees**

1. Definition. The term "special Government employee" includes an officer or employee who is retained, designated, appointed, or employed to perform, with or without compensation, for not to exceed 130 days during any period of 365 consecutive days, temporary duties either on a full-time or intermittent basis. (See 18 U.S.C. 202). The term also includes a Reserve officer while on active duty solely for training for any length of time, one who is serving on active duty involuntarily for any length of time, and one who is serving voluntarily on extended active duty for 130 days or less. It does not include enlisted personnel.
2. Prohibitions. Inclosure 2 contains a detailed discussion of these criminal laws. In general, a special Government employee is subject to the following major prohibitions:
  - a. He may not, except in the discharge of his official duties, represent anyone else:
    1. Before a court or Government agency in a matter in which the United States is a party or has an interest and in which he has at any time participated personally and substantially for the Government (See 18 U.S.C. 203 and 205).
    2. In a matter pending before the agency he serves unless he has served there no more than 60 days during the past 365 (See 18 U.S.C. 203 and 205). He is bound by this restraint despite the fact that the matter is not one in which he has ever participated personally and substantially.

The restrictions described in sub-paragraphs 1 and 2 apply to both paid and unpaid representation of another.

- b. He may not participate in his governmental capacity in any matter in which he, his spouse, minor child, outside business associate or person with whom he is negotiating for employment, has a financial interest (See 18 U.S.C. 208). Instead of participating in such a matter, he must promptly disqualify himself in accordance with Paragraph XIII A 4, except as provided in Paragraph XIII A 3.
- c. After his Government employment has ended, he is subject to the prohibitions in Paragraph XIII C 2 as a "former employee." (See 18 U.S.C. 207).

#### C. Former Officers or Employees

1. Definition. The term "former officer or employee" includes those full-time civilian officers or employees who have left Government service, special Government employees who have left Government service, retired regular officers and reserve officers released from active duty. It does not include enlisted personnel.
2. Prohibited Activities. Inclosure 3 B contains a more detailed discussion of the criminal law. In general, a former officer or employee is subject to the following major prohibitions:
  - a. He may not, at any time after his Government employment has ended, represent anyone other than the United States in connection with a matter in which the United States is a party or has an interest and in which he participated personally and substantially for the Government (See 18 U.S.C. 207(a)).
  - b. He may not, for one year after his Government employment has ended, represent anyone other than the United States in connection with a matter in which the United States is a party or has an interest and which was within the boundaries of his official responsibility during the last year of his Government service (See 18 U.S.C. 202(b) and 207(b)). This temporary restraint, of course, gives way to the permanent restriction described in paragraph a., if the matter is one in which he participated personally and substantially.

#### D. Retired Regular Officers

1. Prohibitions. Inclosure 3 C contains a summary of the laws applicable to retired regular officers. In general, a retired regular officer is subject to the following major prohibitions:
  - a. As an officer whose "employment has ceased," he may not engage in the prohibited activities listed in Paragraph C above (See 18 U.S.C. 207).

- b. He may not, at any time, assist in prosecuting a claim against the United States if he worked on that claim while on active duty (See 18 U.S.C. 283).
- c. He may not, within two years after his retirement, assist in prosecuting a claim which involves the department in whose service he holds a retired status (See 18 U.S.C. 283).
- d. He may not, at any time, sell anything to the department in whose service he holds a retired status (See 18 U.S.C. 281).
- e. He may not, within three years after retirement, sell supplies or war materials to any agency of the DoD, the Coast Guard, the Coast and Geodetic Survey, or the Public Health Service (See 37 U.S.C. 801(c), as amended October 9, 1962, P.L. 87-777, formerly 5 U.S.C. 59(c)). (See definition of "Selling", page 7, Inclosure 3).

2. Required Statement of Employment.

- a. Each regular retired officer of the armed forces shall file with the Military Department in which he holds a retired status a Statement of Employment (DD Form 1357). Each regular officer retiring hereafter shall file this Statement within thirty days after retirement. Whenever the information in the statement is no longer accurate, each such officer shall file a new DD Form 1357, (Inclosure 6).
- b. The Military Departments shall appropriately review the Statements of Employment to assure compliance with applicable statutes and regulations.

E. Officers of the Reserve Components

- 1. A Reserve officer who is voluntarily serving a period of extended active duty in excess of 130 days is a full-time Government officer, and Paragraph XIII A applies to him.

Exception: Any Reserve who, before being ordered to active duty, was receiving compensation from any person may, while he is on that duty, receive compensation from that person (See 10 U.S.C. 1033).

- 2. A Reserve officer who is serving on active duty involuntarily for any length of time, and a Reserve officer who is voluntarily serving on extended active duty for 130 days or less, is a "special Government employee," and Paragraph XIII B applies to him.
- 3. A Reserve officer (unless otherwise a full-time officer or employee of the United States) who is on active duty solely for training

for any length of time is a "special Government employee," and Section XIII. B. applies to him.

4. When he is released from active duty, a Reserve officer described in 1., 2., or 3., above, is a "former officer," and Section XIII. C. applies to him.
5. Membership in a Reserve component of the armed forces or in the National Guard does not, in itself, prevent a person from practicing his civilian profession or occupation before or in connection with any department (see 5 U.S.C. 30 r (c), (d)).
6. An officer of a Reserve component, whether in a Ready, Standby, or Retired Reserve, who is not on active duty is not, solely because of his status as a Reserve, considered to be an officer or employee of the United States for the purpose of bringing him within the prohibitions summarized in Section XIII. A., B., or C. (see 5 U.S.C. 30 r (c), (d)).
7. Receipt of retired pay by a Reserve or a former Reserve does not, in itself, make him an officer or employee or a former officer or employee for the purpose of bringing him within the prohibitions summarized in Section XIII., A., B., or C. Section XIII. D. does not apply to a retired Reserve.

#### XIV. ADVISERS AND CONSULTANTS

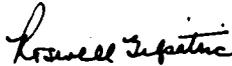
- A. The President's memorandum (Inclosure 2) is entitled "Preventing Conflicts of Interest on the Part of Special Government Employees." It will be noted that, while the memorandum relates to all special government employees, its primary thrust is to advisers and consultants.
- B. Each adviser and consultant shall, prior to appointment, file with a designated official of the Military Department or Defense Agency where he is employed a statement (Inclosure 5) setting forth his government employment, his private employment, as prescribed in Inclosure 2, and his financial interests. An appointee must list all of his investments and other financial interests such as a pension; retirement; group life, health, or accident insurance; and profit-sharing, stock bonus, or other employee welfare or benefit plan maintained by a former employer. He is not required to list precise amounts of investments.
- C. The Secretary or the Deputy Secretary of Defense, or the Secretary of a Military Department may grant an exception to a specific appointee from completing that part of the statement relating to his investments and other financial interests referred to in Section B. upon the making of a determination that this information is not relevant in the light of the duties the appointee is to perform.

- D. The following categories of personnel are not considered "advisers and consultants" within the meaning of this section when performing the specific services listed below and are not required to file the statement referred to in paragraph B.
1. Physicians, dentists and allied medical specialists performing care and service to patients.
  2. Veterinarians providing veterinary service to animals.
  3. Lecturers participating in educational activities.
  4. Chaplains performing religious services.
  5. Individuals of national prominence in the motion picture and television fields who are utilized as narrators or actors in motion picture or television productions produced by the DoD.
  6. Members of selection panels for NROTC candidates.
- E. Each Military Department or Defense Agency upon the appointment of an adviser, consultant or other temporary or intermittent employee shall:
1. a. Make a determination, in accordance with the procedure set forth in paragraphs (a) through (g), Inclosure 2, beginning at page 3, as to whether the appointee will serve as a special government employee. Any service expected to be rendered with other departments or agencies during the period will be taken into account in making this determination. In the case of advisers and consultants the determination will be based on the statement filed pursuant to paragraph B while for other temporary or intermittent employees it will be based on personnel records. Such determination will be entered on the employment records of the appointee.
  - b. Designate an officer to coordinate the classification of such appointees with other agencies where he is serving.
  2. Adopt appropriate procedures to provide for review by designated legal officers of all statements of employment and financial interests.
- F. Advisers and consultants and DoD personnel concerned with them shall be furnished a copy of this Directive and its attachments, or other appropriate action shall be taken to bring the Directive to the attention of all such personnel, together with advice pursuant to the determination made under

subparagraph 1 above, as to whether for the purpose of Inclosure 2, he will be considered a special government employee.

XV. EFFECTIVE DATE

This Directive shall become effective immediately. Two copies of implementing regulations of the Military Departments and Defense agencies will be submitted to the General Counsel, Office of the Secretary of Defense for approval prior to promulgation.



Deputy Secretary of Defense

Inclosures - 6

1. Executive Order 10939
2. President's Memo, Subject: "Preventing Conflicts of Interest on the Part of Special Government Employees"
3. Digest of Conflict of Interest Laws
  - A. Applicable to Full-Time Officers
  - B. Applicable to Former Officers and Employees
  - C. Applicable to Retired Regular Officers
  - D. Applicable to all DoD Personnel
4. House Concurrent Resolution 175, 85th Congress, 2d Session - Code of Ethics for Government Service
5. Statement of Employment & Financial Interests
6. Statement of Employment - DD Form 1357

IMMEDIATE RELEASE

May 5, 1961

Office of the White House Press Secretary

-----

THE WHITE HOUSE

## EXECUTIVE ORDER

10939

TO PROVIDE A GUIDE ON ETHICAL STANDARDS  
TO GOVERNMENT OFFICIALS

WHEREAS the maintenance of high ethical and moral standards in the conduct of the functions of the Federal Government is a matter of continuing concern; and

WHEREAS it is incumbent upon those who occupy positions of the highest responsibility and authority to set an impeccable example:

NOW, THEREFORE, by virtue of the authority vested in me as President of the United States, it is hereby ordered as follows:

1. This Order shall apply to all heads and assistant heads of departments and agencies, full-time members of boards and commissions appointed by the President, and members of the White House Staff.

2. No such official shall engage in any outside employment or other outside activity not compatible with the full and proper discharge of the responsibilities of his office or position. It shall be deemed incompatible with such discharge of responsibilities for any such official to accept any fee, compensation, gift, payment of expenses, or any other thing of monetary value in circumstances in which acceptance may result in, or create the appearance of, resulting in:

- (a) . Use of public office for private gain;
- (b) . An undertaking to give preferential treatment to any person;
- (c) . Impeding government efficiency or economy;
- (d) . Any loss of complete independence or impartiality;
- (e) . The making of a Government decision outside official channels; or
- (f) . Any adverse effect on the confidence of the public in the integrity of the Government.

3. No such official shall receive compensation or anything of monetary value, other than that to which he is duly entitled from the Government, for the performance of any activity during his services as such official and within the scope of his official responsibilities.

4. No such official shall receive compensation or anything of monetary value for any consultation, lecture, discussion, writing or appearance the subject matter of which (a) is devoted substantially to the responsibilities, programs or operations of the official's department or agency, or (b) draws substantially upon official data or ideas which have not become part of the body of public information.

5. Paragraphs 3 and 4 of this Order shall not preclude

(a) Receipt of bona fide reimbursement, to the extent permitted by law, for actual expenses for travel and such other necessary subsistence as is compatible with this directive and in which no government payment or reimbursement is made; provided, however, that there shall be no reimbursement or payment on behalf of the official for entertainment, gifts, excessive personal living expenses, or other personal benefits;

(b) Participation in the affairs of charitable, religious, non-profit educational, public service or civic organizations, or the activities of national or state political parties not proscribed by law;

(c) Awards for meritorious public contribution given by public service or civic organizations.

6. Each department and agency head shall review or issue internal directives appropriate to his department or agency to assure the maintenance of high ethical and moral standards therein.

7. Nothing in this Order shall be construed to supersede, alter, or interpret any existing law or regulation.

JOHN F. KENNEDY

THE WHITE HOUSE

May 5, 1961.

# Presidential Documents

## Title 3—THE PRESIDENT

Memorandum of May 2, 1963

### (PREVENTING CONFLICTS OF INTEREST ON THE PART OF SPECIAL GOVERNMENT EMPLOYEES)

*Memorandum to the Heads of Executive Departments and Agencies*

#### INTRODUCTION

Over the past twenty or more years departments and agencies of the Government have made increasing use of temporary or intermittent consultants and advisers who serve individually or on advisory bodies. The employment of highly skilled persons on a temporary or intermittent basis is in the interest of the Government and provides it with an indispensable source of expert advice and knowledge. However, since such persons have their principal employment outside the Government, conflict of interest problems arise from time to time.

More particularly, many persons serving the Government temporarily or intermittently are individuals with specialized scientific knowledge and skills whose regular work is in industry, research institutes or educational institutions. An individual employed by a university may act as an intermittent consultant not only for the Government but for a private firm and either his university or the firm or both may be engaged in work for or supported by the Government. A consultant to the Government may have other financial connections with firms doing business with the Government in the general area of his expertise and, therefore, his consultancy. The many possible interrelationships between a consultant's service to the Government and his own and his employer's or client's financial interests demonstrate that conflicts problems may often arise.

The temporary or intermittent adviser or consultant and the department or agency which employs him both must be alert to the possibility of conflicts. It is, of course, incumbent upon the adviser or consultant to familiarize himself with the laws and regulations which are applicable to him. The responsibility of the department or agency is equally great. It is important that it oversee his activities in order to insure that the public interest is protected from improper conduct on his part and that he will not, through ignorance or inadvertence, embarrass the Government or himself. It must assist him to understand the pertinent laws and regulations. It must obtain from him such information concerning his financial interests as is necessary to disclose possible conflicts. It must take measures to avoid the use of his services in any situation in which a violation of law or regulation is likely to occur. And it must take prompt and proper disciplinary or remedial action when a violation, whether intentional or innocent, is detected.

Prior to January 21, 1963, the date on which P.L. 87-849 (76 Stat. 1119) came into force, the restraints imposed by the conflict of interest laws on temporary or intermittent employees of the United States were largely the same as those imposed on persons regularly employed by the Government. However, in enacting P.L. 87-849, Congress recognized that these restraints were unduly restrictive, as applied to temporary and intermittent employees, and hindered the Government in obtaining expert services for special needs. Congress dealt with these difficulties in the new statute by establishing a category of persons designated "special Government employees," and by making the restrictions imposed upon their private activities considerably less extensive than those applied to regular employees.

The term "special Government employee" is defined in new section 202 of Title 18, United States Code, which was enacted as a part of P.L. 87-849. The term includes, among others, officers and employees

## THE PRESIDENT

of the departments and agencies, including the District of Columbia, who are retained, designated, appointed or employed to serve, with or without compensation, for not more than 130 days during any period of 365 consecutive days, either on a full-time or intermittent basis, under any type of appointment of whatever duration.

The enactment of P.L. 87-849 has made it necessary for the departments and agencies utilizing temporary or intermittent personnel to revise their conflict of interest regulations with regard to such personnel. While the problems arising from the employment of such personnel will undoubtedly vary from one Government organization to another, and different regulations may in some instances be appropriate or necessary, I believe it is desirable to achieve the maximum uniformity possible in order to insure general standards of common application throughout the Government. This memorandum is designed to achieve that purpose. It supersedes my Memorandum of February 9, 1962 to the Heads of Executive Departments and Agencies, entitled "Preventing Conflicts of Interest on the Part of Advisers and Consultants to the Government" (27 F.R. 1341), which is hereby rescinded.

## CONFLICT OF INTEREST STATUTES

P.L. 87-849 repealed the six basic conflict of interest laws which were discussed in my Memorandum of February 9, 1962, and replaced them with six new sections of Title 18 numbered 202, 203, 205, 207, 208 and 209. Sections 203 and 205 contain prohibitions affecting the activities of Government employees in their private capacities. As already noted, the prohibitions applicable to special Government employees are less stringent than those which affect regular employees—i.e., those who are appointed to serve more than 130 days a year. Section 207 contains prohibitions affecting the activities of persons who leave the service of the Government. It applies with the same force to former special Government employees as to former regular employees. Section 208 sets forth a restriction on the activities of a Government employee in performing his functions as such. This section also applies with the same force to both categories of employees. Section 209, which prohibits a regular employee's receipt of compensation from private sources in certain circumstances, specifically excludes special Government employees from its coverage.

The new sections are set forth in full in the appendix to this memorandum. It will be noted that all but 18 U.S.C. 202, which is devoted to the definition of terms, carry criminal penalties. The restraints imposed by the four criminal sections which are applicable to temporary and intermittent advisers or consultants, and to other persons falling within the definition of a special Government employee, are considered below.

*18 U.S.C. 203 and 205.* These two sections in general operate to preclude a regular Government employee, except in the discharge of his official duties, from representing another person before a department, agency or court, whether with or without compensation, in a matter in which the United States is a party or has a direct and substantial interest. However, the two sections impose only the following major restrictions upon a special Government employee:

1. He may not, except in the discharge of his official duties, represent anyone else before a court or Government agency in a matter involving a specific party or parties in which the United States is a party or has a direct and substantial interest and in which he has at any time participated personally and substantially in the course of his Government employment.

2. He may not, except in the discharge of his official duties, represent anyone else in a matter involving a specific party or parties in which the United States is a party or has a direct and substantial interest and which is pending before the agency he serves. However, this restraint is not applicable if he has served the agency no more than 60 days during the past 365. He is bound by the restraint, if applicable, regardless of whether the matter is one in which he has ever participated personally and substantially.

## FEDERAL REGISTER

These restrictions prohibit both paid and unpaid representation and apply to a special Government employee on the days when he does not serve the Government as well as on the days when he does.

Each department and agency should observe the following rules in obtaining and utilizing the services of a consultant, adviser or other temporary or intermittent employee:

(a) At the time of his original appointment and the time of each appointment thereafter, the department or agency should make its best estimate of the number of days during the following 365 on which it will require the services of the appointee. A part of a day should be counted as a full day for the purposes of this estimate, and a Saturday, Sunday or holiday on which duty is to be performed should be counted equally with a regular work day.

(b) Unless otherwise provided by law, an appointment should not extend for more than 365 days. In cases where an appointment extends beyond that period, an estimate as required by paragraph (a) should be made at the inception of the appointment and a new estimate at the expiration of each 365 days thereafter.

(c) If a department or agency estimates, pursuant to paragraph (a) or (b), that an appointee will serve more than 130 days during the ensuing 365, the appointee should not be carried on the rolls as a special Government employee and the department or agency should instruct him that he is regarded as subject to the prohibitions of sections 203 and 205 to the same extent as if he were to serve as a full-time employee. If the estimate is that he will serve no more than 130 days during the following 365 days, he should be carried on the rolls of the department or agency as a special Government employee and instructed that he is regarded as subject only to the restrictions of sections 203 and 205 described in paragraphs 1 and 2 above. Even if it becomes apparent, prior to the end of a period of 365 days for which a department or agency has made an estimate with regard to an appointee, that he has not been accurately classified, he should nevertheless continue to be deemed a special Government employee or not, as the case may be, for the remainder of that 365-day period.

(d) An employee who undertakes service with two departments or agencies shall inform each of his arrangements with the other. If both his appointments are made on the same date, the aggregate of the estimates made by the departments or agencies under paragraph (a) or (b) shall be deemed determinative of his classification by each. Notwithstanding anything to the contrary in paragraphs (a), (b) or (c), if after being employed by one department or agency, a special Government employee is appointed by a second to serve it in the same capacity, each department or agency should make an estimate of the amount of his service to it for the remaining portion of the 365-day period covered by the original estimate of the first. The sum of the two estimates and of the actual number of days of his service to the first department or agency during the prior portion of such 365-day period shall be deemed determinative of the classification of the appointee by each during the remaining portion. If an employee undertakes to serve more than two departments or agencies, they shall classify him in a manner similar to that prescribed in this paragraph in the case of two agencies. Each agency which employs special Government employees who serve other agencies shall designate an officer to coordinate the classification of such employees with such other agencies.

(e) In the case of a person who is serving as a member of an advisory committee, board or other group, and who is by virtue of his membership thereon an officer or employee of the United States, the requirements of paragraphs (a), (b), (c) and (d) should be carried out to the same extent as if he were serving the sponsoring department or agency separately and individually.

(f) The 60-day standard affecting a special Government employee's private activities before his department or agency is a standard of actual past service, as contrasted with the 130-day standard of estimated future service discussed above. As appears from paragraph 2 above, a special Government employee is barred from repre-

### THE PRESIDENT

sending another person before his department or agency at times when he has served it for an aggregate of more than 60 days during the past 365. Thus, although once having been in effect, the statutory bar may be lifted later by reason of an intervening period of non-service. In other words, as a matter of law the bar may fluctuate in its effect during the course of a special Government employee's relationship with his department or agency.

(g) A part of a day should be counted as a full day in connection with the 60-day standard discussed in paragraph (f), above, and a Saturday, Sunday or holiday on which duty has been performed should be counted equally with a regular work day. Service performed by a special Government employee in one department or agency should not be counted by another in connection with the 60-day standard.

To a considerable extent the prohibitions of sections 203 and 205 are aimed at the sale of influence to gain special favors for private businesses and other organizations and at the misuse of governmental position or information. In accordance with these aims, it is desirable that a consultant or adviser or other individual who is a special Government employee, even when not compelled to do so by sections 203 and 205, should make every effort in his private work to avoid any personal contact with respect to negotiations for contracts or grants with the department or agency which he is serving if the subject matter is related to the subject matter of his consultancy or other service. I recognize that this will not always be possible to achieve where, for example, a consultant or adviser has an executive position and responsibility with his regular employer which requires him to participate personally in contract negotiations with the department or agency he is advising. Whenever this is the case the consultant or adviser should participate in the negotiations for his employer only with the knowledge of a responsible government official. In other instances an occasional consultant or adviser may have technical knowledge which is indispensable to his regular employer in his efforts to formulate a research and development contract or a research grant and, for the same reason, it is in the interest of the Government that he should take part in negotiations for his private employer. Again, he should participate only with the knowledge of a responsible Government official.

Section 205 contains an exemptive provision dealing with a similar situation which may arise *after* a Government grant or contract has been negotiated. This provision in certain cases permits both the Government and the private employer of a special Government employee to benefit from his performance of work under a grant or contract for which he would otherwise be disqualified because he had participated in the matter for the Government or it is pending in an agency he has served more than 60 days in the past year. More particularly, the provision gives the head of a department or agency the power, notwithstanding any prohibition in either section 203 or 205, to allow a special Government employee to represent before such department or agency either his regular employer or another person or organization in the performance of work under a grant or contract. As a basis for this action, the department or agency head must first make a certification in writing, published in the *FEDERAL REGISTER*, that it is required by the national interest.

Section 205 contains three other exemptive provisions, all of which apply to both special and regular Government employees. The first permits one Government employee to represent another, without compensation, in a disciplinary, loyalty or other personnel matter. The second permits a Government employee to represent, with or without compensation, a parent, spouse, child, or person or estate he serves as a fiduciary, but only if he has the approval of the official responsible for appointments to his position and the matter involved is neither one in which he has participated personally or substantially nor one under his official responsibility. The term "official responsibility" is defined in 18 U.S.C. 202 to mean, in substance, the direct administrative or operating authority to control Government action. The third

### FEDERAL REGISTER

provision removes any obstacle in section 205 to a Government employee's giving testimony under oath or making statements required to be made under penalty for perjury or contempt.

*18 U.S.C. 207.* Section 207 applies to individuals who have left Government service, including former special government employees. It prevents a former employee from representing another person in connection with certain matters in which he participated personally and substantially on behalf of the Government. The matters are those involving a specific party or parties in which the United States is also a party or has a direct and substantial interest. In addition, section 207 prevents a former employee, for a period of one year after his employment has ceased, from appearing personally for another person in such matters before a court, department or agency if the matters were within the area of his official responsibility at any time during the last year of his Government service. It should be noted that a consultant or adviser usually does not have "official responsibility."

For the purposes of section 207, the employment of a special Government employee ceases on the day his appointment expires or is otherwise terminated, as distinguished from the day on which he last performs service.

*18 U.S.C. 208.* This section bears on the activities of Government personnel, including special Government employees, in the course of their official duties. In general, it prevents a Government employee from participating as such in a particular matter in which, to his knowledge, he, his spouse, minor child, partner, or a profit or non-profit enterprise with which he is connected has a financial interest. However, the section permits an employee's agency to grant him an *ad hoc* exemption if the interest is not so substantial as to affect the integrity of his services. Insignificant interests may also be waived by a general rule or regulation. Whether an agency should issue a general rule or regulation and, if it does so, what standards it should set are questions which should be resolved by each agency in the context of its particular responsibilities and activities.

The matters in which special Government employees are disqualified by section 208 are not limited to those involving a specific party or parties in which the United States is a party or has an interest, as in the case of sections 203, 205 and 207. Section 208 therefore undoubtedly extends to matters in addition to contracts, grants, judicial and quasi-judicial proceedings, and other matters of an adversary nature. Accordingly, a special Government employee should in general be disqualified from participating as such in a matter of any type the outcome of which will have a direct and predictable effect upon the financial interests covered by the section. However, the power of exemption may be exercised in this situation if the special Government employee renders advice of a general nature from which no preference or advantage over others might be gained by any particular person or organization. The power of exemption may of course be exercised also where the financial interests involved are minimal in value.

### ETHICAL STANDARDS OF CONDUCT

Aside from the conflict of interest laws, there are elementary rules of ethics in the conduct of the public business by which all those who serve the Government are bound. That an individual may serve the Government only occasionally and for brief periods does not relieve him from the obligation to abide by those rules. That he may be needed to bring rare or specialized talents and skills to the Government does not mean that he should be considered for a waiver. The people of the nation are entitled to ethical behavior of the highest order in the conduct of their Government's affairs, from the occasional employee no less than from career personnel.

Although any discussion of standards of ethics is of course applicable to all special Government employees, it is especially important in connection with the work of advisers and consultants. The following remarks are therefore concerned with them in particular.

## THE PRESIDENT

*Inside Information.* The first principle of ethical behavior for the temporary or intermittent consultant or adviser is that he must refrain from any use of his public office which is motivated by, or gives the appearance of being motivated by, the desire for private gain for himself or other persons, including particularly those with whom he has family, business or financial ties. The fact that the desired gain, if it materializes, will not take place at the expense of the Government makes his action no less improper.

An adviser or consultant must conduct himself in a manner devoid of the slightest suggestion that he is exploiting his Government employment for private advantage. Thus, a consultant or adviser must not, on the basis of any inside information, enter into speculation, or recommend speculation to members of his family or business associates, in commodities, land or the securities of any private company. He must obey this injunction even though his duties have no connection whatever with the Government programs or activities which may affect the value of such commodities, land or securities. And he should be careful in his personal financial activities to avoid any appearance of acting on the basis of information obtained in the course of his Government work.

It is important for consultants and advisers to have access to Government data pertinent to their duties and to maintain familiarity with the Government's plans and programs and the requirements thereof, within the area of their competence. Since it is frequently in the Government's interest that information of this nature be made generally available to an affected industry, there is generally no impropriety in a consultant's or adviser's utilizing such information in the course of his non-Government employment after it has become so available. However, a consultant or adviser may, in addition, acquire information which is not generally available to those outside the Government. In that event, he may not use such information for the special benefit of a business or other entity by which he is employed or retained or in which he has a financial interest.

In order to avoid any actual or potential abuse of information by a consultant or adviser, departments and agencies should, through information programs, make every effort to insure to the maximum extent possible that all firms within an industry have access to the same information that is available to a consultant or adviser who is employed by any of them. In addition, regular Government employees should avoid divulging confidential information to him unnecessarily to the performance of his governmental responsibility, or information which directly involves the financial interests of his employer. Consultants and advisers should be instructed that information not generally available to private industry must remain confidential in their hands, and must not be divulged to their private employers or clients. In cases of doubt they should be encouraged to confer with the chief legal officer or other designated agency official who can assist in the identification of information not generally available and in the resolution of any actual or potential conflict between duties to the Government and to private employers or clients.

Occasionally an individual who becomes a Government consultant or adviser is, subsequent to his designation as such, requested by a private enterprise to act in a similar capacity. In some cases the request may give the appearance of being motivated by the desire of the private employer to secure inside information. Where the consultant or adviser has reason to believe that the request for his services is so motivated, he should make a choice between acceptance of the tendered private employment and continuation of his Government consultancy. In such circumstances he may not engage in both. Furthermore, he should discuss any such offer of private employment with the chief legal officer of his Government agency whether or not he accepts it.

At times a private enterprise or other organization urges the appointment of one of its employees or members to a particular Government consultancy. The departments and agencies should discourage this practice. Any initiative in connection with the ap-

## FEDERAL REGISTER

pointment of consultants, or in securing the names of qualified persons, should come from the Government.

*Abuse of Office.* An adviser or consultant shall not use his position in any way to coerce, or give the appearance of coercing, another person to provide any financial benefit to him or persons with whom he has family, business or financial ties.

*Gifts.* An adviser or consultant shall not receive or solicit anything of value as a gift, gratuity, or favor for himself or persons with whom he has family, business or financial ties if the acceptance thereof would result in, or give the appearance of resulting in, his loss of complete independence or impartiality in serving the Government.

## INDUSTRY, LABOR, AGRICULTURAL OR OTHER REPRESENTATIVES

It is occasionally necessary to distinguish between consultants and advisers who are special Government employees and persons who are invited to appear at a department or agency in a representative capacity to speak for firms or an industry, or for labor or agriculture, or for any other recognizable group of persons, including on occasion the public at large. A consultant or adviser whose advice is obtained by a department or agency from time to time because of his individual qualifications and who serves in an independent capacity is an officer or employee of the Government. On the other hand, one who is requested to appear before a Government department or agency to present the views of a non-governmental organization or group which he represents, or for which he is in a position to speak, does not act as a servant of the Government and is not its officer or employee. He is therefore not subject to the conflict of interest laws and is not within the scope of this memorandum. However, the section of this memorandum headed "Ethical Standards of Conduct" sets forth rules of ethics by which he should be guided even though not in the status of a Government official, and the agency before which he appears should call that section to his attention.

The following principles are useful in arriving at a determination whether an individual is acting before an agency in a representative capacity:

(1) A person who receives compensation from the Government for his services as an adviser or consultant is its employee and not a representative of an outside group. However, the Government's payment of travel expenses and a *per diem* allowance does not by itself make the recipient an employee.

(2) It is rare that a consultant or adviser who serves alone is acting in a representative capacity. Those who have representative roles are for the most part persons serving as members of an advisory committee or similar body utilized by a Government agency. It does not follow, however, that the members of every such body are acting as representatives and are therefore outside the range of the conflict of interest laws. This result is limited to the members of committees utilized to obtain the views of non-governmental groups or organizations.

(3) The fact that an individual is appointed by an agency to an advisory committee upon the recommendation of an outside group or organization tends to support the conclusion that he has a representative function.

(4) Although members of a governmental advisory body who are expected to bind outside organizations are no doubt serving in a representative capacity, the absence of authority to bind outside groups does not require the conclusion that the members are Government employees. What is important is whether they function as spokesmen for non-governmental groups or organizations and not whether they can formally commit them.

(5) Where an adviser or consultant is in a position to act as a spokesman for the United States or a government agency—as, for example, in an international conference—he is obviously acting as an officer or employee of the Government.

**THE PRESIDENT****ADMINISTRATIVE STEPS**

All departments and agencies of the Government shall

(1) bring this memorandum to the attention of all special Government employees who serve them as advisers or consultants, of such other special Government employees as they may determine and of all regular employees who supervise such advisers, consultants and others;

(2) review their existing rules and regulations and make appropriate revisions or issue new rules and regulations to promote the policies set forth in this memorandum; and

(3) take such other measures as may be appropriate to impress upon the consultants, advisers and other special Government employees referred to in subdivision (1), and upon Government officials with whom they work, that they have a responsibility to avoid situations in which a potential conflict of interest may exist. These individuals should also be cautioned to avoid situations in which a special Government employee might be thought to be influencing governmental action in matters with regard to which he has a financial or other personal interest, or to be using inside information for private gain.

While it would be highly desirable, in order to minimize the occurrence of conflicts of interest, for departments and agencies of the Government to avoid appointing to advisory positions individuals who are employed or consulted by contractors or others having a substantial amount of business with that department or agency, I recognize that the Government has, of necessity, become increasingly concerned with highly technical areas of specialization and that the number of individuals expert in those areas is frequently very small. Therefore, in many instances it will not be possible for a department or agency to obtain the services of a competent adviser or consultant who is not in fact employed or consulted by such contractors. In addition, an advisory group may of necessity be composed largely or wholly of persons of a common class or group whose employers may benefit from the advice given. An example would be a group of university scientists advising on research grants to universities. Only in such a group can the necessary expertise be found. In all these circumstances, particular care should be exercised to exclude his employer's or clients' contracts or other transactions with the Government from the range of the consultant's or adviser's duties.

**DISCLOSURE OF FINANCIAL INTERESTS**

In order to carry out its responsibility to avoid the use of the services of consultants or advisers in situations where violations of the conflict of interest laws or of these regulations may occur, each department or agency of the Government shall, at the time of employment of a consultant or adviser, require him to supply it with a statement of all other employment. The statement shall list the names of all the companies, firms, State or local governmental organizations, research organizations and educational or other institutions which he is serving as employee, officer, member, director, adviser or consultant. In addition, it shall list such other financial information as the appointing department or agency shall decide is relevant in the light of the duties the appointee is to perform. The appointee may but need not be required to reveal precise amounts of investments. Each statement of private employment and financial interests should be forwarded to the chief legal officer of the department or agency concerned, for information and for advice as to possible conflicts of interest. In addition, each statement should be reviewed by those persons responsible for the employment of consultants and advisers to assist them in applying the criteria for disqualification which are set forth in this memorandum. Such statements should be kept current throughout the period during which the consultant is on the Government rolls.

**LEGAL INTERPRETATION**

Whenever the chief legal officer of a department or agency or his designee, believes that a substantial legal question is raised by the employment of a particular consultant or adviser he should advise

## FEDERAL REGISTER

the Department of Justice, through the Office of Legal Counsel, in order to insure a consistent and authoritative interpretation of the law.

This memorandum shall be published in the **FEDERAL REGISTER**.

JOHN F. KENNEDY

THE WHITE HOUSE,  
May 2, 1963.

## APPENDIX

18 U.S.C. 202. *Definitions.*

(a) For the purpose of sections 203, 205, 207, 208 and 209 of this title the term "special Government employee" shall mean an officer or employee of the executive or legislative branch of the United States Government, of any independent agency of the United States or of the District of Columbia, who is retained, designated, appointed, or employed to perform, with or without compensation, for not to exceed one hundred and thirty days during any period of three hundred and sixty-five consecutive days, temporary duties either on a full-time or intermittent basis, or a part-time United States Commissioner. Notwithstanding the next preceding sentence, every person serving as a part-time local representative of a Member of Congress in the Member's home district or State shall be classified as a special Government employee. Notwithstanding section 29 (c) and (d) of the Act of August 10, 1956 (70A Stat. 632; 5 U.S.C. 30r (c) and (d)), a Reserve officer of the Armed Forces, or an officer of the National Guard of the United States, unless otherwise an officer or employee of the United States, shall be classified as a special Government employee while on active duty solely for training. A Reserve officer of the Armed Forces or an officer of the National Guard of the United States who is voluntarily serving a period of extended active duty in excess of one hundred and thirty days shall be classified as an officer of the United States within the meaning of section 203 and sections 205 through 209 and 218. A Reserve officer of the Armed Forces or an officer of the National Guard of the United States who is serving involuntarily shall be classified as a special Government employee. The terms "officer or employee" and "special Government employee" as used in sections 203, 205, 207 through 209, and 218, shall not include enlisted members of the Armed Forces.

(b) For the purposes of sections 205 and 207 of this title, the term "official responsibility" means the direct administrative or operating authority, whether intermediate or final, and either exercisable alone or with others, and either personally or through subordinates, to approve, disapprove, or otherwise direct Government action.

18 U.S.C. 203. *Compensation to Members of Congress, officers, and others in matters affecting the Government.*

(a) Whoever, otherwise than as provided by law for the proper discharge of official duties, directly or indirectly receives or agrees to receive, or asks, demands, solicits, or seeks, any compensation for any services rendered or to be rendered either by himself or another—

(1) at a time when he is a Member of Congress, Member of Congress Elect, Resident Commissioner, or Resident Commissioner Elect; or

(2) at a time when he is an officer or employee of the United States in the executive, legislative, or judicial branch of the Government, or in any agency of the United States, including the District of Columbia,

in relation to any proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter in which the United States is a party or has a direct and substantial interest, before any department, agency, court-martial, officer, or any civil, military, or naval commission, or

(b) Whoever, knowingly, otherwise than as provided by law for the proper discharge of official duties, directly or indirectly gives, promises, or offers any compensation for any such services rendered or to be rendered at a time when the person to whom the compensation is given, promised, or offered, is or was such a Member, Commissioner, officer, or employee—

Shall be fined not more than \$10,000 or imprisoned for not more than two years, or both; and shall be incapable of holding any office of honor, trust, or profit under the United States.

(c) A special Government employee shall be subject to subsection (a) only in relation to a particular matter involving a specific party or parties (1) in which he has at any time participated personally and substantially as a Government employee or as a special Government employee through decision, approval, disapproval, recommendation, the rendering of advice, investigation or otherwise, or (2) which is pending in the department or agency of the Government in which he is serving: *Provided*, That clause (2) shall not apply in the case of a special Government employee who has served in such department or agency no more than sixty days during the immediately preceding period of three hundred and sixty-five consecutive days.

18 U.S.C. 205. *Activities of officers and employees in claims against and other matters affecting the Government.*

Whoever, being an officer or employee of the United States in the executive, legislative, or judicial branch of the Government or in any agency of the United

## THE PRESIDENT

States, including the District of Columbia, otherwise than in the proper discharge of his official duties—

(1) acts as agent or attorney for prosecuting any claim against the United States, or receives any gratuity, or any share of or interest in any such claim in consideration of assistance in the prosecution of such claim, or

(2) acts as agent or attorney for anyone before any department, agency, court, court-martial, officer, or any civil, military, or naval commission in connection with any proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter in which the United States is a party or has a direct and substantial interest—

Shall be fined not more than \$10,000 or imprisoned for not more than two years, or both.

A special Government employee shall be subject to the preceding paragraphs only in relation to a particular matter involving a specific party or parties (1) in which he has at any time participated personally and substantially as a Government employee or as a special Government employee through decision, approval, disapproval, recommendation, the rendering of advice, investigation or otherwise, or (2) which is pending in the department or agency of the Government in which he is serving: *Provided*, That clause (2) shall not apply in the case of a special Government employee who has served in such department or agency no more than sixty days during the immediately preceding period of three hundred and sixty-five consecutive days.

Nothing herein prevents an officer or employee, if not inconsistent with the faithful performance of his duties, from acting without compensation as agent or attorney for any person who is the subject of disciplinary, loyalty, or other personnel administration proceedings in connection with those proceedings.

Nothing herein or in section 203 prevents an officer or employee, including a special Government employee, from acting, with or without compensation, as agent or attorney for his parents, spouse, child, or any person for whom, or for any estate for which, he is serving as guardian, executor, administrator, trustee, or other personal fiduciary except in those matters in which he has participated personally and substantially as a Government employee, through decision, approval, disapproval, recommendation, the rendering of advice, investigation, or otherwise, or which are the subject of his official responsibility, provided that the Government official responsible for appointment to his position approves.

Nothing herein or in section 203 prevents a special Government employee from acting as agent or attorney for another person in the performance of work under a grant by, or a contract with or for the benefit of, the United States provided that the head of the department or agency concerned with the grant or contract shall certify in writing that the national interest so requires.

Such certification shall be published in the **FEDERAL REGISTER**.

Nothing herein prevents an officer or employee from giving testimony under oath or from making statements required to be made under penalty for perjury or contempt.

18 U.S.C. 207. *Disqualification of former officers and employees in matters connected with former duties or official responsibilities; disqualification of partners.*

(a) Whoever, having been an officer or employee of the executive branch of the United States Government, of any independent agency of the United States, or of the District of Columbia, including a special Government employee, after his employment has ceased, knowingly acts as agent or attorney for anyone other than the United States in connection with any judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter involving a specific party or parties in which the United States is a party or has a direct and substantial interest and in which he participated personally and substantially as an officer or employee, through decision, approval, disapproval, recommendation, the rendering of advice, investigation, or otherwise, while so employed, or

(b) Whoever, having been so employed, within one year after his employment has ceased, appears personally before any court or department or agency of the Government as agent, or attorney for, anyone other than the United States in connection with any proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter involving a specific party or parties in which the United States is a party or directly and substantially interested, and which was under his official responsibility as an officer or employee of the Government at any time within a period of one year prior to the termination of such responsibility—

Shall be fined not more than \$10,000 or imprisoned for not more than two years, or both: *Provided*, That nothing in subsection (a) or (b) prevents a former officer or employee, including a former special Government employee, with outstanding scientific or technological qualifications from acting as attorney or agent or appearing personally in connection with a particular matter in a scientific or technological field if the head of the department or agency concerned with the matter shall make a certification in writing, published in the **FEDERAL REGISTER**, that the national interest would be served by such action or appearance by the former officer or employee.

## FEDERAL REGISTER

(c) Whoever, being a partner of an officer or employee of the executive branch of the United States Government, of any independent agency of the United States, or of the District of Columbia, including a special Government employee, acts as agent or attorney for anyone other than the United States, in connection with any judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter in which the United States is a party or has a direct and substantial interest and in which such officer or employee of the Government or special Government employee participates or has participated personally and substantially as a Government employee through decision, approval, disapproval, recommendation, the rendering of advice, investigation or otherwise, or which is the subject of his official responsibility—

Shall be fined not more than \$5,000, or imprisoned not more than one year, or both.

A partner of a present or former officer or employee of the executive branch of the United States Government, of any independent agency of the United States, or of the District of Columbia or of a present or former special Government employee shall as such be subject to the provisions of sections 203, 205, and 207 of this title only as expressly provided in subsection (c) of this section.

18 U.S.C. 208. *Acts affecting a personal financial interest.*

(a) Except as permitted by subsection (b) hereof, whoever, being an officer or employee of the executive branch of the United States Government, of any independent agency of the United States, or of the District of Columbia, including a special Government employee, participates personally and substantially as a Government officer or employee, through decision, approval, disapproval, recommendation, the rendering of advice, investigation, or otherwise, in a judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter in which, to his knowledge, he, his spouse, minor child, partner, organization in which he is serving as officer, director, trustee, partner or employee, or any person or organization with whom he is negotiating or has any arrangement concerning prospective employment, has a financial interest—

Shall be fined not more than \$10,000, or imprisoned not more than two years, or both.

(b) Subsection (a) hereof shall not apply (1) if the officer or employee first advises the Government official responsible for appointment to his position of the nature and circumstances of the judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter and makes full disclosure of the financial interest and receives in advance a written determination made by such official that the interest is not so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from such officer or employee, or (2) if, by general rule or regulation published in the *FEDERAL REGISTER*, the financial interest has been exempted from the requirements of clause (1) hereof as being too remote or too inconsequential to affect the integrity of Government officers' or employees' services.

18 U.S.C. 209. *Salary of Government officials and employees payable only by United States.*

(a) Whoever receives any salary, or any contribution to or supplementation of salary, as compensation for his services as an officer or employee of the executive branch of the United States Government, of any independent agency of the United States, or of the District of Columbia, from any source other than the Government of the United States, except as may be contributed out of the treasury of any State, county, or municipality; or

Whoever, whether an individual, partnership, association, corporation, or other organization pays, or makes any contribution to, or in any way supplements the salary of, any such officer or employee under circumstances which would make its receipt a violation of this subsection—

Shall be fined not more than \$5,000 or imprisoned not more than one year, or both.

(b) Nothing herein prevents an officer or employee of the executive branch of the United States Government, or of any independent agency of the United States, or of the District of Columbia, from continuing to participate in a bona fide pension, retirement, group life, health or accident insurance, profit-sharing, stock bonus, or other employee welfare or benefit plan maintained by a former employer.

(c) This section does not apply to a special Government employee or to an officer or employee of the Government serving without compensation, whether or not he is a special Government employee, or to any person paying, contributing to, or supplementing his salary as such.

(d) This section does not prohibit payment or acceptance of contributions, awards, or other expenses under the terms of the Government Employees Training Act (Public Law 85-507, 72 Stat. 327; 5 U.S.C. 2301-2319, July 7, 1958).

[F.R. Doc. 63-4917; Filed, May 3, 1963; 1:00 p.m.]

DIGEST OF CONFLICT OF INTEREST LAWSNEW LAWS APPLICABLE TO FULL-TIME OFFICERS AND EMPLOYEES

(These laws are set out in full in the Appendix to Inclosure 2)

I. 18 U.S.C. 203

Subsection (a) of this section in general prohibits an officer or employee of the United States in any branch or agency of the Government from soliciting or receiving compensation for services rendered on behalf of another person before a Government department or agency in relation to any particular matter in which the United States is a party or has a direct and substantial interest. The subsection does not preclude compensation for services rendered on behalf of another in court.

Subsection (b) makes it unlawful for anyone to offer or pay compensation, the solicitation or receipt of which is barred by subsection (a).

II. 18 U.S.C. 205

This section contains two major prohibitions. The first prevents an officer or employee of the United States in any branch or agency of the Government from acting as agent or attorney for prosecuting any claim against the United States, including a claim in court, whether for compensation or not. It also prevents him from receiving a gratuity, or a share or interest in any such claim, for assistance in the prosecution thereof.

The second main prohibition of section 205 is concerned with more than claims. It precludes an officer or employee of the Government from acting as agent or attorney for anyone else before a department, agency or court in connection with any particular matter in which the United States is a party or has a direct and substantial interest.

18 U.S.C. 203 and 205 overlap. The following are the few important differences between sections 203 and 205 as they apply to officers and employees of the Government:

1. Section 203 bars services rendered for compensation solicited or received, but not those rendered without such compensation; section 205 bars both kinds of services.
2. Section 203 bars services rendered before the departments and agencies but not services rendered in court; section 205 bars both.

It should be noted, however, that for all practical purposes section 205 completely overshadows section 203.

Exemptions:

Section 205 permits a Government officer or employee to represent another person, without compensation, in a disciplinary, loyalty or other personnel matter. Another provision declares that the section does not prevent an officer or employee from giving testimony under oath or making statements required to be made under penalty for perjury or contempt.

Section 205 also authorizes a limited waiver of its restrictions and those of section 203 for the benefit of an officer or employee, including a special Government employee, who represents his own parents, spouse or child, or a person or estate he serves as a fiduciary. The waiver is available to the officer or employee, whether acting for any such person with or without compensation, but only if approved by the official making appointments to his position. In no event does the waiver extend to his representation of any such person in matters in which he has participated personally and substantially or which, even in the absence of such participation, are the subject of his official responsibility.

Finally, section 205 gives the head of a department or agency the power, notwithstanding any applicable restrictions in its provisions or those of section 203, to allow a special Government employee to represent his regular employer or other outside organization in the performance of work under a Government grant or contract. However, this action is open to the department or agency head only upon his certification, published in the FEDERAL REGISTER, that the national interest requires it.

III. 18 U.S.C. 208

This section forbids certain actions by an officer or employee of the Government in his role as a servant or representative of the Government. Its thrust is therefore to be distinguished from that of 18 U.S.C. 203 and 205 which forbid certain actions in his capacity as a representative of persons outside the Government.

Subsection (a) in substance requires an officer or employee of the executive branch, including a special Government employee, to refrain from participating as such in any matter in which, to his knowledge, he, his spouse, minor child or partner has a financial interest. He must also remove himself from a matter in which a business or non-profit organization with which he is connected or is seeking employment has a financial interest. Under this section, a "particular matter" may be a matter less concrete than an actual contract, because the concept of a "particular matter involving a specific party or parties" is not used here as in other sections. However, a "particular matter" is something more specific than rule making or abstract scientific principles. The test for determining whether the action of the

individual involves a particular matter in which he (or the other enumerated parties) has a financial interest is whether he might reasonably anticipate that his action or the decision in which he participates or with respect to which he advises, will have a direct and predictable effect upon a financial interest of himself, his spouse, minor child, partner or organization with which he is connected or seeking employment.

Subsection (b) permits the agency of an officer or employee to grant him an ad hoc exemption from subsection (a) if the outside financial interest in a matter is deemed not substantial enough to have an effect on the integrity of his services. Financial interests of this kind may also be made nondisqualifying by a general regulation published in the FEDERAL REGISTER.

IV. 18 U.S.C. 209

Subsection (a) prevents an officer or employee of the executive branch, an independent agency or the District of Columbia from receiving, and anyone from paying him, any salary or supplementation of salary from a private source as compensation for his services to the Government.

Subsection (b) specifically authorizes an officer or employee covered by subsection (a) to continue his participation in a bona fide pension plan or other employee welfare or benefit plan maintained by a former employer.

Subsection (c) provides that section 209 does not apply to a special Government employee or to anyone serving the Government without compensation, whether or not he is a special Government employee.

Subsection (d) provides that the section does not prohibit the payment or acceptance of contributions, awards or other expenses under the terms of the Government Employees Training Act.

V. APPLICABLE TO REGULAR NAVY AND MARINE OFFICERS, 37 U.S.C. 801 (a)  
Formerly 10 U.S.C. 6112 (a)

An officer of the Regular Navy or the Regular Marine Corps, other than a retired officer, may not be employed by any person furnishing Naval supplies or war materials to the United States. If such an officer is so employed, he is not entitled to any payment from the United States during that employment.

NEW LAW APPLICABLE TO FORMER OFFICERS AND EMPLOYEESI. 18 U.S.C. 207 (This law is set out in full in the Appendix to Inclosure 2.)

Subsections (a) and (b) of this section contain post-employment prohibitions applicable to persons who have ended service as officers or employees of the executive branch. The prohibitions for persons who have served as special Government employees are the same as for persons who have performed regular duties.

The restraint of subsection (a) is against a former officer or employee's acting as agent or attorney for anyone other than the United States in connection with certain matters, whether pending in the courts or elsewhere. The matters are those involving a specific party or parties in which the United States is one of the parties or has a direct and substantial interest and in which the former officer or employee participated personally and substantially while holding a Government position.

Subsection (b) sets forth a one-year post-employment prohibition in respect of those matters which were within the area of official responsibility of a former officer or employee at any time during the last year of his service but which do not come within subsection (a) because he did not participate in them personally and substantially. More particularly, the prohibition of subsection (b) prevents his personal appearance in such matters before a court or a department or agency of the Government as agent or attorney for anyone other than the United States. Where, in the year prior to the end of his service, a former officer or employee has changed areas of responsibility by transferring from one agency to another, the period of his post-employment ineligibility as to matters in a particular area ends one year after his responsibility for that area ends. For example, if an individual transfers from a supervisory position in the Internal Revenue Service to a supervisory position in the DoD and leaves DoD for private employment nine months later, he will be free of the restriction of subsection (b) in three months insofar as Internal Revenue matters are concerned. He will of course be bound by it for a year in respect of DoD matters.

The proviso following subsections (a) and (b) authorizes a department head, notwithstanding anything to the contrary in their provisions, to permit a former officer or employee with outstanding scientific qualifications to act as attorney or agent or appear personally before the department for another in a matter in a scientific field. This authority may be exercised by the department head upon a "national interest" certification published in the FEDERAL REGISTER.

Subsections (a) describes the activities it forbids as being in connection with "particular matters involving a specific party or parties" in which the former officer or employee had participated. Subsection (b) relates to matters which were under his official responsibility. The language of both does not include general rulemaking, the formulation of general policy or standards, or other similar matters. Thus, past participation in or official responsibility for a matter of this kind on behalf of the Government does not disqualify a former employee from representing another person in a proceeding which is governed by the rule or other result of such matter. Similarly, in the scientific field past participation in discussion of scientific or engineering concepts, the feasibility of scientific or technical accomplishments or proposed Government programs in early stages prior to the formulation of contract or a contract proposal where specific parties become involved in a matter, does not disqualify the former employee from representing his company with respect to a contract entered into at a later time even though the same general scientific matters may be involved in such a contract.

Subsection (a) bars permanently a greater variety of actions than subsection (b) bars temporarily. The conduct made unlawful by the former is any action as agent or attorney, while that made unlawful by the latter is a personal appearance as agent or attorney. However, neither subsection precludes post-employment activities which may fairly be characterized as no more than aiding or assisting another. An individual who has left the department to accept private employment may, for example, immediately perform technical work in his company's plant in relation to a contract for which he had official responsibility - - or, for that matter, in relation to one he helped the agency negotiate. On the other hand, he is forbidden for a year, in the first case, to appear personally before the department as the agent or attorney of his company in connection with a dispute over the terms of the contract. He may at no time appear personally before the department or otherwise act as agent or attorney for his company in such dispute if he helped negotiate the contract. Under both sections the disability is personal, and neither section would prevent the former officer or employee from becoming the president or other officer of a corporation which has contracts with the Government, so long as such former officer or employee does not personally act as the agent or attorney of the company in dealing with the matters covered under Sections a and b.

SUMMARY OF LAWS APPLICABLE TO RETIRED REGULAR OFFICERS  
NOT ON ACTIVE DUTY

I. PROHIBITED ACTIVITIES.

- A. Matters Connected With Former Duties or Official Responsibilities. A retired regular officer not on active duty is considered to be a "former officer" for the purposes of 18 U.S.C. 207 and therefore, the prohibitions discussed in paragraph XIII C and Inclosure 3 B apply to him.
- B. Claims. A retired regular officer of the armed forces may not, within two years of his retirement, act as agent or attorney for prosecuting any claim against the Government, or assist in the prosecution of such a claim or receive any gratuity or any share of or interest in such claim in consideration for having assisted in the prosecution of such a claim, if such claim involves the department in whose service he holds a retired status. Nor may a regular retired officer at any time act as an agent or attorney for prosecuting any claim against the Government or assist in prosecution of such claim, or receive any gratuity or any share of or interest in such a claim in consideration for having assisted in the prosecution of such claim, if such claim involves any subject matter with which he was directly connected while on active duty (See 18 U.S.C. 283).
- C. Selling.
1. A retired regular officer is prohibited, at all times, from receiving or agreeing to receive any compensation for representing any person in the sale of anything to the Government through the department in whose service he holds a retired status (See 18 U.S.C. 281).
  2. 37 U.S.C. 801(c) as amended October 9, 1962, P. L. 87-777, formerly 5 U.S.C. 59(c) provides:

"No payment shall be made from appropriations in any Act to any officer on the retired lists of the Regular Army, Regular Navy, Regular Marine Corps, Regular Air Force, Regular Coast Guard, Coast and Geodetic Survey, and Public Health Service for a period of three years after retirement who for himself or

for others is engaged in the selling of or contracting for the sale of or negotiating for the sale of to any agency of the Department of Defense, the Coast Guard, the Coast and Geodetic Survey, and the Public Health Service any supplies or war materials."

For the purpose of this statute, "selling" means:

- a. Signing a bid, proposal, or contract;
- b. Negotiating a contract;
- c. Contacting an officer or employee of any of the foregoing departments or agencies for the purpose of:
  - (1) Obtaining or negotiating contracts,
  - (2) Negotiating or discussing changes in specifications, price, cost allowances, or other terms of a contract, or
  - (3) Settling disputes concerning performance of a contract, or
- d. Any other liaison activity with a view toward the ultimate consummation of a sale although the actual contract therefor is subsequently negotiated by another person.

However, it is not the intent of this Directive to preclude a retired regular officer from accepting employment with private industry solely because his employer is a contractor with the Government.

## II. EXEMPTIONS FROM LAW APPLYING TO OFFICERS ON ACTIVE DUTY

A regular officer who has been retired continues to be an "officer" of the United States for purposes of many statutes. However, the laws applying to officers on active duty listed in paragraph XIII A of this Directive do not normally apply to retired regular officers not on active duty. The law specifically provides that 18 U.S.C. 203 and 205 do not apply to a retired officer while not on active duty who is not otherwise an officer or employee of the United States (See 18 U.S.C. 206). In addition, as a practical matter, 18 U.S.C. 208 and 209 do not apply to a retired officer not on active duty who is not performing services for the Government, solely because of his status as a retired regular officer.

OTHER RELATED CRIMINAL LAWS APPLICABLE TO ALL DEPARTMENT  
OF DEFENSE PERSONNEL

The following activities may subject present and former DoD personnel to criminal penalties:

- A. Aiding, abetting, counseling, commanding, inducing, or procuring another to commit a crime under any criminal statute (See 18 U.S.C. 201).
- B. Concealing or failing to report to proper authorities the commission of a felony under any criminal statute if such personnel knew of the actual commission of the crime (See 18 U.S.C. 4).
- C. Conspiring with one or more other persons to commit a crime under any criminal statute or to defraud the United States, if any party to the conspiracy does any act to effect the object of the conspiracy (See 18 U.S.C. 371).

HOUSE CONCURRENT RESOLUTION 175  
85TH CONGRESS, 2D SESSION

Resolved by the House of Representatives (the Senate concurring), That it is the sense of the Congress that the following Code of Ethics should be adhered to by all Government employees, including officeholders:

CODE OF ETHICS FOR GOVERNMENT SERVICE

Any person in Government service should:

1. Put loyalty to the highest moral principles and to country above loyalty to persons, party, or Government department.
2. Uphold the Constitution, laws, and legal regulations of the United States and of all governments therein and never be a party to their evasion.
3. Give a full day's labor for a full day's pay; giving to the performance of his duties his earnest effort and best thought.
4. Seek to find and employ more efficient and economical ways of getting tasks accomplished.
5. Never discriminate unfairly by the dispensing of special favors or privileges to anyone, whether for remuneration or not; and never accept, for himself or his family, favors or benefits under circumstances which might be construed by reasonable persons as influencing the performance of his governmental duties.
6. Make no private promises of any kind binding upon the duties of office, since a Government employee has no private word which can be binding on public duty.
7. Engage in no business with the Government, either directly or indirectly, which is inconsistent with the conscientious performance of his governmental duties.
8. Never use any information coming to him confidentially in the performance of governmental duties as a means for making private profit.
9. Expose corruption wherever discovered.
10. Uphold these principles, ever conscious that public office is a public trust.

## STATEMENT OF EMPLOYMENT AND FINANCIAL INTERESTS

1. Private Employment

(Name of all companies, firms, State or local governmental organizations, research organizations, and educational or other institutions for which you are serving as employee, officer, member, director, adviser or consultant. Also list any organization with which you are negotiating or have an arrangement concerning prospective employment.)

2. Federal Government Employment

- a. I anticipate I will be employed by the U. S. Government during the 365 days following \_\_\_\_\_ (date of proposed appointment), as follows:

<u>Employing Agency</u>	<u>Estimated Days of Service</u>
-------------------------	----------------------------------

- b. During the 365 days prior to \_\_\_\_\_ (date of proposed appointment) I will have been employed by (Army), (Navy), (Air Force), (OSD) as follows:

<u>Employing Agency</u>	<u>Days Served</u>
-------------------------	--------------------

3. Financial Interests

(Names of all companies, firms, research institutions or other organizations in which you, or to your knowledge, your spouse, or your children, own securities or other financial interests - precise amounts of investments need not be revealed.)

Name \_\_\_\_\_  
 Address \_\_\_\_\_  
 Date \_\_\_\_\_

<b>STATEMENT OF EMPLOYMENT</b> <i>(Regular Retired Officers)</i>	
1. I am a regular retired officer of the _____, and was retired on _____. <div style="text-align: center; font-size: small;"> <span style="margin-right: 100px;">(Department)</span> <span>(Date)</span> </div>	
2. I <input type="checkbox"/> am <input type="checkbox"/> am not employed. <i>(If employed, or self employed, complete the rest of this item; if more than one employer, list complete information for each employer on a separate sheet).</i>	
a. My employer's name and address is	
b. My employer sells, or offers for sale, to agencies <i>(including nonappropriated fund activities)</i> of the Department of Defense, the Coast Guard, the Coast and Geodetic Survey, or the Public Health Service, the following types of products or services:	
c. My position title is	
d. My duties are, briefly <i>(a complete description of your job, a copy of your employment contract, or any other pertinent information, may be attached)</i> :	
e. My duties do not involve selling to the Government in violation of the statutes and policies cited in the regulation received.	
3. I have received a copy of DOD Directive 5500.7, or the regulation issued by my department implementing that Directive.	
4. I will promptly file a new Statement of Employment whenever the information in this Statement is no longer accurate.	
SIGNATURE	DATE
NAME <i>(Typed or Printed)</i>	FILE/SERVICE NUMBER

Senator DOUGLAS. Suppose a person is found accepting a lunch or dinner or trip to Miami or fishing or hunting trip, is any disciplinary action taken against him?

Mr. CAMPBELL. I don't know.

Commander DURKIN. There has been some question about this. I believe it is left to the individual's superior. A report is made of this and a determination of the facts is then established.

Senator DOUGLAS. It is not subject to what would be the equivalent of a court-martial?

Commander DURKIN. I would rather not answer on that. I am not quite sure.

Senator DOUGLAS. I wonder if you would supply evidence on that. (The following material was subsequently supplied:)

Section XI of Department of Defense Directive 5500.7, "Standards of Conduct," provides, "Department of Defense personnel who have information which causes them to believe that there has been a violation of a statute or policy set forth in this directive will promptly report such incidents to their immediate superiors." Depending on the nature of the allegation, immediate action is taken to conduct a full investigation of the circumstances surrounding the charge. This may be carried out through regular departmental investigative sources, personnel management, or the appropriate legal officer. Such investigations are conducted through the department or agency in which the member is serving. In the case of a possible violation of a statute the facts are assembled for submission to the Department of Justice unless the individual concerned is subject to courts-martial procedure, in which case he may be handled in accordance with these procedures. The type of disciplinary action taken will depend upon the gravity of the charge.

(Off-the-record discussion at this point.)

Mr. NEWMAN. Mr. Chairman, to our knowledge we did issue a draft report to the Secretary of Defense. As a result of the findings in this report the agency admonished certain personnel.

Senator DOUGLAS. In how many instances?

Mr. NEWMAN. Eight, I believe.

Senator DOUGLAS. What was the type of disciplinary action taken?

Mr. NEWMAN. In one case we understand that court-martial proceedings were considered.

Senator DOUGLAS. Is that the case that appeared in the newspaper?

Mr. NEWMAN. No, sir.

Senator DOUGLAS. Well, I read a great many newspapers and I do not maintain a clipping service. Somehow I had the impression of three or four negotiating officers.

Mr. NEWMAN. Oh, that is the one at Fort Monmouth.

Senator DOUGLAS. Yes.

Now there was a case, was there not, where these men had been found guilty but were restored to duty? Is that not true?

Mr. NEWMAN. We are working on that for you.

Senator DOUGLAS. Has the Department of Defense any statement to make on the Fort Monmouth case? The Department of Defense man?

Commander DURKIN. I have none, Mr. Chairman.

Senator DOUGLAS. I happen to be interested in that because a reporter, Mr. Charles Nicodemus, of the Chicago Daily News, an acquaintance of mine, made the original recommendation on the basis of which disciplinary action was supposedly taken. As I remember his subsequent stories of this winter he found that these men were restored to duty.

Mr. CAMPBELL. We are looking into that now for you.

Senator DOUGLAS. Will you make a report on that?

Mr. CAMPBELL. Yes, sir. Of course this did not involve entertainment as I recall. This was another problem.

Senator DOUGLAS. Yes. But there were real abuses in the Monmouth contracts. We had a lot of complaints on Monmouth. Not of the type another Senator made about Monmouth but on excessive price paid.

I wish the Department of Defense would review that action at Monmouth, too, and make a report on Monmouth.

(Report mentioned above was later supplied to the committee for the record and appears below.)

## REPORT ON MONMOUTH FOR JOINT ECONOMIC COMMITTEE HEARINGS

### I. INTRODUCTION

#### A. *The Army Materiel Command*

The U.S. Army Materiel Command (AMC), a major command of the Department of the Army, was formed in August 1962. The command inherited more than 250 military installations and activities engaged in developing, producing, supplying, and maintaining weapons systems, missiles, electronics, munitions, and other materiel for the Army. It has operated under annual expenditures of over \$7 billion. The command has 20,000 military and 160,000 civilian personnel.

Gen. Frank S. Besson assumed command of AMC on August 1, 1962, and has continued in that capacity to date.

All AMC personnel were asked to lend wholehearted support to the Army reorganization and to identify themselves with the Army Materiel Command rather than their former technical services. A new sense of urgency was required and the latest developed management system was initiated with these new commands.

The Army Materiel Command cost reduction savings for its first 30 months of operation approximates \$1,003 million. These savings include those in the procurement areas for all subordinate command activities. Included in this is an estimated \$28 million savings realized by procurement actions at the Electronics Command during the fiscal years 1964 and 1965.

Now in its third year, the AMC cost reduction program continues to gain momentum. In fiscal year 1964, AMC savings totaled \$547 million, 50 percent above the goal set by the Army for AMC. These savings clearly evidence the success of the AMC efforts to achieve the three major objectives of the program—to buy only what we need, to buy at the lowest sound price, and to reduce operating costs. The program is becoming stabilized and better understood by personnel at all levels. As one of the more dynamic programs in AMC, it continues to receive the highest priority attention by all AMC commanders.

#### B. *The U.S. Army Electronics Command*

The U.S. Army Electronics Command at Fort Monmouth, N.J., one of seven subordinate AMC commands, was established on August 1, 1962, with Maj. Gen. Stuart S. Hoff as its first commanding general. The command became operational September 1, 1962. Maj. Gen. F. W. Moorman assumed command at Fort Monmouth in August 1963.

### II. BACKGROUND

When General Moorman reported for duty he learned that senior engineers William J. Laverick (GS-15) and Harrison F. Tryon (GS-14) as well as former Fort Monmouth Senior Engineer Malcolm Schaeffer had been arrested by the Federal Bureau of Investigation and all three were then under a U.S. district court indictment for bribery in connection with the award of an electronic contract. Mr. Laverick had up until 13 months previously headed up the Production Engineering Division, Fort Monmouth. The cases were successfully prosecuted in Federal court. All three individuals were found guilty of bribery, and appeals are still pending. Mr. Charles Nicodemus of the Chicago Daily News may have contributed to exposing the offenses involved.

As a direct result of the *Laverick-Tryon-Schaeffer* case, the Department of the Army initiated 30 to 40 other investigations at Fort Monmouth to determine if this case was an isolated episode or whether there were other instances of bribery and corruption. The Army's reports of investigation were made available to the

FBI on a continuing basis and despite extensive further FBI investigation the Department of Justice concluded that there was not sufficient evidence to support criminal actions involving Fort Monmouth personnel.

During the assumption of command briefing General Moorman learned of a General Accounting Office (GAO) draft report of their survey titled "Procurement of Inaccurate Radiation Measuring Instruments." The GAO report raised serious questions concerning five separate procurements on radiacmeters.

In consonance with AMC policy, General Moorman directed an investigation to ascertain the lack of compliance with established policies procedure and regulations concerning the testing, acceptance, and production of radiacmeters. The GAO findings and conclusions were to be used as guidelines for the investigation.

As a result, the command concluded that there was a need for a second investigation to ascertain the identity of Ecom personnel who (a) failed to perform their duties and/or (b) acted wrongfully in the radiacmeter contract case.

With this as a background, this paper will discuss the radiacmeter contracts, radiacmeter adverse personnel actions, and the three other procurements mentioned by Congressman Rumsfeld in his remarks of March 4, 1965.

### III. THE "RADIACMETER" CASE

Soldiers use IM-108 radiacmeter as a tactical survey instrument to detect and measure gamma radiation resulting from nuclear explosions. The IM-174 radiacmeter is a later and further improved model. The Army needs the radiacmeter in this nuclear age. Those soldiers first committed to combat would have an immediate need.

In March 1955 El-Tronics, Inc., of Alhambra, Calif., the U.S. Army Signal Corps developer of the IM-108, delivered a number of test items to the National Bureau of Standards and the U.S. Continental Army Command (Conarc).

The National Bureau of Standards evaluated six prototype radiacmeters and reported on their test results on May 3, 1955. In this test, the performance of the meter was checked during extended periods of the continuous operation up to 429 hours. Analysis of the results indicate that for 528 measurements the one sigma accuracy value was approximately plus or minus 24 percent. The reports also stated that the energy and orientation dependence is negligible, but other factors such as sensitivity and provision for battery check should be incorporated in the instruments. These improvements as well as separate battery box for arctic use were added to the instrument and four improved models were thereafter submitted to Conarc for test. It was these later models which were tested that resulted in Conarc's recommendations to undertake limited production and to correct deficiencies during production.

Another test of the IM-108 was conducted by the Deputy Quartermaster General (Design and Development) of the Canadian Army. Two production instruments were tested. One instrument was within a  $\pm 10$  percent of true reading on calibration accuracy and within  $\pm 15$  percent on energy dependence. The second instrument, however, dropped as low as 54 percent of true reading.

From the above tests, it is concluded that the specifications drawn up by the Army Signal Corps were attainable, but that definite problems in the radiacmeter production existed.

All procurement contracts were initially awarded prior to the Army's reorganization and the formation of the Army Materiel Command. Further all five awards were initially made before General Moorman became commander of the Electronics Command. However, because of continuing production difficulties General Moorman terminated the last two contracts.

#### *The first procurement*

The contract for 10,800 IM-108 radiacmeters was awarded as result of price competition, to the Landsverk Electrometer Co. of Glendale, Calif., in the amount of \$605,858, on March 29, 1958.

The U.S. Armor Board (CONARC) had completed tests on the experimental models of the radiacmeter on May 17, 1957. The test report recognized deficiencies in the development model but recommended a crash limited procurement on an emergency basis with the deficiencies to be corrected in the production contract. The Army staff modified the CONARC recommendation based on assurances by the chief signal officer that the deficiencies could be corrected in production, and the radiacmeter was type classified standard A (rather than

limited production) on July 29, 1957. The Landsverk contract was awarded the following March.

This standard A designation meant "Items which are preferred for operational requirements. Both complete end items and the necessary repair parts and components may be procured."

It is now ascertained that the five production models required from the Landsverk contract for confirmatory test were sent to the U.S. Armor Board on a nonpriority basis and that this test took 1 year to complete. When the tests were completed in February it was found that major deficiencies still existed and it was then recommended that no further production be allowed until the deficiencies were corrected. By this time, however, all the items specified under the Landsverk contract had been accepted and delivered and were then in the Army's inventory. Since they could not be reworked to bring them to acceptable standards, the 10,800 purchases from the Landsverk Electrometer Co. were subsequently scrapped.

#### *Second and third procurements*

Both contracts were awarded by the Signal Corps prior to the return of the U.S. Armor Board test report referred to previously. This is stated as a fact and not in mitigation of the length of time (1 year) taken by the board in completing its test. The steadily increasing nuclear power of the Soviet forces continued the pressure on the Electronics Command to furnish the field forces with a radiacmeter.

The second contract was awarded after price competition on January 29, 1959, to the Jordan Electronics Division of Victoreen Instrument Co., Alhambra, Calif. It was for 12,817 M-108A's in the amount of \$638,098.

The third contract was awarded on October 9, 1959, also to Jordan Electronics Division, and this was for 12,017 M-108A's in the amount of \$615,150.

The M-108's produced by Jordan incorporated, among other changes, a Zener diode circuit. These modifications, however, did not correct all the deficiencies indicated in the U.S. Armor Board test report and the 22,098 ultimately delivered under the second and third contracts required additional modification. The modification program took place at the U.S. Army Materiel Command's Sacramento, Calif., and Lexington, Ky., Army depots. It is estimated that the modification costs is \$752,100. As a result, the radiacmeter was redesignated the IM-174. They are the current standard A assets.

#### *Fourth and fifth procurement*

In May 1961 the Conarc Board completed its test of 10 modified M-108A radiacmeters from the Jordan production and recommended that this modified M-108A meter be adopted for Army use.

The fourth contract for 11,417 modified IM-108A's was awarded to Landers, Frary & Clark in two phases. On June 7, 1961, as a result of a formally advertised procurement, Landers was awarded a contract for 5,707 modified IM-108A's for \$188,045.65, including ancillary items with an additional award of 5,710 instruments reserved under labor surplus set-aside procedure made on June 21, 1961, at a total cost of \$188,144.50. On December 5, 1962, the contractor was required to modify the meters being produced from IM-108A's to IM-174's. This change provided for the incorporation of certain improvements at a cost of \$127,756.23. An additional engineering change was directed to be made on April 1, 1963, at a cost of \$20,683.69. In January 1964, an additional \$35,000 was committed and obligated to allow Landers to proceed to make certain changes which resulted from tests conducted at the Lexington Army Depot.

The fifth procurement was made to Victory Electronics & Research Corp. on January 10, 1962. This award was for 4,200 IM-108A's modified, plus ancillary items at a cost of \$125,566. A certificate of competency was issued by the Small Business Administration for this contract. There were no qualified bidders for the labor surplus set-aside portion, so Victory received a second award of 4,200 units at a price of \$124,345. The increase option provision of the contract was exercised twice, to add 4,200 units at \$124,345 and the second time for an additional 125 units at \$3,702 for a total of 12,725 instruments at \$377,958. This contract was modified on November 2, 1962, for \$151,325 to incorporate engineering changes resulting in the nomenclature being changed from IM-108A to IM-174.

General Moorman on June 30, 1964, made the decision to terminate the fourth and fifth contracts for the convenience of the Government. It was a difficult decision because an urgent requirement still exists. As reported to the GAO, by the Assistant Secretary of the Army, the urgency for the radiacmeter require-

ment fluctuates with the international situation. In the event the United States committed its forces tomorrow, the requirement for radiacmeters would be immediate and urgent.

As evidence that the basic design of the radiacmeter was sound, the successful production of the Canadian radiacmeter IM-108B is cited. The Canadian producer utilized the basic U.S. Army radiacmeter design. As the result of a coordinated effort by the Canadian Government and its producer, a radiacmeter has been produced which is suitable for use by the Canadian forces and would be available to meet emergency requirements of the U.S. Army.

Our Canadian defense production representative states that Canadian Admiral could deliver 1,000 per month, beginning immediately, if we ordered.

#### IV. ADVERSE PERSONNEL ACTIONS AGAINST CIVILIAN ENGINEERS

As a result of the report of investigation by the General Accounting Office and subsequent related Army investigations dealing with the radiacmeter procurements, Maj. Gen. F. W. Moorman on July 10, 1964, issued letters proposing separation of seven high ranking engineers.

All seven employees were associated with the U.S. Army Electronics Materiel Support Agency (USAEMSA). One was the division chief, two were assistant division chiefs (at different times during the five procurement actions), one was a branch chief, one was the section chief, and two were the project engineers for specific production contracts. All these individuals initiated or approved technical action requests which (which are engineering change orders called by Signal Corps TAR's) which permitted deviations from the original specifications and which changed the performance standards for the radiacmeters.

One of the responsibilities of the Field Engineering Division, USAEMSA, was to act as the technical representative for the contracting officer after award of a production contract. The Field Engineering Division was not responsible for contract awards. This Division was responsible for—

- (a) evaluation of production samples;
- (b) monitoring production;
- (c) evaluating technical action requests (TARS) which change the approved design;
- (d) insuring that manufactured products are in accordance with specifications; and
- (e) technical approval of production.

Under the civil service statutes and regulations, Government employees who are veterans and who have acquired status as permanent civil service employees have certain rights concerning advance notification of proposals to effect adverse actions. Accordingly, General Moorman's letters are identified as letters of intent to effect removal of each employee. The effective date was to have been August 14, 1964. In summary, the letters stated that these employees had failed to take effective action to eliminate flaws in the manufacture of radiacmeters. The failure was a lack of attention to and an awareness by them of their respective responsibilities. Each employee was notified of his right to answer his notice of proposed removal personally and in writing and to submit evidence, affidavits, or produce witnesses within 10 working days from the receipt of the letter of intent. The employees were advised that full and careful consideration would be given to any answer submitted and that, as soon as possible a written notice of decision would be issued to them. At the employees' requests, the authorized 10-day period in which to answer the letters was extended by General Moorman so that, by the middle of August 1964, the written replies to these charges by the employees were received.

During the several months' period while the commanding general, ECOM, considered the employees' replies to the proposed action and while in conference with the attorney of the employees, the suggestion was made that lesser penalties might be called more appropriate than the dismissal action. The employees called to the attention of the commanding general, that during the period in question, the division staff had a heavy workload, and that, with the single exception of this procurement they had a long record of faithful service. It was during these meetings that the commanding general, ECOM, carefully explained to the attorney representing the employees that he felt his obligation was to initiate corrective action. General Moorman expressed his belief that disciplinary action was initiated only as a corrective measure and not as punishment. He reported that, if the employees demonstrated an understanding of what they were expected to do by recognizing that they were responsible for the defects in the performance of the radiacmeters as charged, then he would consider assessing lesser penalties.

Obviously the commanding general, ECOM, could not continue senior engineers in positions of responsibility who did not understand the scope of responsibility in their work. When this was first explained to the employees, they, through their attorneys, indicated that they were unwilling to acknowledge their deficiencies. Therefore, removal actions were effected.

Five of the original seven employees appealed their removal actions to the commanding general, AMC. (One employee had retired prior to removal and could not appeal. The second had been cleared during the CG, ECOM review.) During this process, and prior to any hearing in their cases, these five employees, through their counsel, presented a joint statement which included recognition of their responsibilities for the actions with which they had been charged and requested that consideration be given to lesser penalties. The statement which was tendered by these employees through their counsel, contained the acknowledgements of responsibility which the CG, ECOM had indicated were a prerequisite to consideration of retention in positions of responsibility.

Of the five one withdrew his appeal and elected to retire. This individual was the senior engineer (who had served as GS-15 division chief during the time frame involved) and therefore the one who had to bear the greatest responsibility for the actions under consideration. This employee had been advised by the CG, ECOM, that, although the suspension action might be reduced, the employee reinstatement would be at two grade levels lower than his previous position.

On February 2, 1965, General Moorman recommended that General Besson approve (a) reinstatement of the remaining four employees, (b) suspension for 20 working days without pay for three of these employees and (c) suspension for 10 working days without pay for the fourth employee.

On February 5, 1965, General Besson approved the recommendation of General Moorman based upon the following considerations:

(a) The CG, ECOM, who was personally familiar with the details of the reasons for the removal actions, the involvements of the individual employees and their past performance records, had recommended lesser penalties because he was interested in obtaining corrective action through constructive discipline rather than through punitive actions. As a result of the employees' statements, the CG, ECOM considered that this constructive discipline could be attained by imposing lesser penalties or suspension.

(b) The incidents cited in the dismissal actions all occurred between 1958 and March 1963, with the majority occurring in 1961 and previous years. The Army Materiel Command was not organized until August 1962 and electronics command became operational in September 1962. Therefore, the impact of the philosophies of the new commands and the organizational realignment designed to improve the fixing of responsibilities had not had a real opportunity to become effective. While in no way countenancing the negligent performance of the types cited, the CG, AMC felt that the fact that the incidents were largely pre-AMC was an extenuating factor.

(c) The major purposes of punishment are deterrence and rehabilitation. It was the sense of General Moorman's recommendations that these purposes had been served by the actions he took and the impact of these actions, not only on the individuals concerned, but also on the entire ECOM organization. Certainly the statements made by the individuals indicated that the employees concerned had a new and clear insight into their responsibilities. This insight they demonstrably did not have at time of the procurements nor during the period of July 1964 to November 1964 when the nature of the charges against them was formally and repeatedly under active discussion.

It should be noted in passing that, while four of the five employees were reinstated and did receive back pay in accordance with governing rules and regulations totaling over \$7,000, their suspensions for periods of 20 and 10 days cannot be considered token punishments. For the periods of suspensions involved, three of the four employees forfeited salaries of over \$1,000 each and the total amount forfeited by these four employees was over \$3,800. The former division chief received no back pay having elected to withdraw his appeal and accept the discharge.

ECOM in press releases dated July 21, 1964, November 9, 1964, and February 5, 1965 provided full information concerning developments in this case with the exception of the names of the individuals involved. These individuals were not named in the first two press releases since charges made against them were either still pending their replies and the decision of the CG, ECOM or these decisions were subject to appeals through Army administrative channels. With regard to the third press release, it is not customary for the Army to publicize

the names of persons receiving disciplinary action for performance not involving malfeasance because it destroys their future effectiveness.

#### V. LATER DEVELOPMENTS

AMC and its subordinate command, ECOM, have continued since July 1, 1964, to explore the possible solutions to meet the Army's needs for radiacmeters. Modification work at the AMC depots within available funds has continued on the IM-108A's to that IM-174's are now available on a limited basis for use in an emergency.

In August 1964 a visit was made by a team from the electronics command, headed by a general officer, to the Canadian Admiral plant, then producing IM-108A-type radiacmeters, to observe the production techniques.

Models of the Canadian meter and the civil defense meter are being tested at the U.S. Army Materiel Command's test and evaluation command, Aberdeen, Md.

Plans for research and development efforts to achieve a better long-range position in the radiacmeter field are continuing. In September 1964, a contract was placed with Eon Corp. for Engineering Development Models of the AN/VDR-1, a multipurpose instrument which will not only provide a new and needed vehicular capability, but will also provide a replacement for the IM-174/PD. This equipment is scheduled for type classification in fiscal year 1968.

In February 1965, General Besson initiated a further review of the actions taken by the commanding general, electronics command, in connection with the radiacmeter case. As an independent and supplemental program, the commanding general, AMC has convened a review board of technical personnel from a number of commands other than ECOM to review the specifications which were the basis for the five U.S. Army contracts as well as the Canadian Army specification which was the basis for its contract with Admiral, Ltd. Specifically, this board will attempt to establish, factually, why the Canadian production of radiacmeters appears to have been successful while the U.S. Army experienced great difficulty with what is essentially the same specification. The board, as a result of its experience in this investigation may well develop recommendations applicable not only to radiacmeters, but to a broad spectrum of procurement specifications. It is anticipated that, when the board completes its review and its findings are presented to the commanding general, certain scientific advisors from industry will be invited to consult with General Besson on the lessons learned and remedial actions to be taken.

#### BETTER ENGINEERING DRAWINGS

Senator DOUGLAS. Now one issue which came up last year in our hearing was the necessity of developing better engineering drawings prior to the awarding of the contract so that the charges would be less. You made that recommendation. I thought it was excellent. Has any progress been made in developing these better drawings?

#### RATE OF PROGRESS

Mr. NEWMAN. We do know that the Secretary of Defense has called the individual services together and put major emphasis on getting the technical data. However, in our observations recently on the F-4 program on which we are working for the House Appropriations Committee, we found that there is a lot to be desired in getting technical data on that program.

#### TEN-YEAR PROGRAM

As you know, that program if it goes along as planned, will be here for at least 10 years. So there is still a major problem with engineering drawings.

Senator DOUGLAS. What is the F-4 program?

Mr. NEWMAN. The F-4 program is the fighter plane, the Phantom II, which is being produced for the Navy and for the Air Force by McDonnell Aircraft.

Senator DOUGLAS. This is the so-called TFX?

Mr. NEWMAN. Not the TFX. The TFX, or F-111, is manufactured by General Dynamics at Fort Worth. The F-4 is manufactured at the St. Louis McDonnell plant.

Senator DOUGLAS. Thank you.

#### ROLE OF GAO IN ASSISTING CONGRESS

Now there is one comment, not so much concerned with this investigation as on general work of the General Accounting Office. I have always been much impressed by the work of your agency. I have always felt that we in Congress should utilize it more.

Some years ago when I perhaps foolishly took on the task of fighting appropriation bills on the floor of the Senate, not being a member of the Appropriations Committee, I would dig out your reports and on the floor try to get your suggestions adopted. I must say that I had zero success. I became convinced that this as a practical matter was like tilting at Don Quixote's windmills. I was very happy when my friend, Senator Proxmire, entered the Senate and relieved me of this responsibility. He is younger than I am and exercises more than I do and has tremendous vigor. It took me 10 years to get discouraged.

Senator Proxmire has been in now for 7 years. This wears a man out, Mr. Campbell, and other issues crowd in upon him. Flesh and blood, at least ordinary flesh and blood after a time gives up. I hope that your work could be introduced into the deliberations of Congress at an earlier stage than the floor. It is almost impossible to cut an appropriation bill significantly on the floor because the Appropriations Committee stands together. All the chairmen rally to the defense of their fellow chairmen. These are the sages of the establishment, so to speak. They constitute what a famous writer said was a "citadel" of the Senate. To storm those heights with merely the reports of the Comptroller General is like trying to knock down a fortress with a bow and arrow.

So I have felt that if we could have the General Accounting Office furnish advice to the Appropriations Committee of the House and Senate—I am not proposing a consolidation of the committees—prior to the budget being approved it would help. I try to read these hearings before the Appropriations Committees. They consist almost entirely of statements by the agencies themselves and then if by any chance the House cuts the appropriation, which it frequently does, then on appeal to the Senate the pleas are always for restoration or increase. No one appears—I think literally no one appears to defend the original cut or to suggest economies. It is *ex parte* testimony.

Therefore, the Appropriations Committee does not have adequate cases in which the weaknesses of these projects are presented. This is one of the weaknesses of democratic government anyway, or any type of government, in consequence, the taxpayer is not adequately presented.

You know where the bodies are buried more than any other agency. You are the auditing agency after the fact, after the appropriation has been made.

Now, once in a while we try to bootleg material to them before the fact but you are very careful on this matter and rigidly protect your duties.

Would you be willing to assume the responsibility for—what are there, 16 appropriation bills—having 30 of your men or additional staff of 30 men act as public defenders before the Appropriations Committee?

GAO SUPPLIES STAFF TO HOUSE APPROPRIATIONS COMMITTEE

Mr. CAMPBELL. I think that that would be a job which we probably would not be in a position to competently do. We now do supply, in the last year since the new chairman of the House Appropriation Committee has been functioning, a rather large number of people to that committee.

Senator DOUGLAS. You do?

Mr. CAMPBELL. Yes. I have it in mind because each year when they come home, as they are coming home now, I pose with them for pictures, you see. This is a very select group of young men—not so young, too. I will say this: In the last year or two, last year particularly, our reports up there to the committees and subcommittees have seemed to be of far greater interest than they were before.

Senator DOUGLAS. Now, with the understanding you are only replying to a question which I put and not volunteering the information, have you had the same success with the Senate?

Mr. NEWMAN. Mr. Chairman, in both the House and Senate Appropriations Committees we prepare a compilation of about 200 reports. Half of those are draft reports which have been in the hands of the Secretary of Defense.

These reports are used during the hearings. In addition, I would like to say that along the lines you are speaking of, the chairman, Mr. Mahon, chairman of the House Appropriations Committee, has requested us to delve deep into major, big programs. For example, the TFX or the F-111 as it is known today. Also the F-4 program I just mentioned.

Now this means retraining of our staff. We are, say, crawling in this area. They want to know in what areas and how are the millions going to be spent during the years to come. What is going to be "GFE against CFE." What is going to be advertised fixed price. What is going to be sole source. We are now working on areas which will be reviewed by the House Appropriations Committee next year and the following years when these appropriation requests come up for approval.

Mr. CAMPBELL. Don't you think that is progress, Mr. Chairman?

Senator DOUGLAS. It sounds fine. I not only hope it will spread but it will continue and spread from the south side of the Capitol to the north side.

Mr. CAMPBELL. I think so.

Senator DOUGLAS. Thank you very much.

This afternoon at 2 o'clock Mr. Lawson Knott will testify.

(Whereupon at 12:05 p.m., the committee was recessed to be reconvened at 2 p.m. the same day in room 457, Senate Office building.)

## AFTER RECESS

Representative GRIFFITHS (presiding). We are pleased to have as our witness this afternoon Mr. Lawson B. Knott, Acting Administrator, General Services Administration. The Chairman's letter of April 7, 1965, to you will be inserted at this point.

(Letter to Mr. Knott follows:)

APRIL 7, 1965.

Mr. LAWSON KNOTT,  
*Acting Administrator, General Services Administration,  
Washington, D.C.*

DEAR MR. KNOTT: The Subcommittee on Federal Procurement and Regulation will hold hearings on April 27, 28, and 29, 1965, as a continuation of the program of the former Subcommittee on Defense Procurement.

You are scheduled to testify, accompanied by such staff as you desire, on April 28, 2 p.m., room 457, Senate Office Building.

The subcommittee report of September 1964 contains a number of conclusions and recommendations pertaining to the work of the General Services Administration and to the development of an efficient and effective Federal supply and services system. Testimony as to progress made on these points during the past year will be of value to the subcommittee. Of special interest is the "short-shelf-life project," and the procurement and management of ADP equipment.

Faithfully yours,

PAUL H. DOUGLAS.

Mr. Knott, will you please introduce your associates and proceed with your statement.

**STATEMENT OF LAWSON B. KNOTT, JR., ACTING ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION; ACCOMPANIED BY H. A. ABERSFELLER, COMMISSIONER, FEDERAL SUPPLY SERVICE; MAURICE J. CONNELL, COMMISSIONER, DEFENSE MATERIALS SERVICE; HOWARD GREENBERG, COMMISSIONER, UTILIZATION AND DISPOSAL SERVICE; EDMUND D. DWYER, DIRECTOR, DATA PROCESSING COORDINATION STAFF, AND CHARLES W. GASQUE, JR., DEPUTY GENERAL COUNSEL**

Mr. Knott. It is a pleasure for me and members of my staff to appear before your subcommittee today as you again consider the economic impact of Federal procurement.

I have with me Messrs. H. A. Abersfeller, Commissioner of our Federal Supply Service; Maurice J. Connell, Commissioner of our Defense Materials Service; Howard Greenberg, Commissioner of our Utilization and Disposal Service; Edmund D. Dwyer, Director of our Data Processing, and our Deputy General Counsel, Mr. Charles W. Gasque, Jr.

I would like to have each of them assist me in presenting information and data pertaining to their respective areas of responsibility which, we believe, will be of interest to you and your subcommittee.

We appreciate, Madam Chairman, the continued interest which you and the members of your subcommittee have manifested in the role and responsibilities given the General Services Administration by the Congress in the field of Federal procurement, and are happy to have this opportunity of reviewing with you the programs and accomplishments of GSA in this important and essential governmental activity.

In doing so we shall be pleased to give an account of the actions taken and the progress made by GSA with respect to those related matters, emphasized in the report of your subcommittee to the Congress of September 1964, such as the development of an efficient and effective national supply and services system; the standardization of supply items; the elimination of items from the supply system; short-self-life items; the utilization of Government-owned property to reduce Federal procurement expenditures, and the procurement and management of automatic data processing equipment in the Government today.

It is our firm conviction, Madam Chairman, that the foundation for building an efficient integrated national supply system is the elimination of the unnecessary overlapping and duplication in the various supply systems of the Federal Government. To this end a tentative agreement was developed by the General Services Administration and the Department of Defense establishing criteria for assignment of management responsibility for items.

#### JOINT DOD/GSA AGREEMENT FOR NATIONAL SUPPLY SYSTEM

We are pleased to report that a test of the proposed agreement was conducted by GSA and DOD and revisions in the proposed agreement were made and the final agreement jointly executed with the Department of Defense in November and December of 1964. (See p. 83.)

This agreement provides for a more simplified coding structure, emphasizes and encourages transfers by group or class, and establishes a Defense Supply Agency and Federal Supply Service Management and Review Committee totally dedicated to implementing the agreement and accelerating the program.

We are confident that if the intent of this agreement is carried out, it will result in the orderly development of the National Supply System as contemplated by the Federal Property and Administrative Services Act of 1949 and as envisioned by this subcommittee.

#### DISPOSAL OF SURPLUS PROPERTY

Representative GRIFFITHS. It is by agreement with the Defense Supply Agency or is it by statute that you contemplate taking over disposal of the surplus property?

Mr. KNOTT. It is by agreement and based on the statute. That is, basically under the 1949 Federal Property Act it is the responsibility of the General Services Administration to sell surplus property which authority was delegated many years ago to the Department of Defense.

This by agreement is in effect a withdrawal of that delegation of authority which we will discuss later.

#### GSA TO WITHDRAW DELEGATION OF AUTHORITY

Representative GRIFFITHS. You are now going to withdraw the delegation of the authority to the Defense Supply Agency?

Mr. KNOTT. Yes. (See pp. 83, 131.)

Assignments by total Federal supply group or class are presently being developed and recommendations for class assignments to either GSA or DSA will be made to the Commissioner of our Federal Supply

Service and the Director of the Defense Supply Agency by the DSA/FSS Management Review Committee.

#### TIMETABLE TO BE PREPARED FOR TRANSFERS OF RESPONSIBILITIES

When these class assignments are approved, the Review Committee will develop the timetable for transfer of management responsibilities to the appropriate agency. The remaining groups and classes which are not susceptible to total assignment will be subjected to item-by-item coding against the agreement criteria and assignments made to GSA or DSA based on the coding results.

#### DSA TO HAVE FEDERAL-WIDE RESPONSIBILITIES

The GSA/DOD agreement also provides for the Defense Supply Agency to perform supply management services for selected commodities for Federal agencies. Considerable progress has been made to date on the five commodities under consideration by DSA for support to all Federal agencies.

#### FEASIBILITY STUDIES UNDERWAY

During the past year, DSA has been evaluating the feasibility and desirability of assuming governmentwide support for petroleum, electronics, clothing, and textiles, nonperishable subsistence, and medical supplies.

#### STATUS OF STUDIES

Representative GRIFFITHS. May I ask, where are you now on these studies?

Mr. KNOTT. I believe we can report on three of them.

Their studies indicate that it might be feasible to assume responsibility for petroleum, electronics, and clothing textile supplies. The Department of Defense recently gave them approval in principle to proceed with GSA in developing a plan for these three commodity categories. A review of identified costs and savings are to be included in this plan, which will then be submitted to the Secretary of Defense for his approval.

This has occurred within the last 30 days.

#### PLANS BEING DEVELOPED FOR PETROLEUM, ELECTRONICS, AND CLOTHING-TEXTILES

GSA is now actively engaged in DSA and the civil agencies in developing the plan for these three commodities. We will continue to work closely with DSA and the civil agencies in developing additional detail which will enable DSA to make a final determination with respect to medical supplies and subsistence.

#### SAVINGS BY GSA

In fiscal year 1964 our buying volume for distribution through GSA supply system and agency direct purchasing from Federal supply schedules reduced the Government's bill for commercial-type supplies by \$270 million, and are estimated at \$320 million for 1965

and \$330 million for 1966. These savings to the Government are computed by comparing the prices which Federal agencies would have paid for supplies at the normal wholesale rate if they had not procured them through the GSA supply system.

Representative GRIFFITHS. How do you get a better price?

Mr. KNOTT. This is simply by bulk buying in the first place, and by the economies that are effected in the distribution system, our stocking and distribution system.

Representative GRIFFITHS. Why would the distribution help any?

Mr. KNOTT. It is largely a question of transportation cost. It depends on where you are stocking your supplies and where your customers are. The effect of an inventory management system on the redistribution or repositioning of supplies, meeting orders wherever they are needed.

Representative GRIFFITHS. Do you have more outlets than the agencies themselves would have? Are not the agencies actually buying the things when they are needed?

Mr. KNOTT. Let us take a small agency that has not a substantial requirement but some requirement for a particular item and not sufficient to have storage space or to stand the cost of storage space. This is one element in the cost of a supply system. Where all of these can be handled, stocked, and stored in the central distribution point, there are some economies to be effected from it.

Do you want to elaborate on that, Mr. Abersfeller?

Mr. ABERSFELLER. No; I think you have pointed it out very well. There is one point that might be of interest to you, that is the development of specifications on the part of the Federal Government in its procurement activities tends to increase competition and thereby drive the price down. As an example, a common office desk which wholesales for \$114 is bought by us for \$64. An automobile which wholesales in the neighborhood of a little over \$1,800 is bought for us for \$1,300.

#### TRADE-IN VALUES

Representative GRIFFITHS. Is this lower price because you have a trade-in value?

Mr. ABERSFELLER. There is no trade-in on the automobile we are buying.

Representative GRIFFITHS. What do you do with them?

Mr. ABERSFELLER. We sell them to the public. It is not a trade-in in the sense of trading.

Representative GRIFFITHS. How many do you sell annually?

#### THIRTY THOUSAND AUTOS SOLD ANNUALLY

Mr. ABERSFELLER. Approximately 30,000 annually are sold by the Federal Government.

Representative GRIFFITHS. I hope you are not some of those people who are objecting to the decrease in excise taxes?

Mr. ABERSFELLER. No. Our price includes that excise tax, I might add.

#### DISPOSITION OF PROCEEDS FROM SALES

Representative GRIFFITHS. Through this system do you then count the sale of automobiles as showing some element of profit in the way

you do business? What do you do with the proceeds from the sale of the automobiles?

PROCEEDS USED FOR MOTOR POOL OPERATIONS

Mr. KNOTT. The proceeds go back into our general supply fund and are available for the repurchase of automobiles that are used in our motor pool operations. The cars that we buy for use in our motor pools are driven 60,000 miles or 6 years, whichever comes first. And then we dispose of those. We dispose of them in principal areas around the country where we have surplus sales centers. Actually our experience varies widely depending on the area, the season, and the particular demand.

AS MUCH AS 33 $\frac{1}{3}$ % OF COST RECOVERED IN SOME AREAS

We have some areas in which the demand is such that we recover as much as 33 $\frac{1}{3}$  percent on our original investment in the cars, even with that age and that kind of mileage.

GSA VEHICLES NEVER BECOME SURPLUS

Representative GRIFFITHS. They are never declared surplus, are they? You never have a surplus automobile? You never declare an automobile surplus?

Mr. GREENBERG. GSA, because of its operation of the motor pool, does not declare its vehicles to be surplus. They are sold, the receipts are deposited in the general supply fund to be invested in new vehicles for continued operation of the motor pool system.

Mr. KNOTT. I don't believe, Madam Chairman, you are dealing with the question of technicality of surplus, are you?

Representative GRIFFITHS. He answered the question; they are never declared as surplus. That is if an agency writes in to me and asks where are the surplus cars, there are no surplus cars because you people are selling them.

Thank you.

(Supplementary information appearing below was later supplied by GSA :) (See p. 333.)

GENERAL SERVICES ADMINISTRATION,  
Washington, D.C., May 7, 1965.

HON. PAUL H. DOUGLAS,  
Chairman, Subcommittee on Federal Procurement and Regulation,  
Joint Economic Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: With the exception of vehicles, records on property sold by the General Services Administration are maintained only on an overall volume basis in terms of original acquisition cost and proceeds by owning agency. To keep records in the detail necessary to provide the data requested in your letter of May 3, 1965, would, in our opinion, be prohibitive from a cost standpoint.

During the 3-year period cited in your letter, GSA sold approximately 43,000 vehicles of all types, for which we received approximately \$14 million. Enclosed is a listing showing, for each of the 3 years, the total number of vehicles sold by GSA and the proceeds received. The listing contains a further breakdown of this total to reflect the vehicles owned by GSA, those sold by GSA for the Post Office Department, and those which GSA sold for several other agencies. During the same period, a number of agencies, including the Department of Defense, sold their own vehicles, which are not reflected in these totals.

Our sales are conducted through our 10 regional offices and include all types and categories of property which become surplus or otherwise available for sale. Each year these offices conduct approximately 2,500 sales, resulting in a substantially larger number of individual contracts. At the conclusion of each

sale a report is received, but only on the total volume sold in terms of original acquisition cost and proceeds received. As a result, we do not have readily available the requested data on each type and class of vehicle and office equipment sold. Similar information by condition code would not be available as the latter is applicable only to the excess screening utilization program and not to sales.

To develop the detailed information on vehicles and office machines by types and classes would require a research of each sale case file and contract, which would be quite costly and require from 3 to 4 weeks. Therefore, we shall appreciate your further advice before proceeding with this task.

We trust, however, that the enclosed information on vehicles will be helpful to you.

Sincerely yours,

LAWSON B. KNOTT, Jr.,  
Acting Administrator.

*Vehicles sold by General Services Administration*

TOTAL

Fiscal year	Number	Proceeds	Average price
1962.....	12,340	\$3,581,783	\$290
1963.....	13,192	4,891,296	371
1964.....	17,524	5,603,728	320
Total.....	43,056	14,076,807	

FOR THE GENERAL SERVICES ADMINISTRATION

1962.....	3,539	\$1,605,943	\$454
1963.....	5,308	2,424,498	457
1964.....	5,890	2,568,556	436
Total.....	14,737	6,598,997	

FOR THE POST OFFICE

1962.....	5,512	\$623,255	\$113
1963.....	2,661	337,936	127
1964.....	6,510	877,297	135
Total.....	14,683	1,838,488	

FOR OTHER AGENCIES

1962.....	3,289	\$1,352,585	\$411
1963.....	5,223	2,128,862	408
1964.....	5,124	2,157,875	421
Total.....	13,636	5,639,322	

NOTE.—See appendix, p. 233, for further information on this subject.

NATIONAL INVENTORY CONTROL CENTERS

Mr. KNOTT. We are pleased to advise that GSA now has a National Inventory Control Center which gives us significant capability to manage stocks on a total system basis. During fiscal year 1966 we will fully automate this national center and such automation will improve the management techniques available for providing decisions more frequently and in a faster time frame. Long supply control and management through the use of automatic referrals to avoid repositioning of stocks and timely national demands analysis as well as automatic referrals of out-of-stock items for filling from national resources will be possible.

Representative GRIFFITHS. How much of this system duplicates Battle Creek? (See pp. 40, 55.)

Mr. KNOTT. Now we are still talking about the supply system rather than the disposal system?

Representative GRIFFITHS. Yes. But how much of it is a duplication of Battle Creek?

Mr. KNOTT. None. There is no duplication at all.

Representative GRIFFITHS. What do you inventory?

Mr. KNOTT. These are procurement items; items of supply procured, stocked, stored, and distributed for Government use.

Representative GRIFFITHS. What are they doing in Battle Creek?

Mr. KNOTT. They have an inventory of DOD property which is available for redistribution, a marketing unit which provides marketing data for sale of surplus property, a cataloging operation, as well as a Bidders' Control Center.

Representative GRIFFITHS. They told me they had a catalog out there for everything. What I want to know is, are you going to do an inventory of the same items they have?

Mr. KNOTT. No, they are not the same items. They are working on a cataloging system out there. That is a separate function. I thought you were talking about the automation.

Representative GRIFFITHS. They have an inventory, too. Is your inventory going to duplicate their inventory?

Mr. KNOTT. No.

Representative GRIFFITHS. What are you going to inventory?

Mr. KNOTT. None in the supply field. If we are talking now about disposal and, if we can, it would help me to keep them separate.

Representative GRIFFITHS. But they have all three systems.

Mr. KNOTT. Yes.

Representative GRIFFITHS. Which part of it are you going to duplicate?

Mr. KNOTT. None.

Mr. ABERSFELLER. The Battle Creek activity, Madam Chairman, covers, as Mr. Knott has said, the excess property. It covers cataloging functions and marketing functions in case of sales.

Representative GRIFFITHS. They inventory things. They have a complete inventory.

Mr. ABERSFELLER. They do the cataloging work and items identification. They do that for us. They maintain the master files. The Defense Supply System, each of their control points, maintains their inventory records in the same fashion as we are talking about maintaining here on a nationwide basis. I was aware of the master catalog system but not of a master inventory system. We will have to look into that.

Representative GRIFFITHS. You may proceed.

Mr. KNOTT. Duplication of reporting by individual regions will also be eliminated and the new system will provide mechanical processing of buy-back offers to promote better utilization of Government assets.

As you know, Madam Chairman, the Subcommittee on Defense Procurement in its September 1964 report to the Congress recommended that the General Services Administration and the Defense Supply Agency study the problem of short-shelf-life items for the purpose of reducing losses. (See p. 80.)

The real critical area for control of losses due to short-shelf-life items remaining in stock beyond the period of their usefulness lies in the policies governing the acquisition of such stock and their distribution from storage points.

A positive control system utilizing such scientific inventory management techniques as economic ordering quantities which will assure that short-shelf items are maintained at the most economical level is one of the best ways to limit losses on such items. In addition, an issue control system which guarantees that stocks are issued on a first-in-first-out basis will prevent excessive material aging while in storage. Both of these systems, Madam Chairman, are in effect in GSA.

In accordance with the recommendation of the subcommittee's report of September 1964, GSA and DSA established a joint project and have jointly developed a system involving standard coding structures, management techniques, and procedures which will provide for stricter controls on shelf-life or deteriorative items. We are also setting up a joint project with DOD to improve the utilization of long stocks for all multimanaged items.

A study group consisting of representatives of GSA, DSA, and the military services was convened in October of 1964, and the study was completed on February 10, 1965. The report of the study group makes recommendations for improving the handling of shelf-life items from the procurement and requirement stage through issue to use or final disposition. This study group report is presently under review within the Department of Defense and GSA.

Representative GRIFFITHS. May we have a copy of the study for our reference?

Mr. KNOTT. Yes.

Representative GRIFFITHS. Thank you very much.

(See appendix, p. 379, for information referred to.)

Mr. KNOTT. We have a copy of the March 1965 report by the Comptroller General on "Supply Management of Paint and Other Short-Shelf-Life Items" and are carefully reviewing its contents.<sup>1</sup> You may be assured that serious consideration will be given to the recommendations in that report before a final decision is reached on the recommendations of the GSA-DOD study group so that all possible efficiencies and economies can be realized. Upon completion of this review GSA will issue a Federal property management regulation providing civil agencies with procedures and guidelines of handling deteriorative items reported by other agencies.

In the meantime, we have again reviewed the limited shelf-life items in GSA's stores stock system. Tentative shelf-life periods of from 4 months to 3 years have been assigned to 3,960 items presently listed in the catalog.

We have established for each of these items a definite period of time at the end of which those items which have been in storage for that period of time will be inspected by our quality control personnel. These personnel will extend the period that these items can be retained in stock based upon their condition at the time of the inspection.

Initial steps have been taken by GSA to identify items of deteriorative nature which are used by civil agencies. We plan to establish

<sup>1</sup> Full text in "Background Material on Economic Impact of Federal Procurement—1965," p. 224.

shelf-life time periods for such items wherever possible, and to coordinate the assigned shelf-life time periods with suppliers and all Federal agencies. Preliminary review of civil agency use items indicates that approximately 50,000 stock numbers will have to be screened and a determination made as to which of these stock numbers fall within the shelf-life criteria.

We have also initiated a test to realistically establish the life of paint in storage. GSA's Fort Worth stores depot, which is subject to a substantial range of temperatures, has been selected to make the test where samples of paint items will be subjected to continuing tests to fully evaluate their stability. During these tests, determination will be made as to whether periodic turning of paint containers contributes to lengthening of the shelf-life time period.

As a continuing project, the chemical composition of paint will be carefully examined in order to determine whether substitution could be made in the formula to prolong the shelf-life of the paint without loss of product value.

The solution to the problem lies principally in the control of inventory levels through (1) proper procurement actions, (2) sequencing of issues in accordance with the aging of the stock in storage, (3) quality surveillance of items in storage as they approach the shelf-life period, and (4) full utilization of long stocks of all multimanaged items will assure that GSA's customers receive only usable items and that disposal of items which still have useful life will not be made.

Representative GRIFFITHS. When did you start working on the paint problem?

Mr. KNOTT. In January.

#### STANDARDIZATION

GSA's Federal Supply Service standardization operations include a complete system for cataloging civil agency items, issuance of Federal specifications, and issuance of Federal standards. As of December 31, 1964, 739,000 items used by civil agencies had been cataloged in the Federal catalog system and by the end of June 1965 almost all current civil agencies' items will have been identified and stock numbered. The joint GSA-DOD review of items for the purpose of standardizing on a minimum number of different varieties is proceeding very well.

Representative GRIFFITHS. Are we now talking about the Federal catalog out in Battle Creek or are you talking about some other—

Mr. KNOTT. No, these are the standardization operations. This is the Federal supply cataloging, that is the proper requirement guide. Part of that I am told is done at Battle Creek.

Representative GRIFFITHS. Part of it?

Mr. ABERSFELLER. Yes.

Representative GRIFFITHS. Actually were you originally supposed to have the catalog and finally the Defense Department set up a catalog of its own?

Mr. KNOTT. I don't think that is true.

Representative GRIFFITHS. Has the Defense Department completed more of their catalog than you have? They are cataloging for several agencies too?

Mr. ABERSFELLER. At our request. We channel all the items to be cataloged for civil agencies.

Representative GRIFFITHS. When you refer to the Federal catalog there is only one Federal catalog; is that right?

Mr. ABERSFELLER. That is correct.

Representative GRIFFITHS. Proceed.

#### PAINT AND HANDTOOLS

Mr. KNOTT. GSA's support to the military services under the paint and handtool assignment has been in effect for more than a year and we have some significant developments to report. By June 30 of this fiscal year, GSA will have reduced the total Government inventories of paint and handtools by more than \$20 million, and by June of fiscal year 1966 we expect to have reduced these inventories by \$40 million. (See appendix, p. 379.)

The development of competitive specifications for handtool items since the transfer of responsibility for this commodity is a matter especially worthy of note. Thus far, GSA has developed specifications for 250 additional handtools not previously covered and as a result, substantial savings are being realized. We will present in a moment an illustration showing several tool items previously bought under a brand name which are now being purchased under a competitive specification at substantially reduced unit prices.

#### FORTY-MILLION INVENTORY REDUCTION

Representative GRIFFITHS. Where do you expect to reduce the inventory by \$40 million?

Mr. KNOTT. When?

Representative GRIFFITHS. Where? What inventory?

Mr. KNOTT. This is in our paint stocks; paint and handtools.

Representative GRIFFITHS. Where?

Mr. KNOTT. They are stored of course in different places.

#### LOSSES IN PAINT INVENTORIES

In the paint program we have had a problem of deteriorated merchandise and unnecessary costs resulting from the purchase and use of paint products in uneconomical sized containers (pints and quarts) as pointed out by the Comptroller General in his report of March 1965. GSA has discontinued the stockage of small sized containers for 30 items and an additional 133 items are currently being reviewed in order to determine whether they may also be eliminated.

#### VOLUME OF GSA SUPPLY ACTIVITIES

The Federal Supply Service of GSA, Madam Chairman, has experienced the largest volume in its history with total procurement reaching a level of \$1,551 million and stores shipped sales reaching a level of \$287.8 million, which represents increases of 23 percent and 11 percent respectively.

This year we expect to again reach new record highs with increases totaling 14 percent above last year in total procurement and 27

percent in stores stock sales. These increases can be largely attributed to further centralization of supply support responsibility of the Federal Government.

These are some of the highlights in which the committee has expressed interest in our supply operations. I think nothing would be more helpful, particularly in the matter of what we have been able to do in specifics, than if Commissioner Abersfeller would show you with some charts he has here some of the work they have been able to do.

Representative GRIFFITHS. Will you please keep that until the last? If possible. We are going to have a quorum call soon. I am interested in this disposal. Please proceed.

#### USE OF STOCKPILE MATERIALS

Mr. KNOTT. Turning, Madam Chairman, to the matters of utilization and disposal of excess stockpile materials, we are pleased to report that during the past year GSA made considerable progress in these activities.

Further, we expect during fiscal year 1965, disposal of materials no longer required for stockpiling for emergency needs will return at least \$400 million to the Government in sales value, or almost 240 percent above the fiscal year 1964 total of \$167.1 million which itself was a new record.

#### DISPOSAL OF EXCESS STOCKPILE MATERIAL

This substantial increase in the disposal of excess stockpile materials has resulted in part from emergency releases of significant tonnages of copper, lead, zinc, molybdenum, and certain other materials. These disposals during the past year have greatly assisted domestic consuming industry in meeting its urgent requirements for these vitally necessary industrial metals.

In line with the recommendations made in your subcommittee's report of September 1964, particular stress has been given by GSA to utilization within the Government of excess stockpile materials. As a result, our program for Government use of such materials has more than doubled during the past year. We estimated that Government use of excess stockpile materials in fiscal year 1965 will total some \$75 million, compared with \$36.8 million used during fiscal year 1964. The principal excess stockpile materials used by other Government agencies include copper, rubber, nickel, tin, and feathers and down.

#### IMPACT OF DISPOSALS ON BALANCE OF PAYMENTS

It should be pointed out, Madam Chairman, that GSA's disposal of excess stockpile materials also has a favorable impact upon the balance-of-payments picture. Most of the materials being disposed of are produced abroad, and the bulk of our domestic requirements for these materials is supplied by imports. This year, some 86 percent of total disposals in dollar volume or approximately \$345 million worth, covers materials which otherwise would be imported into the United States, with a consequent reduction in gold outflow in this amount.

Some 35 excess stockpile materials have been reviewed for long-range disposal planning by the Interdepartmental Disposal Committee, and its working subcommittee chaired by the General Services Administration. Recommendations have been made to the Director of the Office of Emergency Planning for the disposal of these materials with excesses having current market value of approximately \$3.3 billion. Disposals are planned over varying periods of time, consistent with policies designed to avoid undue impact on the market of producers, processors, and consumers and for maximizing the return to the Government from disposals of such excess stockpile materials.

#### MACHINE TOOLS LOANED TO SCHOOLS

During the past year, increased use has been made in the school loan program of machine tools in the National Industrial Equipment Reserve managed by GSA. Of some 9,600 tools in the reserve as of December 31, 1964, over 3,000 were on loan to 109 schools in 27 States. Loans of these tools to schools serve a dual purpose, since the tools not only continue to be available for use by the Government in an emergency, but also help to train the skilled manpower needed to operate such tools. We have some charts at this point.

#### TRANSFER OF DISPOSAL FUNCTION FROM DSA TO GSA

Representative GRIFFITHS. Yes. Are you not contemplating taking over disposal of property that is now being done by Defense Services?

Mr. KNOTT. Yes. That is the next area we are coming to.

We come now, Madam Chairman, to the activities of the General Services Administration in the field of personal property utilization and disposal. (See pp. 83, 131.)

#### UTILIZATION OF EXCESS PROPERTY

Each executive agency, under existing law, is required to redistribute its property between its organizational units so as to insure maximum internal utilization of such property, and GSA, in turn, is responsible for transferring excess property between Federal agencies in the interest of maximum Government-wide utilization.

In this connection, we are pleased to report that GSA's Government-wide property utilization program has continued the rapid growth rate of which the Administrator of General Services spoke during his appearance before your subcommittee last year, and should reach at least \$635 million, the original cost to the Government, of property transferred for further Federal use in fiscal year 1965.

#### SAVINGS ON FILE CABINETS

In a letter to GSA dated January 9, 1965—and this is merely illustrative of one area of utilization—the President stated that Federal agencies are spending about \$60 million annually for new office furniture, file cabinets, and typewriters. He expressed the belief that new purchases of these items can be substantially reduced through greater utilization of the GSA program for repair and rehabilitation of existing furniture and equipment and through disposal of old records by

retiring them to record centers. He asked that GSA, in cooperation with other agencies, take steps to put these policies into effect.

The President further asked that we declare a moratorium on the purchase of new file cases for use in the 50 States and the District of Columbia and directed that for the duration of the moratorium agencies meet their current need for file cases by accelerated disposal of old records, either by destruction or by transfer to Federal records centers. The President authorized GSA to fill requirements for file cases which cannot be met by records disposal under an austere standard of issue from inventories of excess file cases and current warehouse stocks.

Figures for the third quarter of fiscal year 1965 as compared to the third quarter of fiscal year 1964 reveal a total reduction in procurement for file cabinets and office furniture and typewriters of \$1.4 million, \$800,000 of which comprise a reduction in the procurement of file cabinets and \$600,000 for office furniture and typewriters.

In addition, GSA has on hand approximately 5,000 excess file cabinets in serviceable or economically repairable condition available to meet requirements of agencies on requests that have been validated as to need in accordance with existing procedures.

Representative GRIFFITHS. What I cannot understand is what would have happened to those 5,000 cabinets if the President had not sent out the order.

Mr. KNOTT. Actually, many of those were flowing through the excess stage into surplus and being disposed of to schools and other eligibles under the donation program and if not donated were being sold.

Representative GRIFFITHS. How many other items are there that the agencies should use where they are not using them? It is one thing to say that all this property can be transferred. If the result of this is that it is not being transferred, that everybody is just getting a new one, then it seems to me we are wasting our time.

Mr. KNOTT. Not under this program because we have put a clamp on the purchase of new ones.

Representative GRIFFITHS. The President issued an order on it.

Mr. KNOTT. This is true. It is illustrative of what can be done and the areas into which we are moving in order to do that.

Representative GRIFFITHS. Why do you not stop them from buying new equipment? Do you need special authority?

Mr. KNOTT. Well, it is pretty difficult when agencies come within their own budget structure and with their money and are able to certify that they have been able to get money for the purchase of furniture. But even so, the Bureau of the Budget is moving into this area and is clamping down. I think there is a great deal that can be done and is being done.

Representative GRIFFITHS. Why not have the Bureau of the Budget do it or why don't you notify the Appropriations Committee of the House that there is this much excess office equipment available? Let them look it over?

Mr. KNOTT. I think that is a good suggestion and certainly to the extent that we are not able to handle it by administrative devices I think we should come to Congress with a recommendation.

Representative GRIFFITHS. I think you should, too. If we can get this much done and that much money saved by the President putting out an order I think we ought to do better.

Mr. KNOTT. I agree with that.

## USE OF EXCESS PROPERTY BY DEFENSE CONTRACTORS

In his testimony before your subcommittee in 1964, the Comptroller General commented that more emphasis should be placed upon use of Government-owned excess property by Government cost-type contractors to reduce Government procurement expenditures. GSA has long pursued this concept and the extent of such use of excess property is growing steadily. Government contractors are also a source of much good excess property. Of the total utilization of \$635 million forecast for 1965, about \$120 million will consist of excess contractor inventory transferred.

## CONTRACTOR INVENTORY—PROCEDURES FOR CONTRACTING

Representative GRIFFITHS. Who keeps check on the contractor inventory property that is owned by the Government; that is, Government property?

Mr. KNOTT. The contracting officer.

Representative GRIFFITHS. As a matter of fact, do you know whether or not he has an inventory?

Mr. KNOTT. I don't know except as I am somewhat familiar with the Department of Defense procedures and they have accountable officers for all of these projects.

Representative GRIFFITHS. Do you know a project where they haven't?

Mr. ROOS. I do not know of any situation where they do not.

Representative GRIFFITHS. Where they do not have them?

Mr. ROOS. No.

Representative GRIFFITHS. I have been told by a man who works on this that he knows positively that Government-owned property in contractors' plants becomes a contractor's property and there is never any account made of it.

Mr. ROOS. I don't know about that.

Representative GRIFFITHS. When you get ready to transfer this how do you get it into your hands to transfer?

Mr. GREENBERG. What happens, Madam Chairman, is that each particular Government agency is charged with the responsibility of reviewing the amount of personal property it has, and the responsibility of reporting as excess that property which is no longer required for its needs or use. Contractor inventory is reported excess as a result of termination of contracts, reduction in production, and for various other reasons.

Only when it is reported to GSA are we aware of what is available for disposal through our procedures. But we do not have basic responsibility for making an inventory Government-wide of all personal property that is acquired and used either by agencies or contractors of the various agencies.

Representative GRIFFITHS. It is probably a pretty loosely controlled program.

Mr. GREENBERG. This is something I would not be prepared to discuss. I know from past experience—I was an auditor some time in my experience—that every expenditure that is made by a contractor is recorded, and under usual procedures subject to internal or contract audit, and the accountability provisions of a contract followed up fairly closely.

I imagine, as with anything else, it varies with the extent of the audits that are made. I certainly would not be in a position to comment on the fact that it is loosely controlled.

Representative GRIFFITHS. Well, property officers, contracting officers change pretty regularly. First, you do not have the list of property. Second, you go out to the contractor's plant and all they have to do is say the property is not right here and available at this moment. You might be able to find a Cincinnati grinding machine or something like that but what about the jigs, dies, and fixtures? When that property begins to be smaller and smaller I think that would be very difficult.

#### EXTENT OF CONTRACTOR INVENTORY

Mr. GREENBERG. This is a problem but to the extent that each agency has the responsibility for appropriate control.

Representative GRIFFITHS. How much property is there?

Mr. GREENBERG. I haven't the slightest notion.

Representative GRIFFITHS. I guess it bears investigation. Please proceed.

#### DSA/GSA AGREEMENT ON EXCESS PROPERTY

Mr. KNOTT. The program initiated in 1964 by joint DSA/GSA agreement for the reporting of certain DOD excess property to GSA by ADPE tapes has progressed to the point where practically all inventory-managed items of DOD excess are reported in this manner. This arrangement has saved numerous reporting activities of DOD much time and effort in preparing reports of excess.

#### NEW REGULATIONS ON REPORTABLE PROPERTY

GSA expects to issue very shortly a regulation change which will result in additional types of property being made available as reportable property for a more effective interagency screening. These types, which include highly specialized communication equipment, radar, sonar, laboratory, and test equipment, were selected as the result of a periodic review which is made to keep up to date the list of categories of excess property which have sufficiently high-utilization potential to warrant formal reporting to and systematic screening by GSA. The impending changes were developed in coordination with the Office of Assistant Secretary of Defense (I. & L.) and DSA.

#### PROPERTY REHABILITATION PROGRAM

GSA's property rehabilitation activities have expanded considerably in recent months. The acquisition cost of property rehabilitated through GSA arrangement should reach a new high of \$63 million in fiscal year 1965. A substantial portion of the increase is the result of greater use of GSA's rehabilitation contract base by the military departments.

#### DOD COOPERATING IN PROGRAM

In this connection, in November 1964 the Office of Assistant Secretary of Defense (I. & L.) further stimulated the DOD participation by issuance of an instruction to the military departments stressing the importance of using GSA's numerous sources for the repairing and rehabilitation of a growing list of types of personal property.

## USE OF SMALL BUSINESS FIRMS

Practically all of the approximately 5,000 contractors used by GSA in these activities are small business firms. In connection with these activities, a new contract was established in fiscal year 1965 for the recovery of platinum and silver from certain types of wornout aircraft and tank spark plugs. It is expected that in the first year of this contract approximately \$1 million worth of platinum and silver will be recovered by the Government from these surplus spark plugs.

Representative GRIFFITHS. How much will it cost to recover?

Mr. KNOTT. About 25 percent, I am told, of that figure is the cost.

## TRANSFER OF DISPOSAL FUNCTION TO GSA

You will recall, Madam Chairman, that the Administrator of General Services in his testimony before your subcommittee last year stated, among other things, that the Bureau of the Budget was at that time evaluating a joint DOD/GSA proposal that the function of selling DOD personal property, heretofore performed by DOD under a delegation of authority from GSA, be consolidated in GSA so that a single Government selling organization would, in fact, come into being. July 1, 1965, is the target date for actual transfer of the sales responsibility to GSA. (See pp. 82, 95, 131.)

## REAL PROPERTY DISPOSAL

In the area of real property disposal, during the period of January 1, 1961–December 31, 1964, GSA sold 79 industrial facilities to users—buyers thus providing needed payrolls to the communities in which these facilities are located. It is estimated that these facilities provide employment for 51,900 people with an annual payroll of \$357 million.

Representative GRIFFITHS. Now how do you propose to take over the sales responsibility of the Defense Department?

## REDUCTION IN SALES CENTERS

Mr. KNOTT. The Department has been conducting this activity for many years and over a period of the last 3 years or so—since the Defense Supply Agency was created—has been gradually trimming down the number of sales centers, so that more and more their facilities are more closely identified with our regional offices. We don't anticipate any great difficulty in utilizing the experienced personnel they have that are devoted strictly to this phase of the activity in carrying on the function when they are transferred to GSA.

## USE OF ADPE

Representative GRIFFITHS. How much of that automatic equipment are you going to use or are you going to go through manual equipment or are you going to buy additional equipment?

Mr. KNOTT. We don't plan any immediate change but I would like Commissioner Greenberg, who has been working on these plans, to expand on them.

Mr. GREENBERG. Madam Chairman, at the present time the only portion of the ADP equipment that we would propose to use that would affect this particular problem is that pertaining to the sales operation including the maintenance of the bidders' list. It is a national bidders' control center.

The latest figures indicate that some 41,000 names are on that bidder list. At the present time in the 10 GSA regional offices we maintain lists totaling some 57,000 names.

#### MAINTENANCE OF BIDDERS' LIST

Representative GRIFFITHS. How are they maintained?

Mr. GREENBERG. In most cases they are maintained through the use of addressograph-type equipment. We made a study before this proposal actually developed, using a new type of equipment, Scriptomatic, I think it is called, but our present plans are to consolidate all of the bidders' lists into a single bidders' list. We certainly would not retrogress to the point of taking what is presently mechanized and producing an effective job and attempt to do the job on a manual basis. We believe there will be considerable duplication when these lists are combined. It is our proposal that if and when this action does take place that we will consolidate the bidders' list.

Representative GRIFFITHS. Consolidate it on their equipment?

Mr. GREENBERG. That is correct. At the present time the total 2-week cycle of the operation, maintenance, and production of this list, takes about 25 machine-hours. I understand, however, that new equipment is presently going to be installed which will substantially reduce the amount of time needed for the production of these lists. To be very frank with you, we don't know specifically how the lists are maintained or the detail or the kind of information the machine will produce, but we assume that it is sufficient for the purpose and we would certainly entertain no ideas of instituting our own capability as long as it is presently producing what is required.

#### SAVINGS FROM TRANSFER OF FUNCTION

Representative GRIFFITHS. What real saving is there to the Government in your taking over the disposal in view of the fact that the largest part of the supply is generated by the Defense services and they have experience in their personnel. Where is the saving to the Government?

Mr. GREENBERG. This was the subject of a study by DOD and GSA. There are many points where it was concluded there would be savings. First, we think from the standpoint of the buying public a single selling agency of the Federal Government with a single set of procedures would be advantageous; not only to the buying public but to the Government in establishing a uniform system.

Further, we believe that GSA's mission is property management. This is in no way intended to criticize the Department of Defense. But this is our mission; we think we are experienced in conducting sales.

Representative GRIFFITHS. As a matter of fact, are you not getting less back on the dollar than they are?

## RETURNS BY DOD AND GSA

Mr. GREENBERG. Mrs. Griffiths, according to the figures that the Department of Defense has submitted to the committee I think their return on usable property is someplace in the neighborhood of 6 percent. Our experience from 1960 through 1964 and as late as March 31, shows a minimum of 14 percent. In 1963, it was 18.9 percent. So for the past 5 years, from 1960 through 1964, our return based upon the acquisition cost has varied from 14 to 18.9 percent. (See p. 136.)

Representative GRIFFITHS. What did it cost to do that?

Mr. GREENBERG. Our cost per hundred dollars of sales proceeds last year was \$11.58, which includes all costs to GSA.

Representative GRIFFITHS. Do you know what their cost was?

Mr. GREENBERG. I looked in the table that had been submitted by DOD but there are other costs involved in there. I would not hazard a comparison.

Representative GRIFFITHS. Is it about \$6 as compared to your \$11?

Mr. GREENBERG. I haven't any idea. I will say this, that our experience has shown that we are doing what we believe is an effective job. We are returning to the Government on the basis of the proceeds about 10 times what we are spending. Our cost per hundred dollars of sales of a little over \$11 we think is very favorable on a comparable basis to industry experience. I don't know what is included in DOD costs. I do notice the Department of Defense in their table on page 28, if my memory serves me correctly, indicates that they had certain expenses which appeared to be higher on a percentage basis, than ours, but I would not be in a position nor am I qualified to comment on the DOD costs.

Representative GRIFFITHS. How much property of like nature have you been accustomed to disposing of?

Mr. GREENBERG. On the basis of acquisition cost last year it was about \$65 or \$66 million. This year we think we will approach \$70 million.

Representative GRIFFITHS. When you take over their selling job are you going to be selling the same type of item that you have customarily sold, or are you going to reach now into a new field?

Mr. GREENBERG. In many cases the items are similar. Obviously, because of the large number of items that the Department of Defense stocks and handles, undoubtedly there will be additional items that will be disposed of. But again we will have the assistance of these experienced people who are involved in this program. We think that we can consolidate sales that are presently being held separately for civil agencies with those which could be held by the Defense surplus sales offices. We believe that various improvements can be made.

Again, I am not in any way attempting to be critical of the Department of Defense. We think they are doing a fine job in what they are doing. But as a result of the study, after many long weeks and months of consideration, it was the considered judgment of both the Department of Defense and the General Services Administration, which has been concurred in by the Bureau of the Budget, that this would be a desirable and economical improvement.

## POSITION OF BOB

Representative GRIFFITHS. Did you say the Bureau of the Budget? I thought the Bureau of the Budget opposed this.

Mr. GREENBERG. No, Madam Chairman. They have interposed no objection to this move.

Representative GRIFFITHS. But they have not approved it? They didn't say that they thought this was the best way to do it, is that right?

Mr. GREENBERG. In our submission to the Bureau of the Budget they considered it at quite some length and finally decided they would interpose no objection assuming we arrived at certain arrangements and agreements with the Department of Defense with respect to personnel, financing, and timing, which we are presently developing and propose to submit to the Bureau of the Budget shortly.

Representative GRIFFITHS. It is very difficult for me to figure out how after they maintain the catalog, buy the property, and take care of the inventory, how there comes a moment when it is easier for somebody else to sell it.

Mr. GREENBERG. May I speak to that for a moment?

Representative GRIFFITHS. Certainly.

Mr. GREENBERG. This is being done with other agencies in the Federal Government, except the Department of Defense. This is not unusual, of course, even in a private organization. The same people who buy the property, store it, stock it, distribute it, don't ordinarily sell it. We believe selling requires a certain expertise which we believe, and I hope this will be justified, we have. We are in no way attempting to affect adversely the people involved in this. We believe they are competent, they are capable and experienced. We think a single selling organization with a single source of disposal policy will prove more profitable in the long run not only in terms of costs of operation but as well, possibly, in increased proceeds.<sup>1</sup>

Representative GRIFFITHS. I should think, also, there would be some problems in inventory transfer; it would cost some money to do.

Mr. GREENBERG. There will be no transfer of inventory.

Representative GRIFFITHS. I will be interested in seeing your report and seeing how you propose to do it.

Mr. GREENBERG. Yes, Madam Chairman.

Representative GRIFFITHS. You may proceed.

## PROCUREMENT AND MANAGEMENT OF ADPE

Mr. KNOTT. We wish to discuss next, Madam Chairman, Federal procurement of automatic data processing equipment, a subject in which this subcommittee has been interested.

Substantial Federal expenditures are being made today in the acquisition and utilization of ADP equipment. When one recalls that the punchcard was first produced to solve the pressing needs of the Census Bureau, it is not surprising that the Government has turned to the electronic computer as the answer to many of today's problems. Tax accounting, checkwriting, supply and logistical problems, research in the physical sciences, all have felt the first effects of this new technology.

<sup>1</sup> NOTE.—Both GSA and Bureau of the Budget have advised the subcommittee that the sales function will not now be transferred. See p. 330.

We see no indication that the Government's use of ADP equipment has reached a plateau. Quite the contrary is true. The number of computers, their costs, and the number of Federal employees engaged directly and indirectly in their use are expected to climb. The Bureau of the Budget has estimated the total number of computers in the Federal Government will reach 2,150 by the end of fiscal year 1966. As might be expected, any effort of this magnitude has serious problems. These generally arise because the technical developments are occurring faster than the administrative reaction time. Equipment is becoming faster and more complex, training and educational requirements are increasing as are overall costs.

GSA, apart from operating computers for its internal operations, has been concerned with activities that fall in our area of Government-wide responsibilities—procurement, utilization and management of property, equipment maintenance, common services, source data automation, and ultimate disposal of outmoded and uneconomical computers.

Although we have made some progress, much remains to be done. We have developed improved contractual terms and conditions which have achieved substantial benefits for the Government.

Recently, for example, we were successful in increasing IBM's fiscal year 1965 offer of purchase discounts based on the age of used equipment. This can result in savings in excess of \$10 million during fiscal year 1965.

One such installation affected, the Jet Propulsion Laboratory operated by California Institute of Technology at Pasadena, Calif., was advised to delay its equipment purchase pending completion of our negotiation. By awaiting the new terms, the Laboratory has advised us that it saved over \$1 million.

A particularly significant development in meeting some of the administrative management problems was the issuance in April 1964 of GSA Personal Property Management Regulation No. 36, which established a new program to insure the full utilization of excess Government-owned and leased ADP equipment.

Agencies planning to release such equipment now report to GSA and we in turn offer it to other Government agencies including cost-reimbursement-type contractors prior to final disposal, or in the case of leased equipment, before returning it to the manufacturers. Equipment and related gear of over \$1 million in value was transferred for further Government use through December 31, 1964.

Our most recent undertaking is the organization and establishment, in large urban centers, of ADP sharing exchanges. There the agency operating official can secure up-to-date information on the available time and resources on nearby suitable equipment installations. Federal officials without computer facilities may arrange to have their work done on a reimbursable basis. To date sharing exchanges have been established in 12 large cities, while 1 additional is in the planning stage.

#### SHARING OF EQUIPMENT

Several agencies are now assisting GSA by operating sharing exchanges, for example, Veterans' Administration in Philadelphia, the Navy Department in Los Angeles, and the National Bureau of Standards in Washington. We believe the sharing exchange concept will

prove to be one of the more significant GSA contributions to overall Government cost reduction efforts.

The success of the exchange program has been most gratifying. In the Denver exchange, over 21 Federal agencies and Government contractors have made use of the facilities. Among the users are the Forest Service, the Air Force, the Geological Survey, Bureau of Land Management, Bureau of Public Roads, the National Park Service, Federal Bureau of Prisons, the Civil Service Commission, and the Bureau of Reclamation.

#### POOLS OF ADPE

We are also participating with the Budget Bureau in a study of the need for regional Federal data processing centers to establish equipment and resource pools to serve agencies on a geographical basis. The recent Presidential study, as implemented by Bureau of the Budget Circular A-71, has defined additional major tasks for GSA in this field.

Among those are the development and operation of a technical information service to assist in computer selection and subsequent operation; development of guidelines and criteria for replacement; the establishment and furtherance of joint utilization and sharing arrangements; the evaluation of maintenance criteria and the monitoring of planning efforts for data transmission between computer systems.

In many of these efforts the GSA regional interagency coordinator is currently occupied with the development of the sharing exchange effort and will play a major role.

In addition to sharing our equipment or making arrangements for sharing between other Government agencies, we have prepared annual ADP inventory and statistical reports for the Bureau of the Budget.

The Bureau of the Budget established a policy that excess electronic computer equipment or the sharing of unused computer time on equipment in other Federal agencies be considered before any Federal agency purchases or leases a computer. In implementing this policy, GSA now requires each agency to screen the excess equipment as a condition precedent for economical automatic data processing equipment procurement.

Another example of direct action for obtaining more effective use of the Federal Government's electronic computers is the active representation of the General Services Administration on several committees of the American Standards Association.

This is essentially what we are doing in this field. Mr. Edmund D. Dwyer, who has been long with the Navy Department, is now with GSA as our top coordinator in the ADP field. (See p. 117.)

#### BUSINESS SERVICE CENTERS

If I can turn now to the last subject, Madam Chairman, I want to talk a bit about what we are doing in the business counseling field by GSA business service centers.

In fiscal year 1963 GSA business service center personnel counseled 41,322 businessmen on methods of doing business with the Government.

During fiscal year 1964, due to the agency's adoption of a more active role in attracting new suppliers for GSA's procurement programs, more than 113,000 businessmen were counseled by GSA business service center personnel. The result of this has been to spread the agency's contract dollars over a broader base of suppliers, and by obtaining increased competition, effect price savings for the Government.

Evidence of the benefits of this program in attracting new suppliers who have received awards is now being received in reports. For example, a listing of 20 contracts awarded by 6 of our regional offices to new bidders has indicated that their successful bids were an average of 11 percent lower than the second low bidders.

Our business service center in Denver, for example, has just reported that 11 contracts awarded recently to new bidders have resulted in savings of \$72,302. A documented report of contracts awarded in the month of March 1965 by our San Francisco regional office indicates that savings of \$27,016 have resulted from the award of contracts to new bidders obtained through GSA's market research and development program.

#### DISCONTINUANCE OF PROCUREMENT ADVISORY CENTER

As requested by the subcommittee in its report to the Congress of September 1964, GSA has reviewed the situation in regard to the discontinuance, as of May 22, 1964, of the procurement advisory center, which was operated for many years by the Department of the Army and, more recently, by the Small Business Administration.

It is our considered judgment, Madam Chairman, that ample information is currently available to potential bidders and others, and that the public's best interests are being served through other existing Government facilities, policies, and procedures, as follows:

1. Federal procurement regulations which are issued by GSA provide for Federal procurement offices to maintain and make maximum use of bidders mailing lists, publicize procurement and contract award information in the Commerce Business Daily, display copies of invitations for bids in public places, and provide interested firms with bidding and contract awards information.

2. GSA's business service centers, located in 11 cities throughout the United States, provide businessmen with one step counseling service and assistance in dealing with the Government.

They also provide detailed information and guidance on such subjects as location of contracting offices, how to get on bidders mailing lists, how and where to obtain Government specifications, how to introduce new or improved items into Government supply systems, and how to keep informed on current bidding opportunities. GSA business service personnel also participate in business opportunity meetings sponsored by local business or Government groups.

3. GSA representatives, trained to provide basic procurement information and assistance to businessmen, are located in more than 100 additional cities throughout the country.

In view of the foregoing, we believe that the provisions of the Federal procurement regulations, the facilities, information, and services available from our business service center and GSA representatives

provide business concerns with ample information and the means to develop fully their capability and potential for doing business with the Government.

In addition, the Commerce Business Daily which is published 5 days a week by the Department of Commerce, is an extremely valuable source of contracting information to the business public. It provides daily information to the business public. It provides daily information on all military procurement actions of \$10,000 or more, all GSA procurement of \$2,500 or more, and all civilian procurements of \$5,000 or more. This includes proposed procurements, contract awards, subcontracting leads, foreign business opportunities, surplus property sales, and research and development sources sought.

In fiscal year 1964, 90.5 percent of GSA's total procurement dollars were expended under advertising methods.

Representative GRIFFITHS. Do you have a public opening of those bids?

Mr. KNOTT. A public opening.

Representative GRIFFITHS. And it goes to the lowest bidder?

Mr. KNOTT. Yes; that is right.

Representative GRIFFITHS. The lowest bidder or the lowest qualified bidder?

Mr. KNOTT. Well, it has qualifying conditions. He has to be the lowest responsive and responsible bidder.

Representative GRIFFITHS. Proceed.

Mr. KNOTT. This includes awards made to small business firms under small business restricted advertising procedures but does not include orders placed with commercial suppliers under indefinite contract awarded by other agencies. Our experience, thus far, indicates that this level will be maintained during fiscal year 1965.

GSA, in fiscal year 1964, placed 53.2 percent of the dollar volume of its total prime contracts, or \$451.4 million, with small business firms. This was an increase of 12.7 percent above the fiscal year 1963 figure of 40.5 percent, or \$328.9 million.

Prominent among the beneficiaries of this increase were small business construction contractors as evidenced by the fiscal year 1964 proportion of GSA's Public Building Service contracts which went from 36 percent of total awards made to small business firms in fiscal year 1963 to 56.7 percent in fiscal year 1964.

During the first 6 months of fiscal year 1965 this trend continued, with 57.4 percent of GSA's dollar volume of its total prime contracts, or \$264.2 million, being placed with small business firms.

We had a substantial public building program last year which accounted for a great deal of the increase in the public building steel.

This, Madam Chairman, is our reporting summary. We do have some charts for the record.

Representative GRIFFITHS. They will be included in the record at this point.

(The charts referred to follow:)

CHART NO. 1

# BUYING VOLUMES AND SAVINGS THROUGH PRICE ECONOMIES

(\$ Millions)

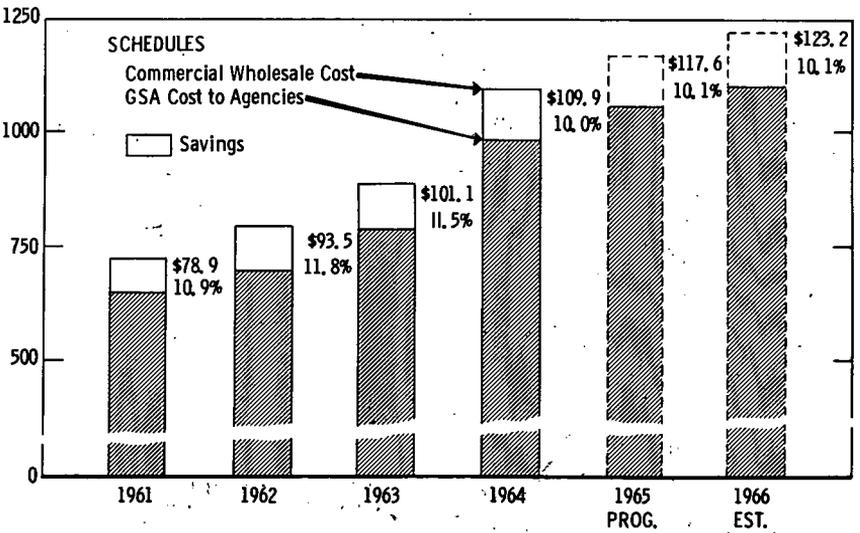
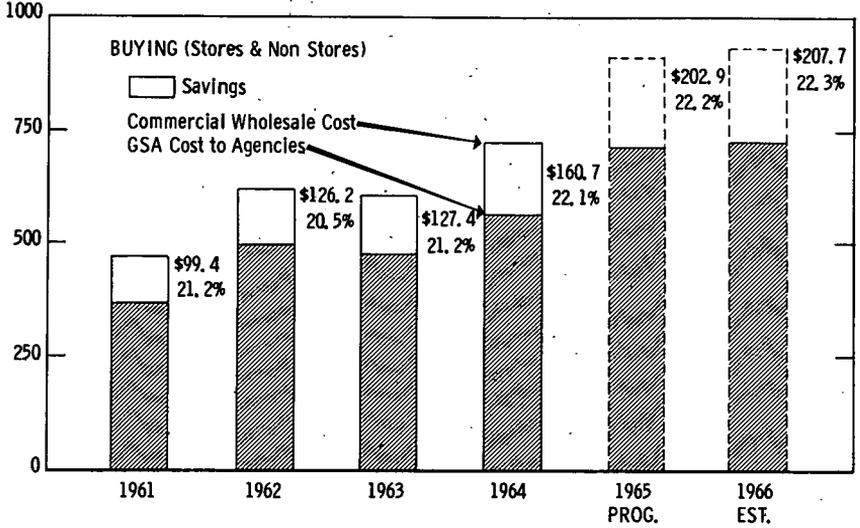


CHART NO. 2

**ITEM REDUCTION PROGRAM**

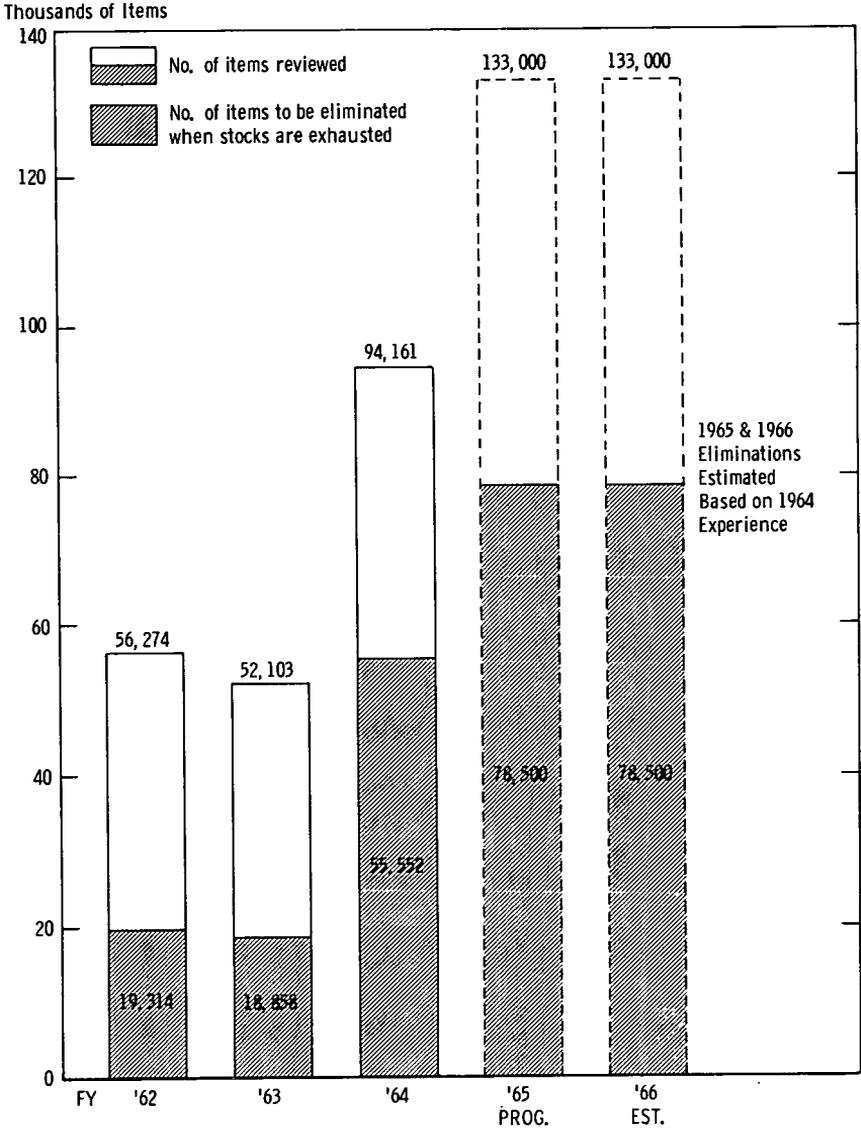


CHART No. 3

SAVINGS THROUGH COMPETITION  
(SPECIFICATION VS BRAND NAME)

HOSE ASSEMBLY, RUBBER

FSN 5130-356-0577



COST: \$1.70  
BRAND NAME: \$2.40  
SPECIFICATION: \$3.30  
SAVING: \$1.60

GAGE, SPRING TENSION

FSN 5120-998-9271

COST: \$7.05  
BRAND NAME: \$5.38  
SPECIFICATION: \$3.67  
SAVING: \$1.71

CLAMP, SCREW JACK

FSN 5120-075-6663



COST: \$5.50  
BRAND NAME: \$3.95  
SPECIFICATION: \$1.55  
SAVING: \$1.95

GAGE, THICKNESS

FSN 5120-189-9518

COST: \$4.38  
BRAND NAME: \$2.48  
SPECIFICATION: \$1.90  
SAVING: \$2.40

ALIGNMENT TOOL

FSN 5120-729-6388

COST: \$3.25  
BRAND NAME: \$1.80  
SPECIFICATION: \$1.45  
SAVING: \$1.80

ADJ. TOOL VALVE TAPPET SET

FSN 5120-293-0595



COST: \$4.24  
BRAND NAME: \$2.53  
SPECIFICATION: \$1.71  
SAVING: \$2.53

CHISEL, POWER HAMMER

FSN 5130-230-2300



COST: \$3.80  
BRAND NAME: \$2.15  
SPECIFICATION: \$1.65  
SAVING: \$2.15

VICE, BALL JOINT

FSN 5120-075-6681



COST: \$10.85  
BRAND NAME: \$6.35  
SPECIFICATION: \$4.50  
SAVING: \$6.35

SOCKET, SOCKET WRENCH

FSN 5120-175-6983

COST: \$1.30  
BRAND NAME: \$0.21  
SPECIFICATION: \$0.09  
SAVING: \$1.09

CHART NO. 4

# Federal Supply Service VOLUME AND EMPLOYMENT TRENDS

FY 1955 - FY 1964 (Actual)

FY 1965 & FY 1966 (Program)

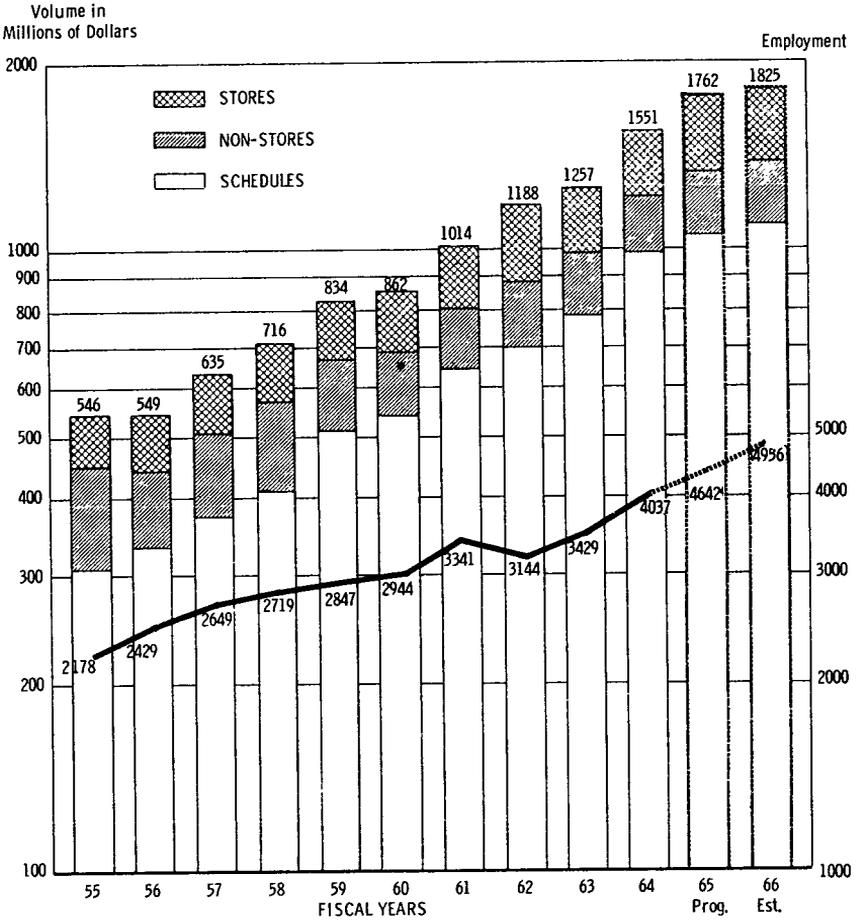


CHART No. 5

GENERAL SERVICES ADMINISTRATION-  
FEDERAL SUPPLY SERVICE

TOTAL STORES, NON-STORES, AND FEDERAL SUPPLY SCHEDULE VOLUME  
(MILLIONS OF DOLLARS)

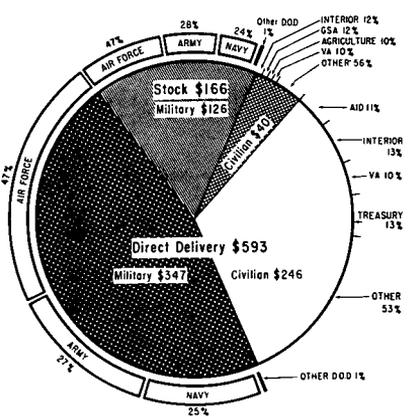
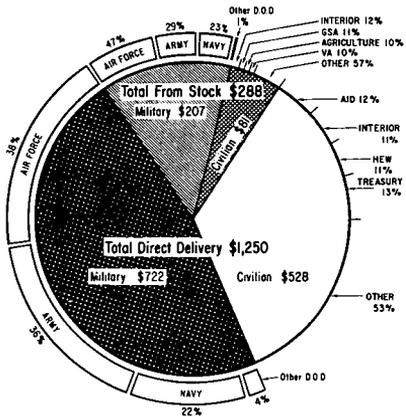
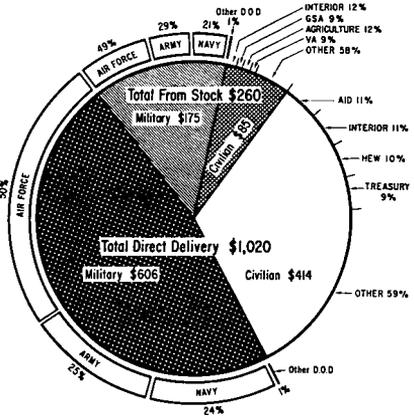
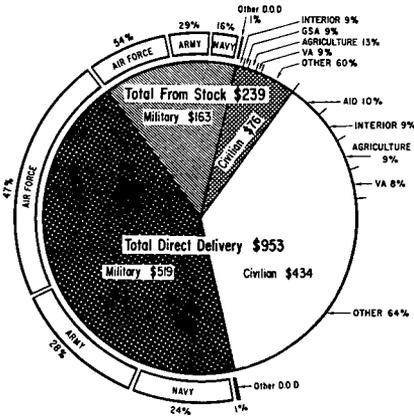


CHART NO. 6

**DOMESTIC PROCUREMENT FOR OFF SHORE USE  
FY 1961 - FY 1966**

MILLIONS  
OF  
DOLLARS

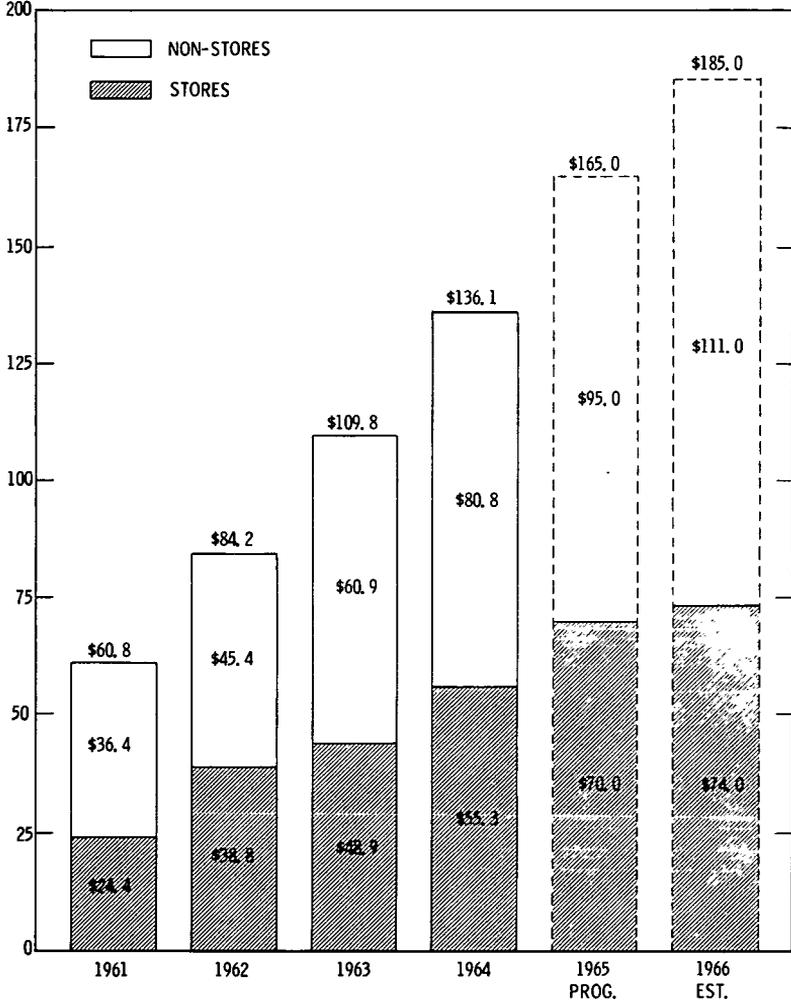
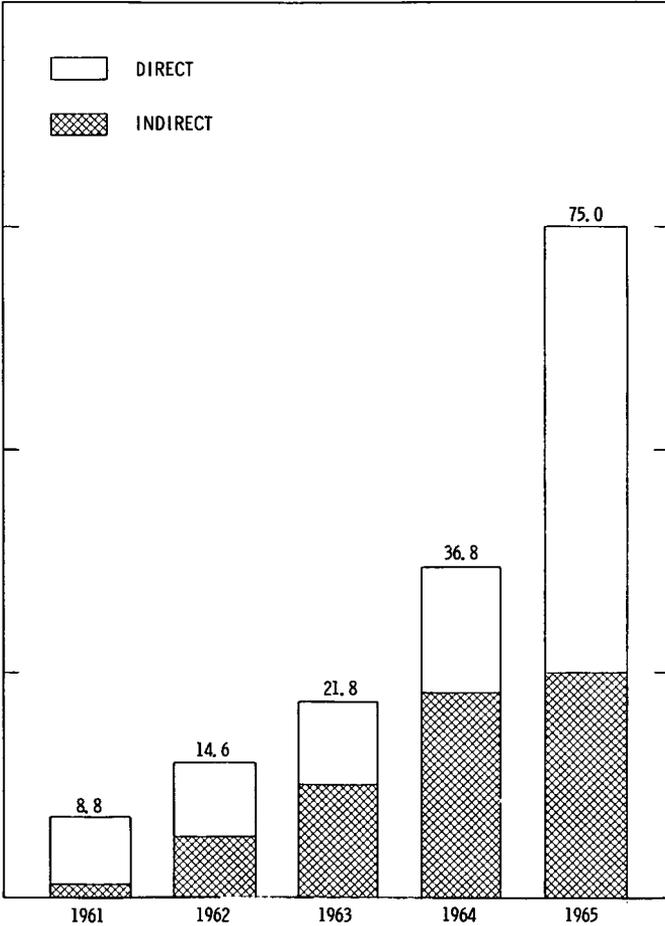


CHART No. 7

GOVERNMENT USE OF STOCKPILE EXCESSES

\$MILLION



MAJOR MATERIALS  
FY 1965  
COPPER  
RUBBER  
NICKEL  
TIN  
FEATHERS  
AND DOWN

TOTAL DISPOSALS

69.3

87.5

110.5

167.1

400.0

FISCAL YEARS

CHART No. 8

## DISPOSALS OF STOCKPILE EXCESSES EFFECTS ON BALANCE OF PAYMENTS

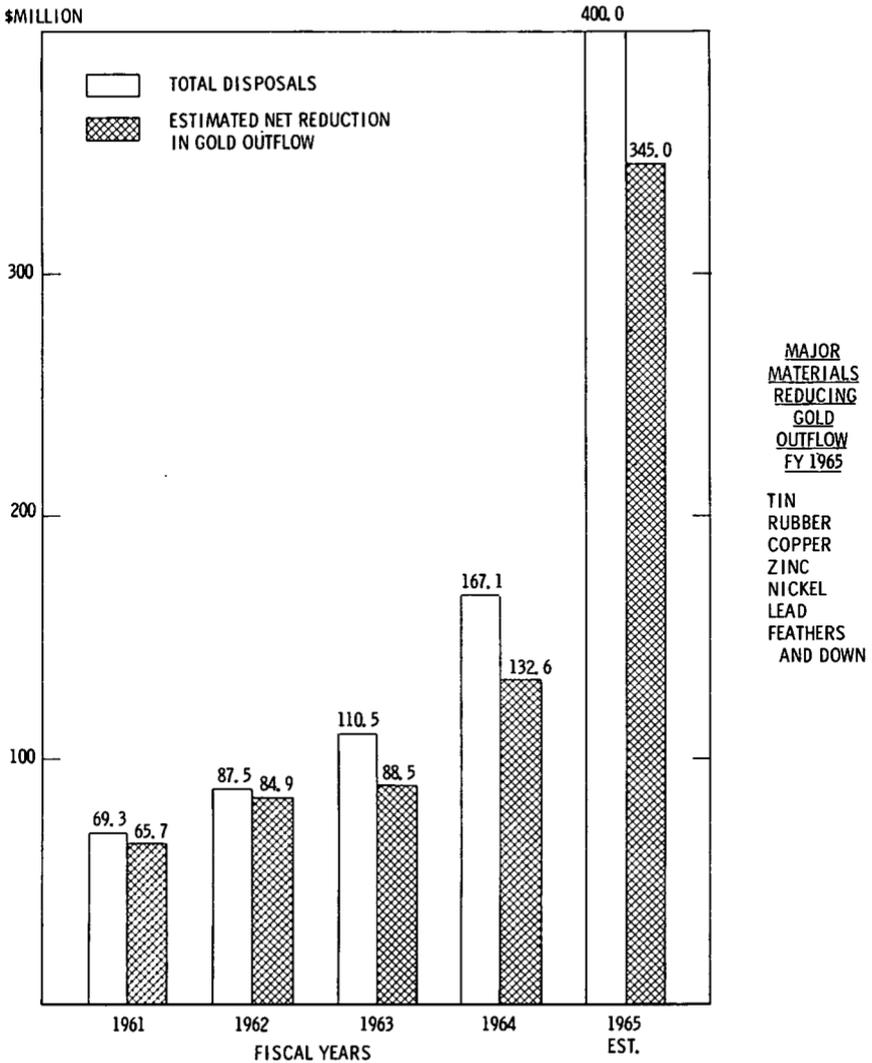


CHART NO. 9

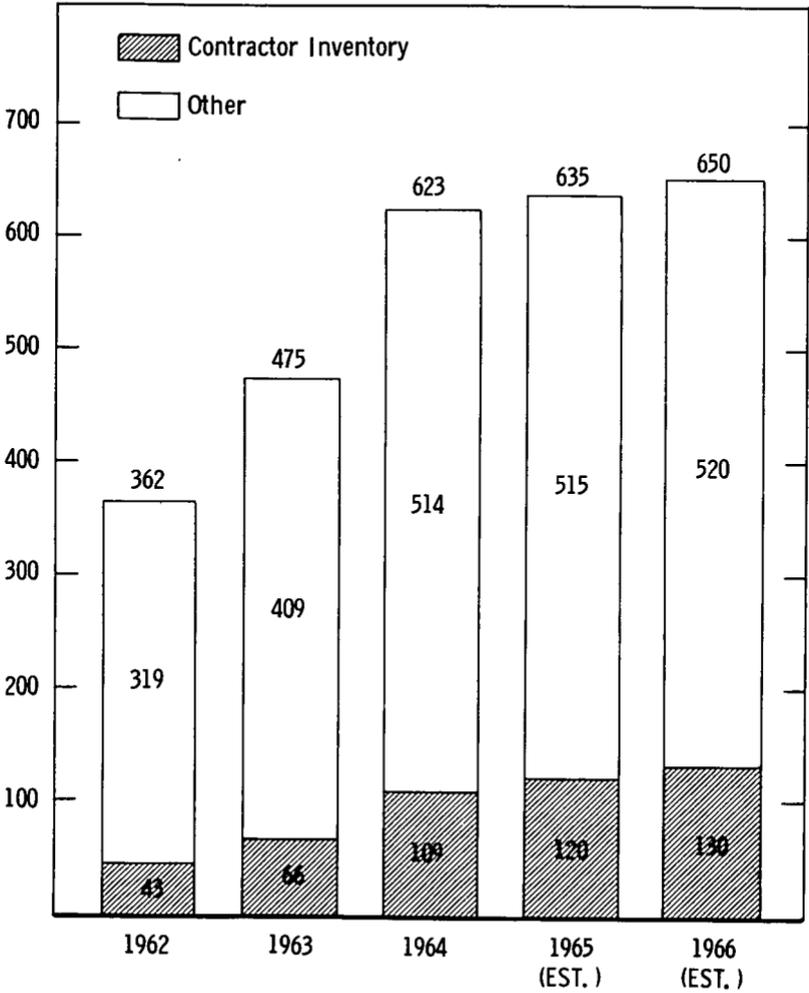
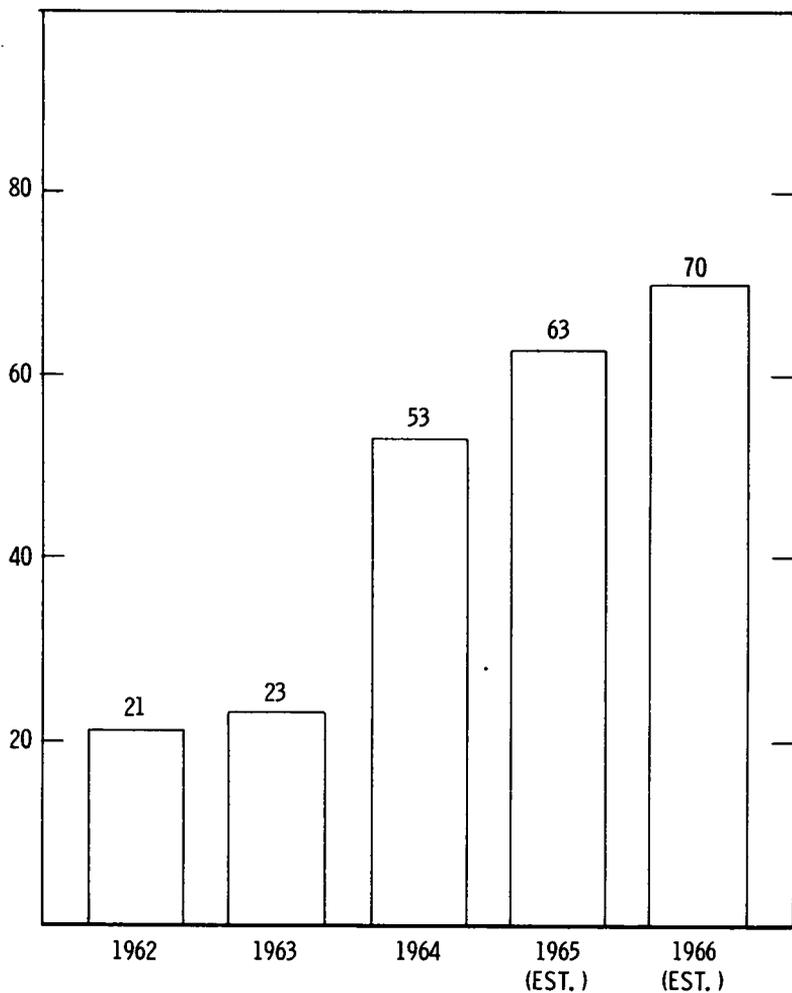
**PERSONAL PROPERTY UTILIZATION**MIL. OF DOLLARS  
(ACQ. COST)

CHART No. 10

**PERSONAL PROPERTY REHABILITATION**MIL. OF DOLLARS  
(ACQ. COST)

## WIDESPREAD USE OF ADP IN GOVERNMENT REQUIRES AN ADP SHARING PROGRAM

	FISCAL YEAR 1964
(A) MONEY SPENT _____	\$1.1 billion
(B) NUMBER OF COMPUTERS IN PLACE IN GOVERNMENT _____	1767
OWNED BY THE GOVERNMENT _____	681 (38.5%)
(C) ADP EMPLOYEES IN GOVERNMENT _____	72,800
(D) GOVERNMENT COST FOR ADP CONTRACTED COMMERCIAL FACILITIES _____	\$55.8 million
(E) UNUSED TIME ON GOVERNMENT COMPUTERS _____	500,000 hours
UNUSED TIME AVAILABLE FOR SHARING _____	310,000 hours

Representative GRIFFITHS. I do have some questions.

Mr. Ward has been very busy and he has discovered from the Federal Property Act of 1949, as amended, that you have the power to issue regulations regarding this contractor Government-owned inventory.

Mr. KNOTT. I am not sure that I follow.  
On what point?

#### GSA REGULATIONS ON CONTRACTOR INVENTORY

Representative GRIFFITHS (reading). "Subsequent to regulations of the Administrator, any executive agency may authorize any contractor with such agency or subcontractor thereunder; to retain or dispose of any contractor inventory."

How many regulations has the Administrator ever issued?

Mr. KNOTT. Mr. Gasque?

Representative GRIFFITHS. This is section 203(7)(f) of Public Law 152.

Mr. GASQUE. Madam Chairman, to my best recollection we have issued regulations currently under the Federal property management regulations system covering this point. Mr. Ward is certainly correct that we do have the authority under section 203(f) of the Federal Property and Administrative Services Act of 1949, to issue such regulations.

Representative GRIFFITHS. Well, how far have you exercised it?

Mr. GASQUE. We would be very happy to furnish for the record the regulations, Madam Chairman.

(GSA subsequently supplied the regulations which are reproduced immediately following this testimony.)

#### EXTENT OF CONTRACTOR INVENTORY

Representative GRIFFITHS. I want more than that. I want the inventory.

Mr. GASQUE. I will ask Mr. Greenberg.

Representative GRIFFITHS. I want to know what you own that the contractor is using and how will you get it back in Government warehouses or what you do with it.

Mr. GREENBERG. We don't have any contractor inventory in GSA, Madam Chairman. This deals with the contractor inventory of the individual agencies of the Federal Government. But we do not have contractor inventory, we do not expend any money for it, we do not maintain the inventory control, nor do we govern whether or not it is excess to the needs of the contractor.

Representative GRIFFITHS. But you issue regulations governing it. I want to know what kind of regulations you have issued and who has produced the inventory. Who knows where the stuff is?

Mr. GREENBERG. Every Federal agency of Government who has a contractor. GSA does not have this basic responsibility.

Representative GRIFFITHS. GSA is supposed to. (Reading from sec. 3(k), Public Law 152:)

The term "contractor inventory" means (1) any property acquired by and in the possession of a contractor or subcontractor under a contract pursuant to the terms of which title is vested in the Government and in excess of the amount needed to complete full performance.

Then we get over here in 203(7) (f) :

Subject to regulations of the Administrator any executive agency may authorize any contractor with such agency or subcontractor thereunder to retain or dispose of any contractor inventory.

What we want to know is what regulations have you issued and what have you people done?

Have you ever checked up on whether you have carried out the regulations?

Mr. GASQUE. Madam Chairman, as I said, we will be very happy to provide you with a copy of our regulations and any other information we have available or can get for you on that point.

Representative GRIFFITHS. See if you can find out what they are doing under the regulations for us. Check up to see if they are complying.

Mr. GASQUE. We will certainly try, Madam Chairman, to get you whatever information is available.

#### GSA AND ASPR CONCERNING CONTRACTOR INVENTORY

Representative GRIFFITHS. Does the military issue a contract that refers to your regulations or to their own procurement regulations?

Mr. GASQUE. With respect to procurement, the Department of Defense makes its contracts pursuant to its own regulations, the Armed Services Procurement Regulation.

Representative GRIFFITHS. They do not follow yours as to contractor inventory?

Mr. GASQUE. No. However, I would like to point out that in the development of the Federal Procurement Regulations those regulations are coordinated practically word for word with the ASPR committee of the Department of Defense. So, to the extent that there is a regulation governing any facet of procurement in the FPR, it is practically identical with the corresponding regulation in the Armed Services Procurement Regulation.

In connection with the sale of Government property, we have, if my understanding of the law is correct, complete authority with respect to the issuance of regulations on disposal of Government property. Our regulations on the disposal of Government property are now issued in the Federal Property Management Regulations. The regulations which we will provide you with respect to contractor inventory are from that set of regulations and apply to the Department of Defense.

Representative GRIFFITHS. Do you consider that you have delegated your authority to write the regulations?

Mr. GASQUE. On procurement of property?

Representative GRIFFITHS. On contractor inventory. Have you delegated your authority?

Mr. GASQUE. No. We have issued the regulations governing this matter.

Representative GRIFFITHS. Have you ever checked up on what they do?

Mr. GASQUE. I do not know whether we have or not, ma'am. I can't answer that. We will be glad to look into it for you, though.

Representative GRIFFITHS. While you are checking up on that, will you do something with these subcontractors? I have another sugges-

tion for you. It has come to my attention at various times over the years that ever so often the Government steps in and takes away a subcontractor's equipment, Government-owned equipment, removes it. This, of course, is a subcontractor. While you folks go around, why don't you check up on how many times they have taken away a subcontractor's Government-owned equipment.

Mr. GASQUE. We will be glad to check up on it.

Representative GRIFFITHS. This is a very effective way of putting a person out of business. All you have to do is take out one large machine tool. A hundred thousand dollars in a small plant and a man is out of business. It works very effectively.

Thank you very much.

(Whereupon, at 3:25 p.m. the committee was recessed, to be reconvened at 10 a.m. Thursday, April 29, 1965.)

(Information requested by Mrs. Griffiths and subsequently supplied by GSA appears on following pages:)

**GENERAL SERVICES ADMINISTRATION***Washington 25, D.C.*

MAY 7, 1965



Honorable Paul H. Douglas  
Chairman, Subcommittee on Federal  
Procurement and Regulation  
Joint Economic Committee  
United States Congress  
Washington, D. C.

Dear Senator Douglas:

During my testimony before your Subcommittee on April 28, 1965, in connection with your hearings on the economic impact of Federal procurement, Representative Griffiths, who was presiding, requested that we furnish the Subcommittee a copy of GSA's regulation, issued pursuant to Section 203(f) of the Federal Property and Administrative Services Act of 1949, governing the retention or disposal of contractor inventory by Government contractors.

Accordingly, there is transmitted herewith a copy of Part 101-43 of the Federal Property Management Regulations on the subject of "Utilization of Personal Property." Sections 101-43.316 and 43.316-1 (page 4319 of the Regulations) deal with contractor inventory.

In addition, Representative Griffiths requested that we advise the Subcommittee as to what Federal agencies have done with respect to GSA's regulation governing contractor inventory.

Therefore, we are requesting the major agencies of the executive branch to furnish us reports on the actions taken by them to carry out the provisions of Sections 101-43.316 and 43.316-1 of the Federal Property Management Regulations. As soon as we are in receipt of these reports we shall be pleased to furnish your Subcommittee the desired information.

Sincerely yours,

Lawson B. Knott, Jr.  
Acting Administrator

Enclosure

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43.104-3 (a)

**§ 101-43.000 Scope of part.**

This part prescribes the policies and methods governing the economic and efficient utilization of personal property located within the United States, Puerto Rico, and the Virgin Islands.

**Subpart 101-43.1—General Provisions****§ 101-43.101 Surveys.**

Each executive agency shall continuously survey property under its control to assure maximum use and shall promptly make property that is excess to its needs available for transfer in accordance with this Part 101-43.

**§ 101-43.102 Reassignment of property within executive agencies.**

Each executive agency shall, to the maximum extent feasible, reassign property within activities of the agency, including its cost-reimbursement type contractors as described in § 1-3.405 of this title, when such property is determined to be no longer required for the purpose of the appropriation from which it was purchased or the use to which it has been applied, and shall immediately discontinue procurement of items for which such property can be substituted or adapted. A quarterly performance report of such internal property reassignments shall be submitted to GSA on Standard Form 121, Revised, Quarterly Report Utilization and Disposal of Excess and Surplus Personal Property (see § 101-43.4907).

**§ 101-43.102-1 Acquisition of office furniture.**

Office furniture shall be purchased only after agency compliance with the reassignment requirements in this section and applicable replacement standards. Such items should then be obtained from GSA stores stock or through Federal Supply Schedules pursuant to Part 101-26.

**§ 101-43.103 Agency utilization officials.**

To promote the maximum utilization of excess personal property, agencies are requested to name national and regional utilization officials who will be responsible, among other things, for promoting

the acquisition and profitable use of available excess. It is suggested that wherever possible, the responsibility for training personnel concerned directly or indirectly with the acquisition and use of excess be given to these utilization officials.

**§ 101-43.104 Definitions.**

As used throughout this Part 101-43, the terms enumerated in this section shall have the meanings set forth in this § 101-43.104.

**§ 101-43.104-1 Atomic Energy Commission-controlled materials.**

The possession, use, and transfer of certain materials are subject to the regulatory controls of the Atomic Energy Commission, pursuant to the Atomic Energy Act of 1954, as amended. The materials are:

(a) "Byproduct material," meaning any radioactive material (except special nuclear material) yielded in or made radioactive by exposure to the radiation incident to the process of producing or utilizing special nuclear material (see Atomic Energy Commission Regulation, 10 CFR Part 30);

(b) "Source material," meaning (1) uranium, thorium, or any other material which is determined by the Atomic Energy Commission pursuant to the provisions of the Atomic Energy Act of 1954, as amended, to be source material, or (2) ores containing one or more of the foregoing materials, in such concentration as the Commission may by regulation determine from time to time (see AEC Regulation, 10 CFR Part 40); and

(c) "Special nuclear material," meaning (1) plutonium, uranium enriched in the isotope 233 or in the isotope 235, and any other material which the Commission, pursuant to the provisions of the Atomic Energy Act of 1954, as amended, determines to be special nuclear material, or (2) any material artificially enriched by any of the foregoing (see AEC Regulation, 10 CFR Part 70).

**§ 101-43.104-2 Combat materiel.**

Arms, ammunition, and implements of war listed in currently effective designations (22 U.S.C. 1934).

**§ 101-43.104-3 Contractor inventory.**

(a) Any property acquired by and in the possession of a contractor or sub-

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 104-3(a)

contractor (including Government-furnished property) under a contract pursuant to the terms of which title is vested in the Government, and in excess of the amounts needed to complete full performance under the entire contract; and

(b) Any property which the Government is obligated or has the option to take over under any type of contract as a result either of any changes in the specifications or plans thereunder or of the termination of such contract (or subcontract thereunder), prior to completion of the work, for the convenience or at the option of the Government.

**§ 101-43.104-4 Electronic data processing equipment.**

Electronic data processing (EDP) equipment refers to a machine or a group of interconnected machines which use electronic circuitry to perform arithmetic and/or logical operations under control of internally stored programed instructions. Punched card machines which cannot be electrically interconnected with one or more machines controlled by internally stored programs are excluded.

**§ 101-43.104-5 Excess personal property.**

Any personal property under the control of any Federal agency which is not required for its needs and the discharge of its responsibilities, as determined by the head thereof.

**§ 101-43.104-6 Executive agency.**

Any executive department or independent establishment in the executive branch of the Government, including any wholly owned Government corporation.

**§ 101-43.104-7 Federal agency.**

Any executive agency or any establishment in the legislative or judicial branch of the Government (except the Senate, the House of Representatives, and the Architect of the Capitol and any activities under his direction).

**§ 101-43.104-8 Holding agency.**

The executive agency which has accountability for the property involved.

**§ 101-43.104-9 Inspection.**

The critical examination of material to verify quantity, determine condition,

or to compare actual characteristics with those given in applicable specifications. The term includes laboratory analyses and other technical testing operations which may be required. The term is used in a similar sense with respect to services performed and other stipulated performances in general.

**§ 101-43.104-10 Intangible personal property.**

Includes but is not limited to such classes of personal property as patents, patent rights, processes, techniques, inventions, copyrights, negotiable instruments, money orders, bonds, shares of stock, and similar evidences of value, except as, in a given case or class of cases, may be excluded by the Administrator of General Services.

**§ 101-43.104-11 Materiel.**

All items necessary for the equipment, maintenance, operation, and support of governmental activities without distinction as to use for administrative or operational purposes.

**§ 101-43.104-12 Narcotics.**

The following drugs or preparations thereof: (a) opium, coca leaves, cocaine, or any salt, derivative, or preparation of opium, coca leaves or cocaine; (b) isonipecaine (demarol); (c) any drug found by the Secretary of the Treasury and proclaimed by the President to have addiction-forming or addiction-sustaining liability similar to morphine or cocaine, such as methadon (delephine, adanon) and nisentil; and (d) marijuana (Cannabis Sativa L.).

**§ 101-43.104-13 Personal property.**

Property of any kind or any interest therein, except real property, records of the Federal Government, and naval vessels of the following categories: battleships, cruisers, aircraft-carriers, destroyers, and submarines.

**§ 101-43.104-14 Possessions.**

Includes the Virgin Islands, the Canal Zone, Guam, American Samoa, Wake Island, Midway Island, and the Guano Islands, but does not include the Commonwealth of Puerto Rico.

## SUBPART 101-43.1 GENERAL PROVISIONS

101-43, 104-21

**§ 101-43.104-15 Related personal property.**

Any personal property:

(a) Which is located on, or is an integral part of, real property, or used or useful in connection with such property or the productive capacity thereof, or

(b) Determined by the Administrator of General Services to be otherwise related to the real property.

**§ 101-43.104-16 Salvage.**

Personal property that has some value in excess of its basic material content but which is in such condition that it has no reasonable prospect of use for any purpose as a unit (either by the holding or any other Federal agency) and its repair or rehabilitation for use as a unit (either by the holding or any other Federal agency) is clearly impracticable. Repairs or rehabilitation estimated to cost in excess of 65 percent of acquisition cost would be considered "clearly impracticable" for purposes of this definition.

**§ 101-43.104-17 Scrap.**

Material that has no value except for its basic material content.

**§ 101-43.104-18 Surplus personal property.**

Any excess personal property not required for the needs and the discharge of the responsibilities of all Federal agencies, as determined by the Administrator of General Services.

**§ 101-43.104-19 Trust territory.**

Applies to the Trust Territory of the Pacific Islands, which the United States administers pursuant to the trusteeship agreement approved by the President of the United States pursuant to the Act of July 18, 1947 (48 U.S.C. 1681 note).

**§ 101-43.104-20 Typewriters.**

Manually and electrically operated machines having standard or special keyboards, designed to produce printed characters by impression of type upon paper through the medium of an inked ribbon. It includes the varityper, hektowriter, proportional spacer, flexowriter, justowriter, and portable type machines but does not include bookkeeping, billing, or teletype machines.

**§ 101-43.104-21 United States.**

In the geographical sense, "United States" means all the States and the District of Columbia.

## SUBPART 101-43.2 UTILIZATION OF PROPERTY PROPOSED FOR PROCESSING FOR EXCHANGE/SALE

101-43.203-1(c)

### Subpart 101-43.2—Utilization of Property Proposed for Processing for Exchange/Sale

#### § 101-43.200 Scope of subpart.

This Subpart 101-43.2 prescribes the utilization policies incumbent upon executive agencies exercising the exchange/sale authority granted under section 201(c) of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 481(c)).

#### § 101-43.201 [Reserved]

#### § 101-43.202 Definition.

The term "acquire", as used in this Subpart 101-43.2, means procure, purchase, or obtain in any manner, including transfer, or manufacture, or production at Government-owned or -operated plants or facilities.

#### § 101-43.203 General authorization.

Subject to the provisions of this Subpart 101-43.2, executive agencies are hereby authorized, in acquiring replacement personal property within the United States or elsewhere, to exchange or sell similar items and apply the exchange allowance or the proceeds of sale in such cases, in whole or in part payment for the replacement property acquired.

#### § 101-43.203-1 Restrictions and limitations.

(a) The application of exchange allowances or proceeds of sale in whole or part payment for personal property acquired is authorized only when all the following conditions apply:

(1) The items sold or exchanged are similar to the items acquired (see § 101-43.203-1(b) for explanation of the word, "similar");

(2) The items sold or exchanged are not excess, and the items acquired are needed in the conduct of approved programs;

(3) The items acquired are to be used (whether or not intended for additional uses) in the performance of all or substantially all of the tasks or operations in which the items exchanged or sold would otherwise be used, but the items acquired need not be the same in number

nor used in the same location as the items sold or exchanged (Example: two ½-ton dump trucks may be replaced with one 1-ton dump truck which performs tasks previously requiring the two trucks): *Provided*, That the limitation prescribed in this subparagraph shall not apply with respect to parts or containers; And provided further, That detailed cross reference between old and new items will not be required in the absence of specific requirements of law. In the absence of such cross reference, however, there shall be made available to the General Accounting Office sufficient data to establish that the items acquired were similar to the items exchanged or sold, that any exchange allowances or proceeds of sale applied in whole or part payment for property acquired were in fact available for such application, and that the transaction was otherwise in accordance with the provisions of this § 101-43.203-1;

(4) There has been at the time of exchange or sale (or at time of acquisition if it precedes the sale) a written administrative determination to apply the exchange allowance or proceeds of sale in acquiring property in accordance with this section; and

(5) The transaction will foster the economical and efficient accomplishment of an approved program.

(b) The item of personal property to be exchanged or sold and the item to be acquired shall be deemed similar for the purpose of this section when:

(1) Both fall within any one of the categories listed in § 101-43.4908; or

(2) In the case of personal property not falling within the categories of § 101-43.4908, the item to be acquired is designed and constructed for the same specific purpose as the item to be replaced; or

(3) Both constitute containers for items which are similar within the meaning of subparagraph (2) of this paragraph; or

(4) Both constitute containers for items which are similar within the meaning of subparagraph (1) or (2) of this paragraph.

(c) Items falling within the following categories shall not be eligible for

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 203-1(c)

handling under the provisions of this Subpart 101-43.2.

- (1) Hand tools.
- (2) Hardware, general purpose.
- (3) Lumber, millwork, plywood, and veneer.

(4) Furniture, office, household and quarters, hospital, shipboard, and cafeteria located in the United States and its possessions.

- (5) Office supplies.
- (6) Textiles.
- (7) Wearing apparel.

(d) This Subpart 101-43.2 shall not be construed to authorize:

(1) The acquisition of personal property by an executive agency when such acquisition is not otherwise authorized by law.

(2) The acquisition of personal property by an executive agency in contravention of (i) any restriction upon the procurement of a commodity or commodities, or (ii) any replacement policy or standard, prescribed by the President, the Congress, or by the Administrator of General Services.

(3) The purchase or acquisition of personal property otherwise than under a consolidated purchasing or stores program of Federal Supply Schedule contract where procurement under such program or contract is required by regulations or other directives prescribed by the Administrator of General Services. However, an executive agency acquiring an item or items under and in accordance with such program or contract may sell or exchange similar items and apply the exchange allowance or proceeds of sale as provided in this Subpart 101-43.2.

(4) The sale, transfer, or exchange of excess or surplus property in connection with the purchase or acquisition of personal property. However, an executive agency may sell or exchange items originally acquired as excess or surplus from another agency and apply the exchange allowance or proceeds of sale in accordance with this Part 101-43.

(5) The sale, transfer, or exchange of strategic and critical materials, unless such materials at any one location are in lots of less than the minimum quantities specified in Part 101-14, and the agency determines that there is no reasonable prospect of accumulating, within 12 months, the minimum quantities specified in said part.

(6) The sale, transfer, or exchange of Atomic Energy Commission-controlled materials as defined in § 101-43.104 except in accordance with applicable regulations of the Atomic Energy Commission (see 10 CFR Parts 30, 40, and 70).

(7) The sale or exchange of narcotics, except in accordance with Parts 101-44 and 101-45.

(8) The sale of personal property in new or unused condition in connection with the purchase or acquisition of personal property.

(9) The sale, transfer, or exchange of scrap in connection with the purchase or acquisition of personal property.

(e) This Subpart 101-43.2 does not apply to strategic and critical materials which have been accepted for the national stockpile. Materials no longer needed for the stockpile are required to be disposed of in accordance with the provisions of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98-98b) and Part 101-45.

## § 101-43.204 Agency responsibility.

Executive agencies having property determined to be available for exchange or sale pursuant to this Subpart 101-43.2 shall, to the fullest extent practicable or economical and prior to any disposal action, solicit Federal agencies known to use or distribute such property and arrange for transfers thereto, except that no attempt need be made to obtain further utilization of property which is eligible for replacement in accordance with standards prescribed by GSA. Executive agencies may also exchange similar property with other Federal agencies (including the Senate, the House of Representatives, the Architect of the Capitol and any activities under his direction, the District of Columbia, and mixed-ownership Government corporations).

## § 101-43.204-1 Dangerous property and combat materiel.

(a) No property which is dangerous to public health or safety shall be exchanged or sold pursuant to this Subpart 101-43.2, without first rendering such property innocuous or providing adequate safeguards therefor.

(b) No combat materiel shall be exchanged or sold pursuant to this Subpart 101-43.2 without first demilitarizing such

## SUBPART 101-43.2 UTILIZATION OF PROPERTY PROPOSED FOR PROCESSING FOR EXCHANGE/SALE

101-43, 206

property if such demilitarization is found by a duly authorized official of the executive agency concerned to be in the best interest of public health, safety, or security. Such demilitarization may include rendering such property innocuous, stripping from it any confidential or secret characteristics, or otherwise making it unfit for military use. Demilitarization of property to be exchanged or sold shall be accomplished in such manner as to preserve so far as possible any civilian utility or commercial value of the property.

### § 101-43.205 Reimbursement.

Transfers of personal property under this Subpart 101-43.2 shall be made upon such terms as shall be agreed to by the Federal agencies concerned (including the organizations specified in § 101-43.204). However, agencies offering property for transfer for further utilization within the Government shall not in any case require reimbursement of an amount greater than the best estimate of the gross proceeds if the property were to be sold on a competitive bid basis. Funds shall be transferred in accordance with such terms, and the exchange al-

lowance or other proceeds of transfer shall be applied in whole or part payment for personal property acquired. Funds transferred as representing the difference in value between items which are exchanged shall be deposited to miscellaneous receipts by the transferee agency unless (1) other disposition is authorized by law or (2) acquisition of items in addition to the items received in exchange is required for the performance of the tasks or operations in which similar items exchanged would otherwise have been used.

### § 101-43.205-1 Books and periodicals.

Notwithstanding any other provision of this Subpart 101-43.2, executive agencies may exchange, without monetary appraisal or detailed listing or reporting, books and periodicals in their libraries not needed for permanent use for other books and periodicals.

### § 101-43.206 Records.

Executive agencies shall prepare and maintain such records as will show full compliance with the provisions of this Subpart 101-43.2 and with section 201(c) of the Federal Property Act (40 U.S.C. 481(c))

## SUBPART 101-43.3 UTILIZATION OF EXCESS

101-43.302(d)(1)

**Subpart 101-43.3—Utilization of Excess****§ 101-43.301 Federal Government procedure.**

The first source of supply is excess personal property, which should be utilized by agencies to the fullest extent practicable, as prescribed in this Part 101-43. Any need for personal property expressed by any Federal agency (including the Senate, the House of Representatives, the Architect of the Capitol and any activities under his direction, the District of Columbia, and mixed-ownership corporations as defined in the Government Corporation Control Act) shall be paramount to any disposal, if such need is made known to the holding agency prior to shipment or delivery in the case of donation, or prior to an award in the case of sale.

**§ 101-43.302 Agency responsibility.**

(a) In order to obtain maximum utilization and minimize the procurement of new items, each executive agency shall be responsible for making excess property available and facilitating the transfer of the property to other Federal agencies, to its cost-reimbursement type contractors, and to the organizations specified in § 101-43.315. The transfer of excess property to a cost-reimbursement type contractor shall be made only by the agency administering the contract. Each executive agency shall, to the maximum practicable extent, fulfill its requirements for property, including those of its cost-reimbursement type contractors, by obtaining excess from other Federal agencies in lieu of new procurement.

(1) Prior to procurement of new property, careful and receptive consideration shall be given to utilization of known usable excess property of a similar type, including the possibility of substitution or adaptation of excess items not identical with requested items, whether the excess items are unused, rehabilitated, or in used condition, and regardless of whether the intended new procurement would be from GSA stores stock or other sources of supply. Executive agencies shall accept, to the fullest extent practicable, the reasonable substitution of such excess property in lieu of new procurement.

(2) GSA will assist agencies in meeting their requirements for property of

the types excepted from reporting as excess by this Part 101-43. Federal agencies requiring such property should contact the appropriate GSA regional office as indicated by § 101-43.4903. GSA area utilization officers, stationed at key military excess generating points throughout the United States, are screening and offering nonreported personal property as it becomes available for transfer.

(b) To implement the policy for maximum utilization of excess personal property, as outlined in paragraph (a) of this § 101-43.302, the regional offices of the GSA will screen all requests for replenishment of stores stock and direct delivery purchase requests submitted by executive agencies against lists of excess personal property available in their respective regions.

(1) GSA may take physical custody of such excess personal property for redistribution, or may direct its transfer to executive agencies in lieu of procurement of new property from commercial sources of supply. If the excess property is used, rehabilitated, or differs in some substantial characteristic from the item ordered, notice of intent to substitute will be given the ordering agency to permit such agency the opportunity to inspect the property prior to shipment.

(c) Acceptance of excess property under the above circumstances shall be required unless the using agency submits a full and convincing written justification that such transfers or substitutions would result in serious hardship or impairment to its operations programs.

(d) Part 101-27 prescribes standards for executive agencies in computing inventory levels. To encourage the use of excess property which might otherwise be disposed of as surplus, inventory levels may be adjusted upward when items of stock are to be acquired from excess sources. Such adjustments should be tempered by caution and arrived at after careful analysis which gives consideration to the factors set forth in Part 101-27 and in this Part 101-43. Generally, acquisitions of items for inventory from excess shall not exceed a two years' supply except when:

(1) A greater quantity is needed to meet known requirements for an authorized planned program.

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 302 (d) (2)

(2) The item is not available without special manufacture and a predictable requirement exists.

(3) Administrative determination has been made that in application of the EOQ principle of stock replenishment within an agency an inventory level in excess of two years is appropriate for low dollar-volume items.

(4) The items are being transferred into authorized stock funds for resale to other Government agencies.

(5) In addition, the following conditions should be met prior to acquisition of excess:

(i) There must be a predictable requirement for an authorized program.

(ii) The cost of acquisition, including packing and shipping, carrying in inventory, and preservation shall not exceed delivered cost of new material.

(iii) The supply acquired does not exceed the expected shelf life, considering condition at time of acquisition.

(iv) The supply of spare parts acquired shall not exceed the life expectancy of the equipment supported.

#### § 101-43.303 Suspension of procurement.

The Administrator of General Services may, as circumstances warrant, suspend the initiation of procurement for new items of property when these same items, or those which can be substituted or adapted for them, are available from excess property.

#### § 101-43.303-1 Acquisition of mercury.

(a) Executive agencies of the Federal Government are prohibited from purchasing mercury in quantities of 76 pounds or more from commercial sources without prior clearance from GSA.

(b) Mercury, prime, virgin, 99.9 percent pure (not triple distilled), in 76 lb. flasks, with unit acquisition cost of \$235.60 per flask, is available for transfer from AEC excess personal property with reimbursement at fair-market value.

(1) Requests for the mercury shall be made on Standard Form 122, Transfer Order Excess Personal Property, submitted in quadruplicate to the General Services Administration, Utilization and Disposal Service, Personal Property Division, 1776 Peachtree Street NW., Atlanta, Ga., 30309. Orders will show the

holding agency as the U.S. Atomic Energy Commission, Oak Ridge Operations Office, Post Office Box E, Oak Ridge, Tenn., Attention: R. H. Miller. The unit of issue is 76 lb. flask.

(2) Requests for clearance to purchase quantities of 76 pounds or more from other sources than the U.S. AEC submitted to GSA's regional office, Atlanta, Ga., will receive prompt review provided such requests are accompanied by a statement of the reasons that make the available excess mercury unsuitable for the purposes of the requesting agency. Requesting agencies will be notified as to the approval or disapproval of such requests.

#### § 101-43.304 Retention of custody.

GSA may direct the holding agency to retain custody of excess property, or order custody of whole or part transferred to other executive agencies, with their consent.

#### § 101-43.305 Strategic and critical materials; excess related personal property.

With respect to strategic and critical materials, and excess related property, this Part 101-43 shall apply to them only to the extent not precluded by the provisions of Part 101-14 and Part 101-47, respectively.

#### § 101-43.306 Property not required to be reported.

Excess property which is not required to be reported to GSA is nonetheless a valuable source of supply for Federal agencies. Regional offices and area utilization officers of GSA are responsible for local screening of such property, for making it available to Federal agencies, and for consummating its expeditious transfer to such agencies. Federal holding agencies shall cooperate with GSA representatives in making information available and in providing access to their nonreportable excess property. To the extent such property is not covered by the utilization screening processes of GSA, executive agencies shall make reasonable efforts to obtain utilization among Federal agencies of that property having utilization potential. In the case of narcotics, this solicitation shall be limited to those agencies shown in § 101-43.309.

## SUBPART 101-43.3 UTILIZATION OF EXCESS

101-43.311-4

**§ 101-43.307 Legislative and judicial Federal agencies.**

Federal agencies in the legislative and judicial branches are encouraged to report and transfer excess property and fill their requirements from excess property of other Federal agencies, in accordance with the provisions of this Part 101-43. In reporting property as excess, each Federal agency shall comply with the provisions of this Part 101-43.

**§ 101-43.308 Assistance in major disaster relief.**

In accordance with instructions of the Director, Office of Emergency Planning, or of any officer of his agency designated by him, excess property shall be utilized in behalf of or loaned to States and local governments, with or without compensation therefor, pursuant to the Act of September 30, 1950 (42 U.S.C. 1855 et seq.), and Executive Order No. 10427 of January 16, 1953, as amended, Executive Order No. 10737 of October 29, 1957, as amended, and Executive Order No. 11051 of September 27, 1962 (3 CFR), to provide assistance to such States and local governments in alleviating suffering and damage resulting from major disasters. Excess medicines, foods, and other consumable supplies may be distributed to States and local governments for such purposes. In the event such property has been reported to GSA pursuant to § 101-43.311, it shall be withdrawn by the holding agency pursuant to § 101-43.314.

**§ 101-43.309 Narcotics.**

Holding agencies shall arrange for transfers in accordance with § 101-43.315-5. In effecting the utilization of excess narcotic drugs, the holding agencies shall solicit only the following Federal agencies and may transfer excess narcotics to these agencies only:

- (a) Department of Defense;
- (b) Veterans Administration;
- (c) Department of Health, Education, and Welfare;
- (d) Office of Territories, Department of the Interior; and
- (e) Such other Federal agencies as may be designated by the Administrator of General Services in special cases.

**§ 101-43.310 [Reserved]****§ 101-43.311 Reporting requirements.****§ 101-43.311-1 Reporting.**

Except as set forth in § 101-43.312, excess personal property shall be reported promptly as provided in this § 101-43.311-1 and in accordance with the Federal Supply Classification Groups and Classes contained in § 101-43.4901. Full descriptions will be used, when available. In the absence of such descriptions, adequate commercial descriptions will be furnished. Whenever possible, Federal stock numbers should be provided as part of the description. It is especially important that the excess property report reflect the true condition of the property as of the date it is reported excess, through assignment of the appropriate code designation, as defined in § 101-43.4902-1.

**§ 101-43.311-2 Form and distribution of reports.**

Reports of excess property shall be made on Standard Form 120, Report of Excess Personal Property, and Standard Form 120A, Continuation Sheet (see §§ 101-43.4902 and 101-43.4902-2), in accordance with the instructions in § 101-43.4902-1. Reports to GSA shall be submitted in original and three copies to the appropriate GSA regional office for the region in which the property is located (see § 101-43.4903), except that reports of excess standard forms, and samples of such forms shall be submitted to the General Services Administration Region 3, Federal Supply Service, Washington, D.C. 20407, in accordance with Part 101-26 of this chapter.

**§ 101-43.311-3 Typewriters.**

Typewriters shall not be included on Standard Form 120 with any other personal property and the following additional descriptive information shall be provided: make, model, type (standard, silent, noiseless, portable, or electric), carriage width, typeface, and serial number.

**§ 101-43.311-4 Excess personal property on or within excess real property.**

Excess related personal property shall be reported to GSA in accordance with

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43.311-4

Part 101-47 of this chapter. Excess personal property, other than related personal property, which may be located on or within excess real property, is governed by this Part 101-43. The fact of location on excess real property shall be noted on the report.

**§ 101-43.311-5 Property at installations due to be discontinued.**

Executive agencies that have installations which are due to be discontinued, closed, or abandoned and at which there will be excess personal property shall, unless inadvisable in the interest of national security, give advance notice of such situations as early as possible by letter to the appropriate GSA regional office. In such cases, agencies shall identify the installation to be discontinued, and provide the scheduled date for the removal of personnel from the location, and the last date when the personal property will be needed. As soon as possible after filing the advance notice, the excess personal property shall be reported in accordance with this § 101-43.311 to provide time for screening for Federal utilization and donation purposes. Seventy-five days are usually required.

**§ 101-43.312 Exceptions to reporting.**

Unless otherwise directed by GSA, the following excess property shall not be reported:

(a) Perishables, defined for the purposes of this section, as any foodstuffs which are subject to spoilage or decay;

(b) Property dangerous to public health and safety;

(c) Scrap and/or salvage, provided the property strictly conforms to the definitions for scrap and/or salvage (§ 101-43.4902-1).

(d) Property determined by competent authority to be classified for reasons of national security;

(e) Other items excepted from reporting as listed in § 101-43.4901;

(f) Otherwise reportable property which, prior to reporting as required in § 101-43.311, is transferred directly between Federal agencies to fill a known need; and

(g) Trading stamps.

**§ 101-43.313 Items requiring special handling.**

**§ 101-43.313-1 Narcotics.**

All excess narcotic drugs may be determined to be surplus by the holding agency without reporting as excess, after such agency has complied with the utilization requirements of §§ 101-43.102 and 101-43.309.

**§ 101-43.313-2 Printing, binding, and blankbook equipment and supplies.**

Excess machinery, equipment, material, and supplies for printing, binding, and blankbook work should be reported to the Public Printer for possible transfer, as provided in section 3 of the Act of July 19, 1919 (44 U.S.C. 59), prior to reporting to GSA.

**§ 101-43.313-3 Intangible property.**

Excess intangible property shall be reported to the General Services Administration, Utilization and Disposal Service, Washington, D.C. 20405, and shall not be transferred or disposed of without prior approval of GSA, except that bonds, notes, or other securities authorized to be disposed of by the Secretary of the Treasury under section 5 of the Act of April 3, 1945 (31 U.S.C. 741a), shall not be reported to GSA.

**§ 101-43.313-4 Conditional gifts.**

(a) Any agency receiving an offer of a conditional gift (other than money or intangible property) for a particular defense purpose within the purview of the Act of July 27, 1954 (50 U.S.C. 1151-1156), shall notify the appropriate regional office of GSA and shall submit a recommendation as to acceptance or rejection of the gift.

(b) Prior to such notification, the receiving agency shall acknowledge receipt of the offer and advise the donor of its referral to a GSA regional office but should not indicate acceptance or rejection of the gift on behalf of the United States. A copy of the acknowledgment shall accompany the notification and recommendation to the regional office.

(c) When the gift is determined to be acceptable and it can be used in the form in which offered, it will be transferred without reimbursement to a Federal agency designated by GSA for use for the

## SUBPART 101-43.3 UTILIZATION OF EXCESS

101-43.313-5(b)(2)

particular purpose for which it was donated.

(d) If the gift is one which GSA determines shall be converted to money, the funds, after conversion, will be deposited with the Treasury Department for transfer to an appropriate account which will best effectuate the intent of the donor, as provided in Treasury Department Circular No. 957, dated February 24, 1955.

(e) Such conditional gifts of property will be accepted or rejected on behalf of the United States or transferred to an agency by GSA only after consultation with the interested agencies.

(f) GSA will advise the donor and the agencies concerned of the action taken with respect to acceptance or rejection of the conditional gift and of its final disposition.

(g) The provisions in this § 101-43.313-4 are applicable only to the acceptance of gifts under the provisions of the Act of July 27, 1954 (50 U.S.C. 1151-1156).

**§ 101-43.313-5 Electronic data processing equipment.**

(a) This § 101-43.313-5 provides for: (i) maximum utilization of Government-owned personal property; and (ii) achievement of economic advantages available to the Government through the purchase and continued use of electronic data processing (EDP) equipment previously leased by the Government. This § 101-43.313-5 prescribes requirements for reporting Government-owned and -leased equipment which is either excess or available for exchange or sale pursuant to Parts 101-43 and 101-45, and prescribes policy and procedures for transfer of such EDP equipment for further Federal use.

(1) The provisions of this § 101-43.313-5 are applicable to all electronic data processing equipment capable of performing those applications listed in the Code Sheet for Applications, Attachment A of Bureau of the Budget Circular No. A-55 (Revised) of November 15, 1963, when such equipment is either Government-owned or -leased. Included in this section is general purpose commercial type equipment that is a part of a weapons system or used in research, development, test, and evaluation, or classified programs. However, specialized equipment designed for use

exclusively in the foregoing systems or programs is excluded.

(2) Government-wide policy for the selection and acquisition of Automatic Data Processing (ADP) equipment is contained in Bureau of the Budget Circular No. A-54. Consistent with the policy contained therein, executive agencies shall acquire available Government-owned or -leased electronic data processing equipment in lieu of purchase or lease from sources outside of the Government of new or used equipment where technically feasible and determined economically advantageous to the Government.

(b) Reporting property by owning or leasing agencies:

(1) Most agencies can predict planned replacement dates a year or more in advance of replacement. Some maintain centralized records of the status of all owned and leased EDP equipment. Written notice of planned replacements, by letter or other means, will greatly assist GSA in later efforts to obtain utilization among other Government agencies for this equipment. All advance notices submitted to GSA should contain as much information as is considered essential to determine effectively future utilization potential. When the status of such equipment changes, notification to this effect should be submitted on a situational basis, or reports of the status of all previously reported planned replacements or new planned replacements may be submitted quarterly.

(2) When an agency has determined the release date for EDP equipment being replaced, or considered excess to its needs, that fact shall be reported to GSA on Standard Form 120, Report of Excess Personal Property. The report shall be submitted at the earliest practicable date and, in any event, no later than 120 days prior to the anticipated release date. Specific reference to the advance notification previously furnished to GSA shall be made. The release date may be indicated as tentative if necessary. When a firm release date is established, or a previously reported firm release date is changed, this fact shall be reported by submission of a revised Standard Form 120. The basic Standard Form 120 report, in original and three copies, shall include the following:

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43.313-5(b)(2)(i)

(i) A complete listing of each equipment item identified by manufacturer's series and model number or other identification, as applicable, and a complete listing of modifications and attachments applied to each component. With each component listed there shall be an indication as to whether it has been purchased, leased, or leased with an option to purchase. If leased with option to purchase, and the option has not been exercised, the time available in which it may be exercised shall be reported. Also, since the reporting agency is in the best position to determine the acquisition cost to the Government at the time leased equipment will be released, such information shall be obtained from the supplier and reported. In addition, for each machine listed, the time in service and average down time per month for a twelve month period immediately preceding the report shall be reported on an attachment to the Standard Form 120.

(ii) An attachment that will indicate applications for each machine utilizing the application code contained in Attachment A of BOB Circular A-55. If no code is determined to be applicable, then a brief narrative statement of machine applications should be included. In the instance of a complete equipment configuration, the report shall include information regarding power and air-conditioning requirements. Also the attachment shall include a listing of compilers and other software packages (such as executive routines), and a listing of engineering drawings and maintenance manuals available with the equipment and indicate the availability of maintenance, supplies, and spare parts.

(iii) The notation "Exchange/Sale Property" prominently displayed on the face of the SF 120 in those instances where the reporting agency is releasing Government-owned equipment for the purpose of replacement and plans to employ the exchange/sale provisions of Parts 101-43 and 101-45.

(3) In consideration of the time factors involved, agencies, particularly large ones, may elect to forego any canvass of other internal EDP needs and to request that GSA perform this service simultaneously with its canvass of the requirements of other agencies. In such instances, GSA will direct its catalogs

and bulletins to those addressee offices within the reporting agency supplied by the reporting agency. Any needs of the reporting agency will be given priority over those of other agencies for a reasonable period of time. This reasonable period will be established by GSA in collaboration with the agencies involved.

(4) If, after submission of a Standard Form 120, an agency determines that the equipment will still be required and intends to continue the use, continue the lease, or exercise a purchase option and retain said equipment, notification to this effect shall be immediately submitted to GSA on an appropriately noted SF 120 in order to prevent unnecessary expense to other agencies in attempting to obtain utilization of the property.

(c) The Utilization and Disposal Service, GSA, will circularize catalogs and bulletins to all Federal agencies, including the reporting agency, advising of the availability of the equipment by transfer, by purchase from the supplier at reduced prices to be agreed upon by the requiring agency and the supplier, or by exercise of the purchase option contained in the leasing agency's contract. Price information will be included in catalogs and bulletins, when available, but final pricing on Government-owned equipment will normally be arrived at in accordance with § 101-43.313-5(d).

(1) Catalogs will be released by GSA for distribution on or before the fifteenth day of the first month of each calendar quarter, listing all equipment available for transfer as of the last day of the preceding quarter. Bulletins will be issued to update the most recent catalog publication.

(2) Executive agencies shall: (i) provide GSA with quantitative requirements and/or distribution lists for catalogs and bulletins; (ii) take steps to insure expedited distribution of catalogs and bulletins internally; and (iii) inform all appropriate officials in the agency concerning the use and applicability of the catalogs and bulletins.

(d) In the case of Government-owned equipment, transfers shall be governed by the fair value reimbursement provisions of § 101-43.315, which means that in most instances transfers between agencies will be without reimbursement of fair value. However, when replacement is involved, and the owning agency

## SUBPART 101-43.3 UTILIZATION OF EXCESS

101-43.313-5(g)(2)

plans to employ the exchange/sale provisions of Parts 101-43 and 101-45, and so annotate the report, then reimbursement will be required of the acquiring agency in accordance with the criteria set forth in § 101-43.205, except that reimbursement will be at least equal to the trade-in value as stipulated in the Federal Supply Schedule contract, or otherwise allowed by the supplier.

(e) The costs of care and handling of owned or leased equipment prior to the release date stated by the holding agency on the SF 120, including movement and temporary storage, shall be borne by the holding agency. Any costs directly involved for temporary storage incurred subsequent to the stated release date may be billed to the acquiring agency provided that the date of original submission of the SF 120 to GSA was at least 120 calendar days in advance of the release date stated in that declaration. The obligation rests with the acquiring agency to make arrangements with the holding agency whenever physical transfer of the equipment to the acquiring agency cannot be completed immediately after the stated release date and temporary storage by the holding agency is therefore required. All other costs incident to transfer shall be borne in accordance with § 101-43.317-1.

(f) When an executive agency has developed systems specifications, as required by BOB Circular A-54, and has determined its equipment requirements, it will screen information catalogs and bulletins furnished by GSA to determine the availability of equipment or components to meet its specifications. Each requiring agency shall acquire, where economically and technically feasible, the items offered through the circularization media referred to in § 101-43.313-5(c) in lieu of leasing or purchasing new or used equipment from commercial sources. In making its determination pursuant to § 101-43.313-5(a)(2) relative to the offered equipment, appropriate consideration shall be given to operational suitability, installation time requirements, budgetary implications, and economic factors. In instances where no suitable used equipment appears to be available, study should be made to determine the feasibility of modifying available used items, or adding peripheral equipment, to meet specifications. When the information listed in a GSA

catalog or bulletin is not sufficient to make a determination, further information may be obtained by contacting the holding agency or the GSA office set forth in this § 101-43.313-5. Since planning for obtaining EDP equipment considerably precedes actual procurement, agencies are cautioned to screen continuously the GSA catalogs and bulletins until a firm contract to purchase or lease new equipment has been let.

(1) Agencies desiring to acquire owned or leased equipment will submit a Standard Form 122, Transfer Order Excess Personal Property, to GSA in an original and three copies. (See § 101-43.4906-1 for instructions for preparation of the SF 122.)

(2) When an agency, after consideration in accordance with this § 101-43.313-5(f), has determined that acquisition of the offered equipment, if it is identical or substantially similar to equipment required, is not in the best interest of the Government, it shall place in its official records a written statement setting forth the basis for its decision.

(g) When a Standard Form 122 is received in accordance with § 101-43.313-5(f)(1), GSA will notify the releasing agency. The following actions will then be taken:

(1) The releasing agency shall notify the supplier in writing of the intention of the requiring agency to further utilize the equipment when it is wholly owned by the Government and a maintenance agreement with the supplier is in effect, when it is leased, or when it is leased with option to purchase. This communication will indicate the name of the requiring agency and will state that the requiring agency will contact the supplier. Copies of this correspondence will be furnished the requiring agency and GSA.

(2) When the requiring agency receives a copy of the releasing agency's notice to the supplier, the requiring agency shall contact the supplier to establish a firm purchase agreement, if applicable, and/or support agreements. Copies of key correspondence and agreement documents shall be furnished GSA and the releasing agency. In the instance where equipment being acquired is Government owned and maintained, the requiring agency shall take the necessary action to effect transfer as set forth in § 101-43.315-5.

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43.313-5 (h)

(h) No executive agency shall exchange or sell electronic data processing equipment under the exchange/sale provisions of Parts 101-43 and 101-45 of this chapter until the items have been reported and released in accordance with the provisions of this § 101-43.313-5.

(1) Equipment reported in accordance with § 101-43.313-5(b)(2), will remain available for transfer until the release date specified on the Standard Form 120 has been reached at which time it is automatically released to the owning agency for appropriate disposition.

(2) Reports prescribed by this § 101-43.313-5 shall be addressed to General Services Administration, Utilization and Disposal Service, Office of Personal Property, Utilization Division, Washington, D.C. 20405.

### § 101-43.313-6 Trading stamps.

Trading stamps are exempted from reporting to GSA as excess intangible personal property pursuant to § 101-43.312. Executive agencies in a position to receive trading stamps should establish such internal procedures for handling trading stamps as will result in the least administrative burden or cost. Such procedures should provide for a minimum of administrative and accounting controls.

(a) Arrangements for redemption by the lowest appropriate organizational level should be made where redemption of trading stamps by the procuring agency is practical and in the best interest of the Government.

(b) Arrangements for transfer, without reimbursement or accountability, to a nearby Federal hospital or similar institution operated, managed, or supervised by VA, DHEW, or DOD, should be made where the procuring agency has no need for trading stamps received, provided it has been ascertained that the proposed recipient is prepared to receive and utilize such trading stamps.

(c) Other Federal agencies are encouraged to adopt these procedures.

### § 101-43.313-7 Atomic Energy Commission-controlled materials.

Atomic Energy Commission-controlled materials, defined in § 101-43.104, are exempted from reporting to GSA as excess personal property. Transfers of such materials shall be made in accord-

ance with applicable regulations of the AEC (see 10 CFR Parts 30, 40, and 70).

### § 101-43.314 Withdrawals and corrections.

#### § 101-43.314-1 Withdrawals.

Requests for withdrawals shall be addressed to the GSA regional office to which the report of excess property was forwarded. Disposition of property shall not be made until after approval of withdrawal is received from GSA except in cases involving the physical transfer of property for purposes of major disaster relief. This will enable the GSA regional offices to provide firm listings of excess property and assure agencies that property selected is available. It will preclude the expense of inspection and preparation of correspondence and transfer documents on property to be withdrawn and will assist in providing a uniform and orderly program for the utilization of excess property.

#### § 101-43.314-2 Corrections.

Corrected reports of excess property shall be submitted to the appropriate GSA regional office for necessary action.

### § 101-43.315 Transfers of excess property.

#### § 101-43.315-1 Agencies eligible.

Transfers of excess personal property may be made among Federal agencies (which include wholly owned Government Corporations), to cost-reimbursement type contractors, and to the Senate, the House of Representatives, the Architect of the Capitol and any activities under his direction, mixed-ownership Government corporations as defined in the Government Corporation Control Act (31 U.S.C. 841), the municipal government of the District of Columbia, or non-Federal agencies for which GSA procures, such as State forestry activities engaged in forest fire control, or Soil Conservation Districts.

#### § 101-43.315-2 Information of availability.

There are several methods of obtaining reliable information regarding the availability of excess property. Agencies are encouraged to inspect or arrange for inspection of excess property, prior to placing an order, as a means of verifying description and condition. GSA regional

**SUBPART 101-43.3 UTILIZATION OF EXCESS**

101-43.315-4 (d)

offices will make such inspection, upon request, to the extent of available manpower resources.

(a) Personal contact with GSA or the holding installation;

(b) Review of excess property catalogs and bulletins circularized by GSA;

(c) Submission of property requirements to the GSA regional offices, using GSA Form 1539, Request for Excess Personal Property; see § 101-43.4905 for instructions about acquisition and use of the form;

(d) Examination and inspection of reports and samples of excess property assembled for this purpose in GSA regional offices.

**§ 101-43.315-3 Fair value reimbursement.**

(a) All transfers of excess personal property shall be without reimbursement of fair value (the costs specified in § 101-43.317 will be chargeable to the transferee agency), except that such reimbursement shall be required when:

(1) The property transferred was acquired by the use of funds either not appropriated from the general fund of the Treasury or appropriated therefrom but by law reimbursable from assessment, tax, or other revenue or receipts and payment of fair value is requested. It is the current policy of the executive branch of the Government that transfers of working capital fund property shall be without reimbursement.

(2) Either the transferor or the transferee agency (or the organizational unit affected) is a wholly owned or a mixed-ownership Government Corporation as defined in the Government Corporation Control Act (31 U.S.C. 841), is the municipal government of the District of Columbia, or is a non-Federal agency when the function of a Federal agency authorized to procure for it is transferred to the General Services Administration. (See § 101-43.4905 for List of Government Corporations.)

(3) Reimbursement is directed by GSA.

(b) The fair value of excess property transferred with reimbursement pursuant to this § 43.315-3 shall be determined by the holding agency in accordance with the following formula:

Fair value code	Explanation	Percentage of original or estimated acquisition cost
A.....	New or unused personal property falling in condition code designations N-1 and N-2 (see § 101-43.4902).	20
B.....	All other personal property..	0

(c) Where application of the above formula will not achieve the intended purpose because of special circumstances or the peculiar nature of the property, the holding agency may use other criteria for arriving at fair value if approved or directed by GSA. Where circumstances warrant, and the agencies concerned agree thereto, fair value prices higher than those arrived at by use of the formula specified in this § 101-43.315-3 may be used.

(d) Disagreement between agencies as to the fair value shall be referred for final determination to the Regional Administrator, GSA, for the region in which the property is located, or his designated representative.

**§ 101-43.315-4 Transfer for redistribution.**

(a) Any organizational unit of GSA authorized to perform redistribution functions is authorized to make necessary arrangements for the transfer to it for redistribution of available excess property in the custody of any Federal agency.

(b) Items reported as excess and determined by GSA to be suitable for redistribution within the Federal Government may be taken into physical custody by GSA and redistributed through an authorized organizational unit or, when notified, shall be retained by the holding agency until such time as redistribution is directed by GSA.

(c) Items which are identical to or can be substituted for items listed in GSA Stores Stock Catalog shall be supplied to agencies through the stores program of GSA at prices to be determined by GSA.

(d) To assure maximum redistribution of items available from excess, GSA may require from time to time that all orders for such items be forwarded to a

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 315-4(d)

GSA regional office until excess stocks are exhausted.

**§ 101-43.315-5 Procedure for effecting transfers.**

(a) All transfers of excess personal property between Federal agencies shall be accomplished by use of Standard Form 122, Transfer Order Excess Personal Property (see § 101-43.4906). Each transferee agency shall forward the original and three copies of SF 122 to the appropriate GSA regional office (see § 101-43.4903) for approval. Such prior approval need not be obtained where the property involved in the given transaction is:

(1) Reportable under § 101-43.311 but has not yet been reported to GSA and its total acquisition cost does not exceed \$1,000, and the owning agency's regulations relative to internal redistribution have been satisfied; or

(2) Nonreportable under § 101-43.311 and has not been reserved at the holding location for special screening by the appropriate GSA regional office.

(3) An information copy of each direct transfer order shall be furnished by the transferee agency to the appropriate GSA regional office within ten days from the date of the order.

(b) Transfer order shall be completed in accordance with the example (§ 101-43.4906).

(c) When articles are offered for transportation, the condition of the articles shall be shown on the bill of lading. In order that the Federal Government may obtain the most economical rates for the movement of excess personal property in other than new condition, particular attention shall be given to the use of the appropriate classification description as required by carriers' tariffs.

(d) In approving transfer orders, GSA will take into consideration national defense requirements, emergency needs, equitable distribution, transportation costs, and other appropriate factors. If there are no other compelling factors, transfer order will be approved on a "first come, first served" basis.

(e) A copy of each approved or disapproved transfer order will be returned to the ordering agency by GSA regional office with appropriate notation. Two copies of approved orders will be appropriately noted and transmitted by

the GSA regional office to the holding agency for transfer action. Any billing by the holding agency shall be accomplished in accordance with § 101-43.317.

(f) (1) If the transfer order does not contain complete shipping instructions, the transferee agency is required to transmit these to the holding activity within 15 days after receipt of the transfer order by the holding activity in the case of domestic shipments, or 45 days in the case of export shipments. The holding activity will communicate failure to receive such shipping instructions to the GSA regional office which approved the transfer.

(2) If the transfer order indicates the property is to be picked up by the transferee agency, this action must be accomplished within 20 days from the time such agency is notified by the property custodian that the shipment is ready. The holding activity will communicate with the GSA regional office concerning the failure of the transferee agency to pick up property within the allotted time.

(g) Whenever a transfer order covers excess property which has deteriorated materially below the reported condition, the holding agency shall advise the GSA regional office of its current condition. The GSA regional office will so advise the ordering agency. Shipment will not be made until the ordering agency has advised the GSA regional office that the existing condition is acceptable, and the GSA regional office has so advised the holding agency.

(1) Holding activities will carry out shipping instructions within 20 days from receipt or make property available for pickup promptly.

(2) If the holding activity is unable to ship or deliver as required, the ordering activity must be advised of the reason for delay and scheduled shipping or delivery date.

**§ 101-43.315-6 Report on condition and description.**

Transferee Federal agencies are encouraged to advise the appropriate GSA regional office of instances in which the condition or description of excess items they acquired was improperly reported to them. This action shall not be taken when the items involved were inspected by the transferee agency.

## SUBPART 101-43.3 UTILIZATION OF EXCESS

101-43, 318-2

**§ 101-43.316 Contractor inventory.**

Subject to the limitations contained in this Part 101-43, and Parts 101-44 and 101-45, any executive agency may authorize any of its contractors or their subcontractors to retain or dispose of any contractor inventory under such orders as such agency may prescribe.

**§ 101-43.316-1 Utilization.**

(a) Each executive agency shall provide for use of contractor inventory within such agency to the maximum extent feasible, prior to retention or disposal by a contractor. In addition, each executive agency shall comply with the utilization requirements and procedures in Part 101-43 with respect to the following types of contractor inventory:

(1) Typewriting machines; office furniture, machines, equipment, and supplies; motor vehicles and automotive equipment; printing and binding equipment; construction equipment (except hand tools); and all items included in the GSA Stores Stock Catalog.

(2) Types of property for which known requirements exist either in the contracting agency or other Federal agencies. Contractors shall be kept currently advised by the contracting agency of such types.

(3) Excess property, the quantity or dollar amount of which is substantial, in accordance with criteria established by each agency, or as may be directed from time to time by GSA.

(4) Atomic Energy Commission—controlled materials.

(5) Narcotics.

(6) Intangible personal property.

(7) Strategic and critical materials.

(8) Such other types of property as may, from time to time, be designated by GSA.

(b) In the case of contractor-owned contractor inventory, compliance with the utilization requirements and procedures in Part 101-43 with respect to the categories in § 101-43.316-1 should ordinarily occur prior to the Government's exercising the applicable option to take over such property. When utilization efforts disclose that an agency will accept transfer of such property, the appropriate agency shall take the neces-

sary action to acquire title for the Government.

**§ 101-43.317 Costs and proceeds.****§ 101-43.317-1 Cost of care and handling.**

Each holding agency shall be responsible for and bear the costs of performing care and handling of excess pending disposition. The direct costs incurred incident to the transfer shall be borne by the transferee agency. Overhead or administrative costs or charges shall not be included. Only costs incurred in the actual packing, preparation for shipment, and loading may be recovered by the holding agency; and where such costs are incurred, they shall be reimbursed by the transferee agency upon appropriate billing, unless the holding agency waives the amount involved as being uneconomical or impracticable to collect. For example, collection of amounts of \$15 or less where a transaction is otherwise without exchange of funds would appear uneconomical.

**§ 101-43.317-2 Proceeds.**

In those cases where reimbursement for fair value is to be made, the fair value proceeds shall be deposited in the Treasury to miscellaneous receipts or the appropriate agency account by the transferee agency with a copy of the deposit action furnished the agency determining the property to be excess.

**§ 101-43.318 Determination of excess as surplus.****§ 101-43.318-1 Reportable property.**

Excess property reported to GSA, and not transferred to other agencies, shall be deemed surplus only when released by the Administrator of General Services. Property so reported will be released for disposal as surplus at the earliest possible time consistent with utilization objectives.

**§ 101-43.318-2 Nonreportable property.**

Executive agencies having property not required to be reported shall, after screening for a reasonable time in accordance with § 101-43.306 and finding no need for such property, determine it to be surplus.

**PART 101-43 UTILIZATION OF PERSONAL PROPERTY**

101-43.318-3

**§ 101-43.318-3 Donation and sale of surplus property.**

Property determined to be surplus in accordance with § 101-43.318 shall not be offered for sale until a period of 15 calendar days has been afforded for donation program screening, in accordance with Part 101-44.

**§ 101-43.319 Performance reports.**

A quarterly performance report of the utilization of excess property shall be submitted to GSA on Standard Form 121, Revised, Quarterly Report of Utilization and Disposal of Excess and Surplus Personal Property (§ 101-43.4907).

## SUBPART 101-43.4 UTILIZATION OF ABANDONED AND FORFEITED PERSONAL PROPERTY

101-43, 404

### Subpart 101-43.4—Utilization of Abandoned and Forfeited Personal Property

#### § 101-43.400 Scope of subpart.

This Subpart 101-43.4 prescribes the policies and methods for the utilization and transfer within the Government of abandoned and forfeited personal property which may come into the custody or control of any Federal agency in the United States, Puerto Rico, and the Virgin Islands. Such property located elsewhere shall be utilized and transferred in accordance with the regulations of the agency having custody thereof.

#### § 101-43.401 Definitions.

As used in this Subpart 101-43.4, the following terms have the meanings set forth in this § 101-43.401.

(a) "Distilled spirits": Ethyl alcohol, hydrated oxide of ethyl, spirits of wine, whiskey, rum, brandy, gin, and other distilled spirits, including all dilutions and mixtures thereof.

(b) "Forfeited": Forfeitures, whether by summary process or by order of a court of competent jurisdiction pursuant to any law of the United States.

(c) "Malt beverage": A beverage made by the alcoholic fermentation of an infusion or decoction, or combination of both, in potable brewing water, of malted barley with hops, or their parts, or their products, and with or without other malted cereals, other carbohydrates or products prepared therefrom, and with or without the addition of carbon dioxide, and with or without other wholesome products suitable for human food consumption.

(d) "Property": All personal property, including but not limited to vessels, vehicles, aircraft, and alcoholic beverages.

(e) "Regional Administrator": General Services Administration, Region 3, Regional Administrator, Washington, D.C. 20407.

(f) "Wine": (1) Wine as defined in Sections 5381 and 5385 of the Internal Revenue Code of 1954 (26 U.S.C. 5381, 5385), as now in force or hereafter amended, and (2) other alcoholic beverages not so defined, but made in the manner of wine, including sparkling and carbonated wine, wine made from condensed grape must, wine made from

other agricultural products than the juice of sound, ripe grapes, imitation wine, compounds sold as wine, vermouth, cider, perry, and sake; in each instance only if containing not less than 7 per centum and not more than 24 per centum of alcohol by volume, and if for non-industrial use.

#### § 101-43.402 Sources of property available for utilization.

Property available for utilization under this Subpart 101-43.4 may result from property which has been abandoned to any Federal agency, in such a manner as to vest title to the property in the United States, and property which has been seized by an authorized agency of the Government and forfeited.

#### § 101-43.403 Custody of property.

GSA generally will not take possession of property that is forfeited or abandoned. Holding agencies shall retain custody of and be responsible for the property until it is delivered or shipped to a duly authorized receiving Federal agency, or otherwise disposed of after release by the Regional Administrator.

(a) In the case of forfeiture of any firearms subject to disposal under the Internal Revenue Code of 1954, GSA will take custody of such firearms, or direct the disposition thereof (including retention for official use by the Treasury Department at the written request of the Secretary of the Treasury or his delegate), upon receipt of the report thereon required pursuant to § 101-43.406.

(b) GSA will take possession of forfeited or abandoned property it acquires for redistribution.

#### § 101-43.404 Cost of care and handling.

Each holding agency shall be responsible for performing care and handling of abandoned and forfeited personal property pending disposition. If cost of storage, towing, care, handling, or transportation of property has been paid by the Federal agency which has custody thereof, any subsequent transferee agency should be advised as to such costs in advance of transfer; and such transferee agency shall reimburse the holding agency therefor upon appropriate billing, unless, because of the amount involved, the holding agency finds this uneconomical or impractical.

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43,405

**§ 101-43.405 Status of property assigned or transferred.**

Any property delivered for official use under this part shall thereupon otherwise lose its identity as abandoned or forfeited property and, when no longer required for official use, shall be reported as excess in accordance with § 101-43.311.

**§ 101-43.406 Reporting abandoned and forfeited personal property.**

Federal agencies shall report promptly to the Regional Administrator, abandoned and forfeited property that comes into their custody and is not covered by the exceptions and modifications of this § 101-43.406, unless otherwise directed by GSA. Such property shall be reported as directed herein.

(a) Reports shall contain the following information:

(1) Name of the reporting Federal agency;

(2) Whether property was (i) voluntarily abandoned; (ii) forfeited otherwise than by court decree; or (iii) subject of a court proceeding, and, if so, the place and judicial district of court from which decree will be issued;

(3) Present official custodian of property, and address where property is located;

(4) Description and condition of property in sufficient detail to enable a decision to be made regarding its desirability and utility;

(5) Fair-market value of property as appraised by holding agency;

(6) Existence or probability of lien or claim of lien and amount involved;

(7) Charges incurred for hauling, transporting, towing, and storage to date of report and rate of storage charged;

(8) If the property is a motor vehicle: Type, make, model or year, body, color, capacity, speedometer reading, number of wheels, extra equipment, motor number, nature and probable cost of repairs necessary to put in serviceable condition, and condition of tires;

(9) If the property is a vessel or an aircraft: Type, manufacturer or builder, identifying official name or number, age, and description; and

(10) If the property is alcoholic beverages: Qualities and kinds (whether ethyl alcohol or hydrated oxide of ethyl; rye or bourbon or other whiskey and its brand, if any; sparkling or still wine and

its color or brand; cordial, brandy, gin, etc.); proof rating and other qualities shown by test, number, and size of containers; condition (whether fit for human consumption, scientific, or mechanical purposes) and basis therefor; and condition for shipping.

(b) The following forfeited and abandoned property need not be reported:

(1) Forfeited arms or munitions of war condemned and handled pursuant to the provisions of section 1 of Title VI of the Act of June 15, 1917, as amended (22 U.S.C. 401);

(2) Forfeited firearms which are transferable by the holding agency to the Secretary of Defense;

(3) Abandoned, condemned, or forfeited tobacco, snuff, cigars, or cigarettes which the holding agency estimates will not, if offered for sale by competitive bid, bring a price equal to the internal revenue tax due and payable thereon; and which is subject to destruction, or delivery without payment of any tax, to any hospital maintained by the United States for the use of present or former members of the military or naval forces of the United States;

(4) Scrap;

(5) Salvage;

(6) Animals;

(7) Any item or group of similar items, other than distilled spirits, wine, or malt beverages, or forfeited firearms, when such items are at any one location, and have a value of less than \$100;

(8) Money and valuable securities;

(9) Perishable commodities and items prohibited by law from sale to the public, including, but not limited to, indecent or obscene articles;

(10) Property dangerous to public health or safety;

(11) Property not the subject of a court proceeding desired to be retained by the holding agency for official use;

(12) Property determined by competent authority to be classified for reasons of national security and otherwise handled in accordance with applicable provisions of law;

(13) Forfeited distilled spirits (including alcohol), wine, and malt beverages not fit for human consumption, or scientific or mechanical purposes. Domestic distilled spirits (other than alcohol), wine, and malt beverages not produced at a registered distillery, winery, or

## SUBPART 101-43.4 UTILIZATION OF ABANDONED AND FORFEITED PERSONAL PROPERTY

101-43.408-2 (a)

brewery will be regarded as not fit for human consumption.

(14) Odd lots of distilled spirits consisting of any one seizure of less than five wine gallons, except that distilled spirits (other than alcohol) of any one kind and brand in excess of one wine gallon shall be reported;

(15) Effects of deserters from the Coast Guard or the military services, or of deceased persons of the Coast Guard or military services, or of deceased inmates of naval or soldiers' home of Government hospitals;

(16) Seeds, plants, or misbranded packages seized by the Department of Agriculture pursuant to authorities provided by law;

(17) Game and equipment (other than vessels, including cargo) seized by the Department of the Interior pursuant to authorities provided by law;

(18) Files of papers, dead letters, unclaimed printed matter, and nonmailable matter in the custody of the Postmaster General;

(19) Infringing articles in the custody of the Patent Office, Department of Commerce; and

(20) Motor vehicles which qualify for replacement under replacement standards provided in Part 101-38.

(c) The general rule for reporting abandoned and forfeited property is modified, hereby, with respect to the following:

(1) Narcotics, regardless of quantity, condition, or acquisition cost, shall be reported to the Bureau of Narcotics, Department of the Treasury, Washington, D.C. 20220.

(2) Vessels of 1,500 gross tons or more shall be reported to the Secretary of Commerce.

(3) Property, seized by one Federal agency, but adopted by another for prosecution under laws enforced by the adopting Federal agency shall be reported by the adopting agency to the extent and in the manner required by this section.

### § 101-43.407 Information of availability.

Property reported under § 101-43.406 and not required for assignment to the seizing agency will be made available by GSA to other Federal agencies by dissemination of information with respect

to such property, in the following manner:

(a) Copies of reports submitted pursuant to § 101-43.406 will be made available for examination by authorized representatives of Federal agencies in the offices of the Regional Administrator.

(b) Notification by personal contact with Federal agencies believed to have an official use for the property.

(c) By circularization of lists of items believed to have special value or significance, to appropriate Federal agencies.

### § 101-43.408 Transfer of abandoned and forfeited personal property.

Except as to forfeited firearms subject to disposal under the Internal Revenue Code of 1954, the transfer of forfeited and abandoned personal property shall be accomplished by the submission of purchase orders to the Regional Administrator, for approval. Transfers of such forfeited firearms shall be accomplished as set forth in § 101-43.408-2.

#### § 101-43.408-1 Transfer for official use to seizing agency.

The request for retention of property subject to court proceeding by a seizing agency for official use may be made by endorsing on the report at the time of submission or by subsequent memorandum to the Regional Administrator. Transfer of the property will be accomplished by the issuance by GSA of a suitable document authorizing the acquiring agency to take title on behalf of the Government.

#### § 101-43.408-2 Transfers to other Federal agencies.

(a) Except for property which is subject to court action, purchase orders shall be submitted in an original and three copies, indicating the agency having the custody of the property as supplier, and showing, where such information is available, the report or case number on which the property is listed, the property required, location of the property, and the fair unit price and total amount. Purchase orders generally will be approved on a "first come, first served" basis, but other factors such as, but not limited to, urgency of need and transportation costs will be taken into consideration. When the purchase order is approved by GSA, a transfer docu-

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 408-2 (a)

ment will be issued authorizing the agency to take title to the property for the Government.

(b) Property subject to court action may be obtained by the submission, to the Regional Administrator, of a memorandum setting forth the need for the property by the agency. If proceedings are being, or have been, commenced for the forfeiture of the property by court decree, application will be made by GSA to the court prior to entry of a decree for an order requiring delivery of the property to an appropriate recipient.

(c) Transfers of forfeited distilled spirits, wine, and malt beverages shall be limited to those for medicinal, scientific, or mechanical purposes, or for any other official purposes for which appropriated funds may be expended by a Government agency. Purchase orders for transfers shall be signed by the head of the requesting agency, or by officials designated by him to sign. Where these officials are designated to sign, the Regional Administrator, shall be advised of designees by letter over the signature of the head of the agency concerned. No purchase order will be acted upon unless signed as provided herein.

(d) Requests for the transfer of forfeited firearms subject to disposal under the Internal Revenue Code of 1954 shall be submitted in memorandum form addressed to the Regional Administrator, GSA. Such memorandum shall set forth the need for the property by the requesting agency.

#### § 101-43.408-3 Transfers - reimbursement.

Except in the case of forfeited firearms subject to disposal under the Internal

Revenue Code of 1954, reimbursement for transfers of forfeited property to other Federal agencies shall be in accordance with § 101-43.315. Reimbursement shall be required in connection with transfers of abandoned property. Transfers of forfeited firearms subject to disposal under the Internal Revenue Code of 1954 shall be without reimbursement.

#### § 101-43.409 Proceeds.

##### § 101-43.409-1 Billing.

Each holding agency shall be responsible for billing and collecting the fair value of property transferred to other agencies when reimbursement is required. See § 101-43.404 relating to the cost of care and handling.

##### § 101-43.409-2 Disposition of proceeds.

(a) Reimbursement from the transfer of forfeited property shall be deposited by the transferor agency in the Treasury of the United States as miscellaneous receipts.

(b) Reimbursement from the transfer of abandoned property shall be deposited in a special fund for a period of at least three years. A former owner may be reimbursed from the special fund, based upon a proper claim filed within three years from the date of vesting of title in the United States as determined by the head of the transferor agency. Such reimbursement shall not exceed fair value at the time title was vested in the United States, less the costs incident to the care and handling of such property as determined by the head of the agency concerned.

**Subparts 101-43.5—101-43.48  
[Reserved]**

**SUBPART 101-43.49 ILLUSTRATIONS**

101-43.4900

**Subpart 101-43.49—Illustrations**

**§ 101-43.4900 Scope of subpart.**

This subpart prescribes lists and forms applicable in connection with the utilization of personal property.

## SUBPART 101-43.49 ILLUSTRATIONS

101-43.4901

## § 101-43.4901 Excess personal property reporting requirements.

FSC commodity			Not reportable to GSA	Reportable to GSA	Reportable requirements	
Code	Group classification title	Classes			Acquisition cost minimum line item value	Report in condition codes or better
10	Weapons .....	All .....	x .....			
11	Atomic ordnance .....	All .....	x .....			
12	Fire control equipment .....	All .....	x .....			
13	Ammunition and explosives .....	All .....	x .....			
14	Guided missiles .....	All .....	x .....			
15	Aircraft and airframe structural components .....	All except .....	x .....			
		510 fixed wing .....		x .....	\$500	N4, E4, O4, R4.
		1520 rotary wing, including helicopters .....		x .....	500	N4, E4, O4, R4.
16	Aircraft components and accessories .....	All except .....	x .....			
		1670 parachutes .....		x .....	500	N4, E4, O4, R4, X.
17	Aircraft launching, landing, and ground handling equipment .....	All .....	x .....			
19	Ships, small craft, pontoons, and floating docks .....	All except .....	x .....	x .....	500	N3, E3, O3, R2.
		Combat vessels and vessels over 1500 tons .....				
		1945 pontoons and floating docks .....				
		1950 floating drydocks .....				
20	Ship and marine equipment .....	All .....	x .....			
22	Railway equipment .....	All except .....	x .....	x .....	500	N3, E3, O3, R2.
		2240 locomotive and rail car accessories and components .....				
23	Motor vehicles, trailers, and cycles .....	All except .....	x .....	x .....	500	N4, E4, O4, R4.
		Armored and amphibious in class 2320 .....				
		2340 motorcycles, motor scooters, and bicycles .....		x .....	500	N3, E3, O3, R2.
		2350 tanks and self-propelled weapons .....		x .....		
24	Tractors .....	All except .....	x .....	x .....	500	N4, E4, O4, R4.
		Cab, body and frame structural components and springs in classes 2410 and 2420 .....				
		2430 tractors, track laying, high speed .....		x .....		
25	Vehicular equipment components .....	All .....	x .....			
26	Tires and tubes .....	All except .....	x .....	x .....	300	N2.
		2610 tires and tubes, pneumatic, except aircraft .....				
28	Engines, turbines, and components .....	All except .....	x .....	x .....	300	N3, E2, O2.
		2805 gasoline reciprocating engines, except aircraft and components .....				
		2815 diesel engines and components .....		x .....	300	N3, E2, O2.
29	Engine accessories .....	All .....	x .....			
30	Mechanical power transmission equipment .....	All .....	x .....			
31	Bearings .....	All .....	x .....			
32	Woodworking machinery and equipment .....	All .....		x .....	300	N3, E3, O3 R2.
34	Metalworking machinery .....	All .....		x .....	500	N3, E3, O3, R2.

PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 4901

FSC commodity			Not reportable to GSA	Reportable to GSA	Reportable requirements	
Code	Group classification title	Classes			Acquisition cost minimum line item value	Report in condition codes or better
35	Service and trade equipment.	All.....		x.....	300	N3, E3, O3, R2.
36	Special industry machinery.	All except 3695 miscellaneous special industry machinery.	x.....	x.....	300	N3, E3, O3, R2.
37	Agricultural machinery and equipment.	All.....		x.....	300	N3, E3, O3, R2.
38	Construction, mining, excavating, and highway maintenance equipment.	All except 3835 petroleum production and distribution equipment.	x.....	x.....	500	N3, E3, O3, R2.
		3805 earth moving and excavating equipment.		x.....	500	N4, E4, O4, R4.
		3810 cranes and crane-shovels.		x.....	500	N4, E4, O4, R4.
		3815 crane and crane-shovel attachments.		x.....	500	N3, E3, O3, R2.
		3820 mining, rock drilling, earth boring, and related equipment.		x.....	500	N3, E3, O3, R2.
		3825 road clearing and cleaning equipment.		x.....	500	N4, E4, O4, R4.
		3830 truck and tractor attachments.		x.....	500	N3, E3, O3, R2.
		3895 miscellaneous construction equipment.		x.....	500	N4, E4, O4, R4.
39	Materials handling equipment.	All except 3940 blocks, tackle, rigging, and slings.	x.....	x.....	300	N3, E3, O3, R2.
40	Rope, cable, chain, and fittings.	All.....		x.....	300	N3, E3, O3, R2.
41	Refrigeration and air-conditioning equipment.	All.....		x.....	300	N3, E3, O3, R2.
42	Fire fighting, rescue, and safety equipment.	All except 4220 marine lifesaving and diving equipment.	x.....	x.....	300	N3, E3, O3, R2.
		4230 decontaminating and impregnating equipment.		x.....		
43	Pumps and compressors.	All.....		x.....	500	N3, E3, O3, R2.
44	Furnace, steam plant, and drying equipment.	All except 4420 heat exchangers and steam condensers.	x.....	x.....	500	N3, E3, O3.
		4440 driers, dehydrators, and anhydrators.		x.....		
45	Plumbing, heating, and sanitation equipment.	All.....		x.....	300	N3, E3, O3, R2.
46	Water purification and sewage treatment equipment.	All.....		x.....	500	N3, E3, O3, R2.
47	Pipe, tubing, hose, and fittings.	All.....		x.....	300	N3, E3, O3, R2.
48	Valves.	All.....		x.....	500	N3, E2.
49	Maintenance and repair shop equipment.	All except 4910 motor vehicle maintenance and repair shop specialized equipment.	x.....	x.....	300	N3, E3, O3, R2.
		4930 lubrication and fuel dispensing equipment.		x.....	300	N3, E3, O3, R2.
		4940 miscellaneous maintenance and repair shop specialized equipment.		x.....	300	N3, E3, O3, R2.
51	Hand tools.	All.....		x.....	300	N3, E3, O3, R2.
52	Measuring tools.	All.....		x.....	300	N3, E3, O3, R2.
53	Hardware and abrasives.	All.....		x.....	300	N3.
54	Prefabricated structures and scaffolding.	All except 5420 bridges, fixed and floating.	x.....	x.....	500	N3, E3, O3.

## SUBPART 101-43.49 ILLUSTRATIONS

101-43.4901

FSC commodity			Not reportable to GSA	Reportable to GSA	Reportable requirements	
Code	Group classification title	Classes			Acquisition cost minimum line item value	Report in condition codes or better
55	Lumber, millwork, plywood, and veneer.	All.....		x.....	100	N3.
56	Construction and building materials.	All except Sand, gravel, and stone in class 5610.	x.....	x.....	300	N3.
58	Communication equipment.	All except..... 5805 telephone and telegraph equipment. 5815 teletype and facsimile equipment. 5820 radio and television communication equipment, except airborne. 5830 intercommunication and public address systems, except airborne. 5835 sound recording and reproducing equipment.	x.....	x.....	500	N3, E3, O3, R2.
59	Electrical and electronic equipment components.	All except..... 5965 headsets, handsets, microphones and speakers. 5975 electrical hardware and supplies.	x.....	x.....	300	N3, E3, O3, R2.
61	Electric wire, and power and distribution equipment.	All.....		x.....	300	N3, E3, O3, R2.
62	Lighting fixtures and lamps.	All except..... 6210 indoor and outdoor electric lighting fixtures. 6220 electric vehicular lights and fixtures. 6260 nonelectrical lighting fixtures.	x.....	x.....	300	N3.
63	Alarm and signal systems.	All.....	x.....			
65	Medical, dental, and veterinary equipment and supplies.	All except..... 6505 drugs, biologicals, and official reagents. 6510 surgical dressing materials.	x.....	x.....	300	N3, E3, O3, R2.
66	Instruments and laboratory equipment.	All except..... 6605 navigational instruments. 6610 flight instruments. 6615 automatic pilot mechanisms and airborne gyro components. 6620 engine instruments. 6655 geophysical and astronomical instruments. 6665 hazard-detecting instruments and apparatus. 6680 liquid and gas flow, liquid level, and mechanical motion measuring instruments.	x.....	x.....	300	N3, E3, O3, R2.
67	Photographic equipment.	All except..... Outdated film in class 6750. 6770 film, processed.	x.....	x.....	300	N3, E3, O3, R2.
					300	N4.

PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 4901

FSC commodity			Not reportable to GSA	Reportable to GSA	Reportable requirements	
Code	Group classification title	Classes			Acquisition cost minimum line item value	Report in condition codes or better
68	Chemicals and chemical products.	All.....		x.....	300	N3.
69	Training aids and devices.	All.....	x.....			
71	Furniture.	All except.....		x.....	300	N3, E3, O3, R2.
		7110 office furniture.....		x.....	100	N4, E4, O4, R4.
72	Household and commercial furnishings and appliances.	All.....		x.....	300	N3, E3, O3, R2.
73	Food preparation and serving equipment.	All.....		x.....	300	N3, E3, O3, R2.
74	Office machines.	All.....		x.....	100	N3, E3, O3, R2.
75	Office supplies.	All.....		x.....	100	N3.
76	Books, maps, and other publications.	All except.....	x.....			
		7610 books and pamphlets.....		x.....	500	N2, E2, O2.
77	Musical instruments, phonographs, and home type radios.	All.....		x.....	300	N3, E3, O3, R2.
78	Recreational and athletic equipment.	All.....		x.....	100	N3, E3, O3, R2.
79	Cleaning equipment and supplies.	All except.....		x.....	300	N3, E3, O3, R2.
		7930 cleaning and polishing compounds and preparations.....		x.....	300	N3.
80	Brushes, paints, sealers, and adhesives.	All.....		x.....	300	N3.
81	Containers, packaging, and packing supplies.	All except.....		x.....	300	N3, E3, O3, R2.
		8125 bottles and jars.....	x.....			
		8130 reels and spools.....	x.....			
		8140 ammunition boxes, packages, and special containers.....	x.....			
83	Textiles, leather, and furs.	All except.....		x.....	300	N3.
		8305 textile fabrics.....		x.....	300	N3, E3, O3, R2.
		8340 tents and tarpaulins.....		x.....	300	N3, E3, O3, R2.
		8325 fur materials.....	x.....			
		8345 flags and pennants.....	x.....			
84	Clothing and individual equipment.	All except.....		x.....	300	N3, E3, O3, R2.
		8455 badges and insignia.....	x.....			
		Leggings, military headgear, navy jacket jumpers, and pistol belts (in other classes).....	x.....			
85	Toiletries.	All.....		x.....	300	N2.
87	Agricultural supplies.	All.....	x.....			
88	Live animals.	All.....	x.....			
89	Subsistence.	All except.....		x.....		
		8965 beverages, alcoholic.....		x.....	300	N3.
91	Fuels, lubricants, oils, and waxes.	All except.....		x.....	500	N3.
		Oil stripped from vessels in class 9140.....	x.....			
93	Nonmetallic fabricated materials.	All.....		x.....	300	N3.
94	Nonmetallic crude materials.	All.....	x.....			
95	Metal bars, sheets, and shapes.	All.....		x.....	300	N4.
96	Ores, minerals, and their primary products.	All.....	x.....			
99	Miscellaneous.	All except.....		x.....	300	N2.
		9999 miscellaneous items.....		x.....	300	N3, E3, O3, R2.

SUBPART 101-43.49 ILLUSTRATIONS

101-43.4902

§ 101-43.4902 Standard Form 120, Report of Excess Personal Property.

STANDARD FORM 120 REV. APRIL 1967 PRESCRIBED BY FPMR (41 CFR 101) 101-43.311		<b>REPORT OF EXCESS PERSONAL PROPERTY</b>		1. REPORT NO.	2. DATE MAILED	3. TOTAL COST \$		PAGE 1 OF
4. TYPE OF REPORT <small>(Check one only of "a," "b," "c," or "d")</small>		a. ORIGINAL	b. CORRECTED	c. PARTIAL W/D	d. TOTAL W/D <small>(Also check "a" and/or "f" if appropriate)</small>		e. OVERSEAS	f. CONTRACTORS INV
5. TO (Name and Address of Agency to which report is made) THRU						6. APPROV. OR FUND TO BE REIMBURSED (if any)		
7. FROM (Name and Address of Reporting Agency)						8. REPORT APPROVED BY (Name and Title)		
9. FOR FURTHER INFORMATION CONTACT (Title, Address and Telephone No.)						10. AGENCY APPROVAL (if applicable)		
11. SEND PURCHASE ORDERS OR DISPOSAL INSTRUCTIONS TO (Title, Address and Telephone No.)						12. GSA CONTROL NO.		
13. FSC GROUP NO.	14. LOCATION OF PROPERTY (if location is to be abandoned give date)			15. REIM/REQD YES NO		16. AGENCY CONTROL NO.	17. SURPLUS RELEASE DATE	

18. EXCESS PROPERTY LIST				ACQUISITION COST			FAIR VALUE % (h)
ITEM NO. (a)	DESCRIPTION (b)	COND. (c)	UNIT (d)	NUMBER OF UNITS (e)	PER UNIT (f)	TOTAL (g)	

## SUBPART 101-43.49 ILLUSTRATIONS

101-43.4902-

§ 101-43.4902-1 Instructions for preparing Standard Form 120.

(a) Page 1 of Instructions for Preparing Standard Form 120

GENERAL

Standard Form No. 120 and, when continuation sheets are necessary, Standard Form 120a shall be used to report excess personal property in accordance with section 43.311 of this chapter and to make amendment or withdrawal of prior reports.

Each report shall be confined to property at one location and one commodity group, as defined in item 13 of the detailed instructions below. No combination of typewriters, contractor inventory, reimbursable property, and nonreimbursable property shall be included on the same report; each shall be the subject of separate reports. For the last three mentioned, separate reports also shall be submitted for each commodity group.

Legal restrictions (including patent) on the power of the holding agency ultimately to dispose of property being reported excess shall be fully explained in the listing of such items.

Reports shall be submitted in 4 copies.

DETAILED

Page 1 of . Enter the total number of pages of the report in space provided in the top margin.

1. Report Number. Enter the serial number of the report and any other identifying number or symbol required by the reporting agency. If the report is a correction or withdrawal (complete or partial) of a prior report, the original report number shall be entered, followed by the letter (a), (b), or (c), etc., to identify the number of successive correcting or withdrawing reports.

2. Date Mailed. Enter the date the report is mailed (not date on which prepared).

3. Total Cost.

- a. For original reports of excess (see 4a below), enter the total of all amounts shown in column 18(g) for all pages of the report.
- b. For correcting reports (see 4b below), enter an amount in this block only if the corresponding amount shown in block 3 of the original report was incorrectly reported, and immediately thereunder the word "corrected".

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 4902-1

(b) Page 2 of Instructions for Preparing Standard Form 120

- c. For partial withdrawal reports (see 4c below), enter the total of all amounts shown in column 18(g) of the withdrawing report and immediately thereunder the word "with-drawn".

4. Type of Report. Indicate the type of report by entering an (X) in the appropriate box. For all reports where an (X) is entered in box 4b, 4c, or 4d, show the number of the original report in block 1, followed by the letter a, b, c, etc., as appropriate.

- a. Original. An original report shall be made to report an initial quantity of an item or items as excess.

When additional quantities of the same items are to be reported as excess, at a later date, a new original report for the additional items shall be submitted.

- b. Corrected. If it is necessary to correct an original report previously submitted, in all cases, complete blocks 1, 2, 4, 5, and 7 on the corrected SF-120. Complete the remaining blocks and columns on the form only to the extent necessary to show the correction. For example, if information in block 9 on the original report is the only item that needs correction, complete only block 9 (in addition to the 5 identification blocks mentioned above) on the correcting report. Similarly, for corrections in columns 18(a) through 18(g), enter the item number in column (a) of the item on the original report that requires correction and complete columns b through h only to the extent necessary to show the correction.

- c. Partial Withdrawal. If the report is to withdraw a part of the excess previously reported on an original report, complete blocks 1, 2, 3, 4, 5, and 7. The line items or portions of line items withdrawn must be identified in columns 18(a), (b), (c), (d), (f), and (h) as they appeared on the original report. The number of units withdrawn must be shown in 18 (e) and the acquisition cost applicable to these items to be withdrawn must be shown in 18(g).

- d. Total Withdrawals. If the report withdraws all items on an original report, complete blocks 1, 2, 3, 4, 5, and 7 only.

- e. Overseas and Contractor Inventory. Check either or both blocks if applicable.

5. To. Enter name and address of the executive agency and office to which the report is to be made. If the report is required to be submitted through an agency control office, the name and address of that office shall be shown after the word "Thru".

## SUBPART 101-43.49 ILLUSTRATIONS

101-43.4902-1

## (c) Page 3 of Instructions for Preparing Standard Form 120

6. Approp. or Fund to be Reimbursed. Whenever the net proceeds resulting from the transfer or disposition of property are to be used to reimburse a reimbursable fund, appropriation, or a Government corporation, enter the symbol and title of the fund, appropriation or the name and address of the Government corporation which is to receive the proceeds. No entry shall be made in this block if the net proceeds are to be deposited in the Treasury as miscellaneous receipts.

7. From. Enter the name and address of the Federal agency or department and bureau, office, or other subdivision making the report.

8. Report Approved By. Type the name and title of the person authorized to approve the report by signature on the original copy.

9. For Further Information Contact. Enter title, address, and telephone number of the person who may be contacted for further information about the property.

10. Agency Approval. Where responsibility for approval in an agency is vested in an activity other than the reporting office, the signature of the person authorized to approve shall be shown on the original.

11. Send Purchase Orders Or Disposal Instructions To. Enter title, address, and telephone number of the person, or office, to whom purchase orders or disposal instructions are to be sent.

12. GSA Control No. Not to be used by reporting activity.

13. FSC Group No. Enter one of the following Federal Supply Classification Group Numbers to which the property being reported belongs. (In cases of uncertainty as to the correct category in which to report certain items, the reporting office shall make the determination using its best judgment and such information as is available, including a visual inspection when feasible):

## Federal Supply Classification Description

No.

10. Weapons
11. Nuclear Ordnance
12. Fire Control Equipment
13. Ammunition and Explosives
14. Guided Missiles
15. Aircraft; and Airframe Structural Components
16. Aircraft Components and Accessories
17. Aircraft Launching, Landing, and Ground Handling Equipment
18. Space Vehicles
19. Ships, Small Craft, Pontoons, and Floating Docks
20. Ship and Marine Equipment

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43,4902-1

**(d) Page 4 of Instructions for Preparing Standard Form 120**

22. Railway Equipment
23. Motor Vehicles, Trailers, and Cycles
24. Tractors
25. Vehicular Equipment Components
26. Tires and Tubes
28. Engines, Turbines, and Components
29. Engine Accessories
30. Mechanical Power Transmission Equipment
31. Bearings
32. Woodworking Machinery and Equipment
34. Metalworking Machinery
35. Service and Trade Equipment
36. Special Industry Machinery
37. Agricultural Machinery and Equipment
38. Construction, Mining, Excavating, and Highway Maintenance Equipment
39. Materials Handling Equipment
40. Rope, Cable, Chain, and Fittings
41. Refrigeration and Air Conditioning Equipment
42. Fire Fighting, Rescue, and Safety Equipment
43. Pumps and Compressors
44. Furnace, Steam Plant, and Drying Equipment; and Nuclear Reactors
45. Plumbing, Heating, and Sanitation Equipment
46. Water Purification and Sewage Treatment Equipment
47. Pipe, Tubing, Hose, and Fittings.
48. Valves
49. Maintenance and Repair Shop Equipment
51. Hand Tools
52. Measuring Tools
53. Hardware and Abrasives
54. Prefabricated Structures and Scaffolding
55. Lumber, Millwork, Plywood, and Veneer
56. Construction and Building Materials
58. Communication Equipment
59. Electrical and Electronic Equipment Components
61. Electrical Wire, and Power and Distribution Equipment
62. Lighting Fixtures and Lamps
63. Alarm and Signal Systems
65. Medical, Dental, and Veterinary Equipment and Supplies
66. Instruments and Laboratory Equipment
67. Photographic Equipment
68. Chemicals and Chemical Products
69. Training Aids and Devices
71. Furniture
72. Household and Commercial Furnishings and Appliances
73. Food Preparation and Serving Equipment
74. Office Machines, Visible Record Equipment, and Data Processing Equipment
75. Office Supplies and Devices
76. Books, Maps, and Other Publications
77. Musical Instruments, Phonographs, and Home-Type Radios
78. Recreational and Athletic Equipment
79. Cleaning Equipment and Supplies

## SUBPART 101-43.49 ILLUSTRATIONS

101-43.4902-1

**(e) Page 5 of Instructions for Preparing Standard Form 120**

80. Brushes, Paints, Sealers, and Adhesives
81. Containers, Packaging, and Packing Supplies
83. Textiles, Leather, and Furs
84. Clothing and Individual Equipment
85. Toiletries
87. Agricultural Supplies
88. Live Animals
89. Subsistence
91. Fuels, Lubricants, Oils, and Waxes
93. Nonmetallic Fabricated Materials
94. Nonmetallic Crude Materials
95. Metal Bars, Sheets, and Shapes
96. Ores, Minerals, and Their Primary Products
99. Miscellaneous

14. Location of Property. Give the warehouse, building, or other specific location and the address at which the property is located. If the property is at a location to be abandoned enter "to be abandoned" and give date.

15. Reim/Reqd. Enter an (X) in the appropriate block to indicate whether or not reimbursement of the net proceeds from the transfer of property at fair value is to be credited to the reimbursable fund, appropriation or corporation shown in block 6.

16. Agency Control No. When agency has central control for reporting property give agency control number.

17. Surplus Release Date. Not to be used by reporting activity.

18. Excess Property List. For the purpose of this list, a line item of property shall consist of a single unit of property or a number of units each of which is identical with respect to description, condition, per unit acquisition cost and fair value.

(a) Item No. Enter consecutive numbers for all line items in the report, beginning with "1" for the first line item on the first page.

For example, if 10 line items are being reported excess and there is room for only 6 on the first page of the report they will be given consecutive numbers "1" through "6" on the first page of the report, and the remaining 4 line items will be given consecutive numbers "7" through "10" on the continuation sheet, (SF 120A). Leave a blank space across all columns between line items.

(b) Description. In this column describe each line item in commercial terms and in sufficient detail to permit transfer or sale without further

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43.4902-1

## (f) Page 6 of Instructions for Preparing Standard Form 120

reference to the holding agency. The name of the manufacturer, year of manufacture, stock numbers and prefixes, manufacturer's part number, standard catalog reference numbers, applicable specifications, and Federal stock numbers, if available, should be stated. The condition of the most important components of an item should be noted. Specify the type of container or package and the quantities in each. In reporting used equipment include an estimated cost of repair, where feasible and for machine tools, the hours of use, where known.

(c) Condition. In order to obtain effective utilization, it is extremely important that the code designation entered in this column reflect the true condition of the property as of the date it is reported as excess. Accordingly, care should be exercised to insure the selection of the appropriate code designation, as defined below. The condition code will also aid in determining whether the property is to be reported in accordance with Section 43.311 of this chapter.

<u>Condition Code</u>	<u>Brief Definition</u>	<u>Expanded Definition</u>
N-1	New - Excellent	New or unused property in excellent condition. Ready for use and identical or interchangeable with new items delivered by a manufacturer or normal source of supply.
N-2	New - Good	New or unused property in good condition. Does not quite qualify for N-1 (because slightly shopworn, soiled, or similar), but condition does not impair utility.
N-3	New- Fair	New or unused property in fair condition. Soiled, shopworn, rusted, deteriorated, or damaged to the extent that utility is slightly impaired.
N-4	New - Poor	New or unused property, soiled, rusted, mildewed, deteriorated, or damaged, condition is poor still having some utility, but cannot be classed as salvage.
E-1	Used-Reconditioned-Excellent	Used property, but repaired or renovated and in excellent condition.
E-2	Used-Reconditioned-Good	Used property which has been repaired or renovated and, while still in good usable condition, has become worn from further use and cannot qualify for excellent condition.

## SUBPART 101-43.49 ILLUSTRATIONS

101-43.4902-1

## (g) Page 7 of Instructions for Preparing Standard Form 120

<u>Condition Code</u>	<u>Brief Definition</u>	<u>Expanded Definition</u>
E-3	Used-Reconditioned-Fair	Used property which has been repaired or renovated but has deteriorated since reconditioning and is only in fair condition. Further repairs or renovation required or expected to be needed in near future.
E-4	Used-Reconditioned-Poor	Used property which has been repaired or renovated and is in poor condition from serious deterioration such as from major wear and tear, corrosion, exposure to weather, or mildew.
O-1	Used-Usable Without Repairs-Excellent	Property which has been slightly or moderately used, no repairs required, and still in excellent condition.
O-2	Used-Usable Without Repairs-Good	Used property, more worn than O-1 but still in good condition with considerable use left before any important repairs would be required.
O-3	Used-Usable Without Repairs-Fair	Used property which is still in fair condition and usable without repairs; however, somewhat deteriorated, with some parts (or portion) worn and should be replaced.
O-4	Used-Usable Without Repairs-Poor	Used property which is still usable without repairs but in poor condition and undependable or uneconomical in use. Parts badly worn and deteriorated.
R-1	Used-Repairs Required-Excellent	Used property, still in excellent condition, but minor repairs required. (Estimated repairs would cost not more than 10% of acquisition cost.)
R-2	Used-Repairs Required-Good	Used property, in good condition but considerable repairs required. Estimated cost of repairs would be from 11% to 25% of acquisition cost.

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 4902-1

## (h) Page 8 of Instructions for Preparing Standard Form 120

<u>Condition Code</u>	<u>Brief Definition</u>	<u>Expanded Definition</u>
R-3	Used-Repairs Required-Fair	Used property, in fair condition but extensive repairs required. Estimated repair costs would be from 26% to 40% of acquisition cost.
R-4	Used-Repairs Required-Poor	Used property, in poor condition and requiring major repairs. Badly worn, and would still be in doubtful condition of dependability and uneconomical in use if repaired. Estimated repair costs between 41% to 65% of acquisition cost.
X	Salvage	Salvage. Personal property that has some value in excess of its basic material content but which is in such condition that it has no reasonable prospect of use for any purpose as a unit (either by the holding or any other Federal agency) and its repair or rehabilitation for use as a unit (either by the holding or any other Federal agency) is clearly impracticable. Repairs or rehabilitation estimated to cost in excess of 65% of acquisition cost would be considered "clearly impracticable" for purposes of this definition.
S	Scrap	Material that has no value except for its basic material content.

If condition of a line item cannot be adequately described by code, describe condition in column (b).

(d) Unit. Enter the unit of measure, such as: Each, pounds, tons, dozen, gross, etc. Distinguish between long, short, and metric tons. Standard abbreviations may be used.

(e) Number of Units. Enter the quantity of each line item in terms of the unit of measure given in column (d).

(f) Acquisition Cost--Per Unit. Enter the recorded acquisition cost per unit (Column (d)). If acquisition cost is not known, enter the estimated cost per unit, excluding transportation and handling charges incurred after purchase. Identify an estimated cost by the prefix (E).

## SUBPART 101-43.49 ILLUSTRATIONS

101-43.4902-1

## (1) Page 9 of Instructions for Preparing Standard Form 120

(g) Acquisition Cost--Total. Enter the computed total cost of each line item (Number of units in column (e) times the cost per unit in column (f)).

(h) Fair Value--%. Insert the appropriate fair value percentage in accordance with the following code and guides:

Fair Value Code	Explanation	Percentage of original or estimated acquisition cost
A	Unused personal property, ready for use in a condition identical with new items delivered by a supplier. In general, this would include only property that would qualify for the following condition codes: N-1 New-Excellent N-2 New-Good	20%
B	Personal property which is unused, but in fair or poor condition; that which has been used and has or has not been reconditioned; that which is used and needs varying degrees of reconditioning or repairs; salvage and scrap. In general, this would include all property which does not qualify for code A and is in the following condition codes: N-3 New-Fair N-4 New-Poor E-1 Used-Reconditioned-Excellent E-2 Used-Reconditioned-Good E-3 Used-Reconditioned-Fair E-4 Used-Reconditioned-Poor O-1 Used-Usable Without Repairs-Excellent O-2 Used-Usable Without Repairs-Good O-3 Used-Usable Without Repairs-Fair O-4 Used-Usable Without Repairs-Poor R-1 Used-Repairs Required-Excellent R-2 Used-Repairs Required-Good R-3 Used-Repairs Required-Fair R-4 Used-Repairs Required-Poor X Salvage Scrap	0% (no charge)

SUBPART 101-43.49 ILLUSTRATIONS

101-43.4902-2

§ 101-43.4902-2 Standard Form 120A, Continuation Sheet (Report of Excess Personal Property).

STANDARD FORM 120A APRIL, 1957 PRESCRIBED BY FPMR (41 CFR 101) 101-43.311	<b>CONTINUATION SHEET</b> (Report of Excess Personal Property)	PAGE _____
FROM: (Name and Address of Reporting Agency)	REPORT NO.	AGENCY CONTROL NO.

EXCESS PROPERTY LIST (Continued)		COND.	UNIT	NUMBER OF UNITS	ACQUISITION COST		FAIR VALUE %
ITEM NO.	DESCRIPTION				PER UNIT	TOTAL	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)

## SUBPART 101-43.49 ILLUSTRATIONS

101-43, 4903

## § 101-43.4903 Regional Offices' addresses and assigned areas.

<i>Regional office address</i>	<i>Regional area for supply support</i>
General Services Administration Region 1, Post Office and Courthouse, Boston, Mass., 02109.	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.
General Services Administration Region 2, 30 Church Street, New York, N.Y., 10007.	Delaware, New Jersey, New York, Pennsylvania, Puerto Rico, and the Virgin Islands.
General Services Administration Region 3, Washington, D.C., 20407.	District of Columbia, Maryland, Virginia, and West Virginia.
General Services Administration Region 4, 1776 Peachtree Street NW., Atlanta, Ga., 30309.	Alabama, Florida, Georgia, North Carolina, South Carolina, Mississippi, and Tennessee.
General Services Administration Region 5, 219 South Dearborn Street, Chicago, Ill., 60604.	Illinois, Indiana, Kentucky, Ohio, Michigan, and Wisconsin.
General Services Administration Region 6, 1500 East Bannister Road, Kansas City, Mo., 64131.	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.
General Services Administration Region 7, 1114 Commerce Street, Dallas, Tex., 75202.	Arkansas, Louisiana, Oklahoma, and Texas.
General Services Administration Region 8, Building 41, Denver Federal Center, Den- ver, Colo., 80225.	Arizona, Colorado, New Mexico, Utah, and Wyoming.
General Services Administration Region 9, 49 Fourth Street, San Francisco, Calif., 94103.	California, Hawaii, Nevada, and Pacific Ocean areas.
General Services Administration Region 10, GSA Center, Auburn, Wash., 98002.	Alaska, Idaho, Montana, Oregon, and Wash- ington.

---

SUBPART 101-43.49 ILLUSTRATIONS

101-43,4904

§ 101-43.4904 GSA Form 1539, Request for Excess Personal Property.

(a) Page 1 of GSA Form 1539

INSTRUCTIONS TO REQUESTING AGENCY

So that GSA may assist you in locating required excess personal property, please return the bottom portion of this card to the appropriate GSA office after you have:

1. Completed blocks 1 through 5;
2. Entered your complete mailing address in block 7, including, if any, the name of a particular person GSA is to contact;
3. Completed the GSA office address on the reverse of this card.

GSA will initiate screening action upon receipt of this request and continue such action for a period of 180 days, unless a shorter period is indicated by the date in block 5. If screening is not practical, it will be noted on the card and promptly returned to your agency.

If, during the screening period, your agency determines that it no longer has need for the item, or wishes to procure through other sources, it should immediately notify the appropriate GSA office so that the screening action can be discontinued. The retained portion of this card, with block entitled "Need Satisfied" checked, may be used for that purpose.

1. ITEM DESCRIPTION (Show minimum acceptable condition code)	2. DATE OF REQUEST	3. FSC CODE (Four digit number)
	4. UNIT AND QUANTITY	5. DATE SCREENING PERIOD EXPIRES

6. UTILIZATION ACTION (To be completed by GSA)

- a. ITEM REQUESTED IS AVAILABLE AND HAS BEEN FROZEN FOR YOU. GSA CONTROL NO. \_\_\_\_\_ (See attached SP 120 or listing). ORDER MUST BE RECEIVED BY THE FOLLOWING DATE: \_\_\_\_\_
- b. SCREENING PERIOD HAS EXPIRED. WE WERE UNABLE TO LOCATE THE ITEM. IF ADDITIONAL SCREENING IS DESIRED, SUBMIT ANOTHER REQUEST.
- c. THIS ITEM SELDOM APPEARS IN EXCESS. SUGGEST YOU OBTAIN BY OTHER MEANS.

**REQUESTING AGENCY - Enter MAILING ADDRESS in this block**

7.

GENERAL SERVICES ADMINISTRATION  
REQUEST FOR EXCESS PERSONAL PROPERTY

GSA WASH DC 84-1588

FORM  
GSA MAY 63 1539

PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43,4904

(b) Page 2 of GSA Form 1539

GENERAL SERVICES ADMINISTRATION  
UTILIZATION AND DISPOSAL SERVICE

OFFICIAL BUSINESS

POSTAGE AND FEES PAID  
U. S.  
GENERAL SERVICES ADMINISTRATION

General Services Administration  
Utilization and Disposal Service

1. ITEM DESCRIPTION (Show minimum acceptable condition code)	2. DATE OF REQUEST	3. FSC CODE (Four digit number)
	4. UNIT AND QUANTITY	5. DATE SCREENING PERIOD EXPIRES

AGENCY TO RETAIN THIS PORTION OF CARD AS ITS RECORD OF SCREENING ACTION

REQUEST FORWARDED TO:

General Services Administration, Region \_\_\_\_\_,  
Utilization and Disposal Service

<input type="checkbox"/> NEED SATISFIED	REQUESTING AGENCY	ACTIVITY

## SUBPART 101-43.49 ILLUSTRATIONS

101-43,4904-1

## § 101-43.4904-1 Instructions for preparing GSA Form 1539.

INSTRUCTIONS FOR ACQUISITION AND USE OF GSA FORM 1539, MAY 1963,  
REQUEST FOR EXCESS PERSONAL PROPERTY

1. Availability. GSA Form 1539 will be furnished to customer agencies upon request to GSA regional offices as shown in Section 101-43.4903. Information, of a local or limited nature, concerning the use of the form, not covered under paragraph 2, below, will be furnished by the GSA regional offices for customer agencies located in their respective areas (see Section 101-43.4903).
2. Guidelines for Use of GSA Form 1539.
  - a. GSA Form 1539 was developed so that Federal agencies would have available a uniform form for requesting assistance from the GSA regional offices in locating certain excess personal property for a specific current or future need.
  - b. To obtain maximum benefits from GSA Form 1539, customer agencies shall submit the completed form to the GSA regional office immediately upon determination of the need. The expiration date of the normal 180-day screening period should be shown in block 5, however, if this period cannot be allowed, an earlier date should be shown.
  - c. Agencies are requested to restrict the use of GSA Form 1539 to:
    1. A single line item, which, as a general rule, has a total acquisition cost of over \$500.
    2. An item not currently listed in GSA Excess Property Catalogs or Bulletins.
    3. An item not listed in GSA Stores Stock Catalogs and supplements thereto.
  - d. To assist the appropriate GSA regional office in locating and offering the customer agency an available excess item which will meet the specific need, block 1 (Item Description) of GSA Form 1539 must fully describe the item required and indicate the minimum acceptable condition code.
  - e. Nationwide requirements originating at customer agency headquarters may be submitted to the General Services Administration, Utilization and Disposal Service, Office of Personal Property, Utilization Division, General Services Building, Washington, D.C. 20405.

## SUBPART 101-43.49 ILLUSTRATIONS

101-43.4905

**§ 101-43.4905 List of Government Corporations (31 U.S.C. 846, 856).**

Wholly owned and mixed ownership Government Corporations are not necessarily limited to those listed below.

**WHOLLY OWNED GOVERNMENT CORPORATIONS**

Commodity Credit Corp.  
Regional Agricultural Credit Corps.  
Farmers Home Corp.  
Federal Crop Insurance Corp.  
Federal National Mortgage Assn.  
Virgin Islands Corp.  
Federal Prison Industries Inc.  
Development Loan Fund.  
Export-Import Bank of Washington.

Federal Public Housing Authority (or Public Housing Adm.) and including public housing projects financed from appropriated funds and operations thereof.  
Federal Savings and Loan Insurance Corp.  
Federal Housing Adm.  
Saint Lawrence Seaway Development Corp.  
Panama Canal Co.  
Tennessee Valley Authority.

**MIXED-OWNERSHIP GOVERNMENT CORPORATIONS**

Central Bank for Cooperatives and the Regional Banks for Cooperatives.  
Federal Land Banks.  
Federal Intermediate Credit Banks.  
Federal Home Loan Banks.  
Federal Deposit Insurance Corp.

SUBPART 101-43.49 ILLUSTRATIONS

101-43,4906

§ 101-43.4906 Standard Form 122, Transfer Order Excess Personal Property.

STANDARD FORM 122 OCTOBER 1959 PRESCRIBED BY FPMR (41 CFR 101) 101-43.315		<b>TRANSFER ORDER EXCESS PERSONAL PROPERTY</b>				1. ORDER NO.  2. DATE	
3. TO: GENERAL SERVICES ADMINISTRATION UTILIZATION AND DISPOSAL SERVICE PERSONAL PROPERTY DIVISION				4. ORDERING AGENCY (Full name and address)			
5. HOLDING AGENCY (Name and address)				6. SHIP TO (Consignee and destination)			
7. LOCATION OF PROPERTY				8. SHIPPING INSTRUCTIONS			
9. ORDERING AGENCY APPROVAL SIGNATURE _____ DATE _____				10. APPROPRIATION SYMBOL AND TITLE			
TITLE _____				11. ALLOTMENT		12. GOVERNMENT B/L NO.	
13. PROPERTY ORDERED							
GSA AND HOLDING AGENCY NOS. (a)	ITEM NO. (b)	DESCRIPTION (Include noun name, FSC Group and Class, Condition Code and, if available, Federal Stock Number) (c)	UNIT (d)	QUANTITY (e)	ACQUISITION COST		
					UNIT (f)	TOTAL (g)	
14. GSA APPROVAL SIGNATURE _____		TITLE _____				DATE _____	
FOR GSA USE ONLY	AGENCY AND LOCATION			FEC	CONDITION	SOURCE CODE	
	AGENCY	STATE					

SUBPART 101-43.49 ILLUSTRATIONS

101-43.4906-1

§ 101-43.4906-1 Instructions for preparing Standard Form 122.

**PREPARATION OF TRANSFER ORDER**  
WHEN ORDER IS SUBMITTED, GIVE ALL DATA SHOWN ON SAMPLE TRANSFER ORDER BELOW.

ENTER COMPLETE ADDRESS OF APPROPRIATE GSA REGIONAL OFFICE

FURNISH NAME AND ADDRESS OF AGENCY HAVING CONTROL OF PROPERTY ORDERED

SHOW ACTUAL LOCATION OF PROPERTY (IF AVAILABLE, BUILDING NUMBER, ETC.)

SIGNATURE OF AUTHORIZED REPRESENTATIVE OF ORDERING AGENCY AND DATE

WHEN REQUIRED

TRANSFER ORDER EXCESS PERSONAL PROPERTY		SF 100-51 January 5, 1953
TO: SPECIAL SERVICES ADMINISTRATION UTILIZATION AND DISPOSAL SERVICE FEDERAL PROPERTY DIVISION (Show Regional Address)		FROM: ORDERING AGENCY (Full name and address) Dept. of the Interior, Bureau of Reclamation P.O. Box 2-11 Sacramento, California
TO: (Personnel Office, Code 94) Mary Supply Center San Diego, California 92131		TO: (Personnel Office, Code 94) U.S. Bureau of Reclamation, Attn: Mr. C. K. Hall, Police Operations Field Branch, Folsom, California
TO: (Location of Property) Mary Supply Center National City Annex, Bldg. 252 National City, California		Method of shipment (rail, truck, pick-up, etc.); Special Packing and Marking instructions, etc.
ORDERING AGENCY APPROVAL John J. Doe, Purchasing Agent, Jan. 5, 1953		
PROPERTY ORDERED 1. TITLE (REL-396A-11A-Ad(7)) electron amplifier, type AC28, mfr Central Electronic, lot Code 7 1/2 S (07075) Comd. B-1		
SHOW ALLOTMENT SYMBOL (WHEN APPLICABLE)		
GSA Control No. 9-66-37169(19)	Agency 9215-66-346-252	320.00
SELF EXPLANATORY		
GSA APPROVAL		

ENTER FULL NAME AND ADDRESS OF ORDERING AGENCY

FURNISH NAME AND ADDRESS OF CONSIGNEE

SHIPPING INSTRUCTIONS

GIVE FULL APPROPRIATION SYMBOL AND TITLE (WHEN APPLICABLE)

SHOW GBL NO. IF FURNISHED

**IMPORTANT**

1. MAKE SEPARATE TRANSFER ORDER FOR EACH DIFFERENT PROPERTY LOCATION.
2. PREPARE TRANSFER ORDER IN FAVOR OF THE HOLDING AGENCY.
3. FURNISH COMPLETE SHIPPING INSTRUCTIONS OR GOVERNMENT BILLS OF LADING WITH TRANSFER ORDER.
4. IF REIMBURSEMENT IS REQUIRED, ENTER TOTAL FAIR VALUE FOR QUANTITY REQUESTED BELOW EACH ITEM DESCRIPTION, COLUMN C.
5. MAIL 4 COPIES OF TRANSFER ORDER TO THE GSA REGIONAL OFFICE, ATTENTION: PERSONAL PROPERTY DIVISION, UTILIZATION AND DISPOSAL SERVICE. WHEN PRIOR GSA APPROVAL IS NOT REQUIRED, MAIL ONLY 1 COPY OF THE TRANSFER ORDER TO THE GSA REGIONAL OFFICE.

SUBPART 101-43.49 ILLUSTRATIONS

101-43,4907

§ 101-43.4907 Standard Form 121, Quarterly Report Utilization and Disposal of Excess and Surplus Personal Property.

(a) Page 1 of Standard Form 121

Standard Form 121 May 1962 EDITION GSA Regs. FPMR (41 CFR 101) 101-43.319, 44.801, and 45.306	<b>QUARTERLY REPORT                  UTILIZATION AND DISPOSAL OF EXCESS AND SURPLUS PERSONAL PROPERTY</b>  <i>IMPORTANT—Carefully follow the INSTRUCTIONS on the reverse</i>	REPORT FOR QUARTER ENDING	REPORT DOLLARS ONLY OMIT CENTS
REPORTING AGENCY	DESCRIPTION OF ITEMS TO BE REPORTED		ACQUISITION COST

Section I.—REASSIGNED PROPERTY	
1. PROPERTY REASSIGNED WITHIN THE REPORTING AGENCY (Civil Agencies only).....	\$

Section II.—EXCESS PROPERTY	
2. INVENTORY ON HAND—BEGINNING OF QUARTER.....	\$
3. ADJUSTMENTS.....	
4. DETERMINED EXCESS DURING QUARTER.....	
5. TOTAL AVAILABLE FOR UTILIZATION.....	
6. LESS—DESTROYED OR ABANDONED.....	
7.    —EXPENDED TO SCRAP.....	
8.    —REASSIGNED WITHIN AGENCY (DOD only).....	
9.    —TRANSFERRED TO OTHER AGENCIES.....	
10.   —DETERMINED SURPLUS DURING QUARTER.....	
11. INVENTORY ON HAND—END OF QUARTER.....	

Section III.—SURPLUS PROPERTY	
12. INVENTORY ON HAND—BEGINNING OF QUARTER.....	\$
13. ADJUSTMENTS.....	
14. DETERMINED SURPLUS DURING QUARTER.....	
15. TOTAL AVAILABLE FOR DISPOSAL.....	
16. LESS—EXPENDED TO SCRAP.....	
17. LESS—DONATED—TOTAL (18 through 23).....	
18.    —EDUCATIONAL, PUBLIC HEALTH, AND CIVIL DEFENSE PURPOSES.....	
19.    —PUBLIC AIRPORTS.....	
20.    —EDUCATIONAL ACTIVITIES OF SPECIAL INTEREST TO THE ARMED SERVICES.....	
21.    —PUBLIC BODIES (Including Disaster Relief).....	
22.    —OTHER.....	
23. LESS—SOLD—TOTAL (24+25).....	
24.    —SOLD BY REPORTING AGENCY.....	
25.    —SOLD BY ANOTHER AGENCY.....	
26. LESS—ABANDONED OR DESTROYED.....	
27. LESS—OTHER DISPOSALS.....	
28. INVENTORY ON HAND—END OF QUARTER.....	

Section IV.—PROCEEDS FROM SALES	
TYPE OF PROPERTY	PROCEEDS
29. PROPERTY OTHER THAN SCRAP.....	\$
30. SCRAP.....	

REMARKS (If more space is needed, continue on a separate sheet)

APPROVED BY (Signature)	TITLE	DATE
-------------------------	-------	------

## PART 101-43 UTILIZATION OF PERSONAL PROPERTY

101-43, 4907

## (b) Page 2 of Standard Form 121

INSTRUCTIONS FOR PREPARATION OF REPORTS ON STANDARD FORM 121, MAY 1962,  
QUARTERLY REPORT OF UTILIZATION AND DISPOSAL OF EXCESS AND SURPLUS PERSONAL PROPERTY

General.—Standard Form 121, May 1962, shall be used by executive agencies to submit the quarterly reports required by FPMR (41 CFR 101-101-43.319, 44.801 and 45.306. ~~(Note—Regulation 3-HI-101-06 is to be revised to require quarterly reports on property reassigned.)~~

Reports shall cover the reassignment of property and all excess and surplus property transactions pursuant to Federal Property Management Regulations (41 CFR 101), excluding transactions involving ~~tractor-inventories and exchange/sale property.~~

Entries under Sections I through III shall reflect the acquisition cost of the property. If data on acquisition cost are not available, the estimated acquisition cost or the value at which property is carried in inventory records for accounting purposes may be shown.

If the property determined excess by the reporting civilian agency in the prior fiscal year amounted to less than \$5 million at acquisition cost, the agency need not provide the data called for on lines 1, 2, 3, 5, 11, 12, 13, 15, and 23, unless otherwise directed by the General Services Administration.

Each report shall be signed by an approving officer and be submitted, in duplicate, to the Assistant Commissioner, Office of Personal Property, Utilization and Disposal Service, General Services Administration, Washington, D.C. 20405 within 60 days following each calendar quarter.

## Section I.—REASSIGNED PROPERTY

Line 1.—Civil agencies shall use this line to report the acquisition cost of property reassigned during the quarter for continued use within the reporting agency.

Include reassignments between major organizational components, and if feasible, reassignments within major organizational components of property no longer needed by the controlling office or for the purposes of the appropriation from which it was acquired. Do not include reassignments representing relocation of stocks, or transfers between supply systems. Do not include property withdrawn from excess for continued use by the former using office, but include withdrawals for use by other offices of the reporting executive agency. Explain coverage under "Remarks."

## Section II.—EXCESS PROPERTY

General.—Excess property is property determined unnecessary to the needs and discharge of the responsibilities of the holding executive agency.

Line 2.—Report the acquisition cost of the inventory of excess property on hand at the beginning of the quarter. On all reports after the first, this will be the amount shown as the ending inventory on line 11 of the previous report. Include the acquisition cost of all excess property subject to screening for interagency transfer, including that not reported to GSA on Standard Form 120. (DOD report may include property subject to internal utilization screening.)

Line 3.—Report net gains (+) or losses (-) to the cost shown on line 2 resulting from overages, shortages, corrections, etc. Gains or losses of 10 percent or more will be explained under "Remarks."

Line 4.—Report the net acquisition cost of all property determined during the quarter to be excess to the needs of the reporting agency, including that not reported to GSA on Standard Form 120. Exclude the cost of property determined excess during the quarter which was later in the quarter withdrawn for use within the reporting agency. (DOD report may include property subject to internal utilization screening.)

Line 6.—Report the acquisition cost of excess property abandoned or destroyed during the quarter.

Line 7.—Report the acquisition cost of excess property expended to scrap during the quarter. Include the cost of property determined to have no value except for its basic material content and which is to be disposed of as scrap, but do not include normal generations of waste or production scrap.

Line 8.—DOD will report the acquisition cost of property reassigned during the quarter for continued use within the agency.

Line 9.—Report the acquisition cost of excess property transferred during the quarter to other Federal agencies for utilization.

Line 10.—Report the acquisition cost of property determined to be surplus to the needs of the Federal Government.

Line 11.—Report the acquisition cost of the inventory of excess property on hand at the end of the quarter. (Line 5 less 6, 7, 8, 9, and 10.) (DOD report may include property subject to utilization screening.)

## Section III.—SURPLUS PROPERTY

General.—Surplus property is property determined to be no longer needed by the Federal Government.

Line 12.—Report the acquisition cost of the inventory of surplus property on hand at the beginning of the quarter. On all reports after the first, this will be the amount shown as the ending inventory on line 23 of the previous report. Include the acquisition cost of property referred to another Federal agency for sale (without transfer of accountability), but which has not yet been sold.

Line 13.—Report net gains (+) or losses (-) to the cost shown on line 12 resulting from overages, shortages, defaults, corrections, etc. Gains or losses of 10 percent or more shall be explained under "Remarks."

Line 14.—Report the acquisition cost of property determined surplus during the quarter. The cost shown will be the same as that reported on line 10.

Line 15.—Report the acquisition cost of surplus property expended to scrap during the quarter. Include the cost of property determined to have no value except for its basic material content and which is to be disposed of as scrap, but do not include normal generations of waste or production scrap.

Lines 18 through 22.—The acquisition costs reported shall reflect donations actually shipped. Any donations reported on line 22 shall be explained under "Remarks."

Line 24.—Report the acquisition cost of surplus property (other than scrap) sold during the quarter by the reporting agency. Include only property belonging to the reporting agency.

Line 25.—Report the acquisition cost of surplus property (other than scrap) sold by another agency for the reporting agency.

Line 26.—Report the acquisition cost of surplus property abandoned or destroyed during the quarter.

Line 27.—Report the acquisition cost of surplus property which was transferred to another Federal agency. Explain under "Remarks."

Line 28.—Report the acquisition cost of the inventory of surplus property on hand at the end of the quarter. (Line 15 less 16, 17, 23, 25, and 27.)

## Section IV.—PROCEEDS FROM SALES

Line 29.—Report the proceeds of surplus sales reported on line 23, including proceeds from sales conducted for the reporting agency by another Federal agency.

Line 30.—Report the proceeds of all sales of scrap, including proceeds from scrap sales conducted for the reporting agency by another Federal agency.

## REMARKS

Include explanations requested under instructions for lines 1, 3, 13, 22, and 27. Explain also any unusual transactions having a significant effect on activity during the quarter. If more space is needed, continue on separate sheet.

## SUBPART 101-43.49 ILLUSTRATIONS

101-43.4908

## § 101-43.4908 Exchange/sale category list.

In the acquisition, exchange, or sale of property in the categories below, both the item to be acquired and the item to be replaced must fall within a single numbered category.

1. Agriculture products, processed foods and forage.
2. Air-conditioning units, office and residential.
3. Air-conditioning units, industrial.
4. Ambulances, all sizes.
5. Ammunition and ammunition components.
6. Animals and animal products.
7. Asphalt distributors.
8. Asphalt pavers, portable or road mix.
9. Batteries, storage.
10. Bicycles; tricycles.
11. Binoculars; field glasses; telescopes.
12. Boilers, steam.
13. Buses, all sizes.
14. Cards, tabulating.
15. Compressors, air, portable.
16. Compressors, air, stationary.
17. Crawler, wheel mounted, and railroad cranes (including shovels and drag lines).
18. Crane trucks, industrial warehouse, electric and gasoline powered.
19. Ditching machines.
20. Dozer blades.
21. Drill presses.
22. Earth augers.
23. Fans, electric.
24. Graders, self-powered and towed.
25. Lathes.
26. Machines, adding; machines, calculating.
27. Machines, addressing and mailing.
28. Machines, dictating and transcribing.
29. Machines, duplicating.
30. Machines, punched card, bookkeeping, tabulating and accounting.
31. Milling machines.
32. Mixers, concrete, portable or truck mounted.
33. Motor scooters.
34. Motorcycles with or without side car.
35. Mowers, lawn, power.
36. Pile drivers.
37. Polishers, floor, powered.
38. Pontoon, assembles.
39. Power shovels.
40. Railroad cars, freight.
41. Railroad cars, passenger.
42. Railroad cars, service.
43. Railroad locomotives.
44. Refrigeration equipment.
45. Refrigerators.
46. Road rollers, wheeled and sheepsfoot.
47. Saws, bench.
48. Scrapers, earth moving (self-powered).
49. Scrapers, earth moving, towed.
50. Sedans; station wagons, coupes; limousines.
51. Snow plows, motorized.
52. Spreaders, aggregate and lime.
53. Tractor, warehouse.
54. Tractors, wheeled or crawler, with or without special attachments, up to 65 h.p.
55. Tractors, wheeled or crawler, with or without special attachments, 65 h.p. and up.
56. Trailers, general purpose, multiple axle.
57. Trailers, general purpose, single axle.
58. Trailers, industrial.
59. Trailers, special purpose (including fire pumper and Bean type sprayer and crash trailer).
60. Trailers, tank mounted.
61. Trucks, electronic.
62. Trucks, fire.
63. Trucks, forklift.
64. Trucks, general purpose, cargo and construction, 12,500 GVW through 28,000 GVW (including truck tractors, dump, multiple drive, etc.).
65. Trucks, general purpose and utility up to 12,500 GVW (including suburbans, carryalls and sedan deliveries).
66. Trucks, straddle.
67. Trucks, tank (special purpose trailer of which the tank is an integral part of the construction).
68. Trucks, warehouse, platform, electric and gasoline powered.
69. Typewriters, manual and electric.

SUBPART 101-43.49 ILLUSTRATIONS

101-43,4909

§ 101-43.4909 Specimen description of reported excess EDP equipment.

(a) Page 1 of the Specimen Description of Reported Excess EDP Equipment

STANDARD FORM 120 REV. APRIL 1957 PRESCRIBED BY FPMR (41 CFR 101) 101-43.311		<b>REPORT OF EXCESS PERSONAL PROPERTY</b>		1. REPORT NO. Self explanatory	2. DATE MAILED Self explanatory	3. TOTAL COST \$ 474,895*
4. TYPE OF REPORT (Check one only of "a," "b," "c," or "d")		a. ORIGINAL b. CORRECTED		c. PARTIAL W/D d. TOTAL W/D (Also check "a" and/or "f" if appropriate)		e. OVERSEAS f. CONTRACTORS INV
5. TO (Name and Address of Agency to which report is made) THRU				6. APPROV. OR FUND TO BE REIMBURSED (if any)		
Self-explanatory						
7. FROM (Name and Address of Reporting Agency)				8. REPORT APPROVED BY (Name and Title)		
Self-explanatory						
9. FOR FURTHER INFORMATION CONTACT (Title, Address and Telephone No.)				10. AGENCY APPROVAL (if applicable)		
Self-explanatory						
11. SEND PURCHASE ORDERS OR DISPOSAL INSTRUCTIONS TO (Title, Address and Telephone No.)				12. GSA CONTROL NO.		
Self-explanatory						
13. FSC GROUP NO. 74	14. LOCATION OF PROPERTY (if location is to be abandoned give date)		15. REIN/RECD YES NO		16. AGENCY CONTROL NO.	17. SURPLUS RELEASE DATE June 15, 1964 **
Self-explanatory						

ITEM NO. (a)	DESCRIPTION (b)	COND. *** (c)	UNIT (d)	NUMBER OF UNITS (e)	ACQUISITION COST		FAIR VALUE % of # (h)
					PER UNIT (f)	TOTAL (g)	
1	IBM 1401-F3 Processing Unit with:	PO		1	127,750	127,750	65,000 (86,000)
	2272 Console Inquiry Station Adapter	PO		1	450	450	225 (300)
	4575 High-Low-Equal Compare	PO		1	2,800	2,800	1,450 (1,950)
	5539 Print Control	PO		1	2,450	2,450	1,250 (1,650)
	5563 Printer 1404 Adapter	PO		1	1,380	1,380	620 (820)
2	IBM 1402-1 Card Read Punch with:	L	Do not use	1	30,000	30,000	15,000
	3550 Early Card Read	L		1	215	215	115
3	IBM 1404-2 Printer	L		1	85,500	85,500	42,750
4	IBM 1407-1 Console Inquiry Station	L		1	8,350	8,350	4,200
5	IBM 729-2 Magnetic Tape Unit	L		6	36,000	216,000	106,000

Modifications

\* Total Acquisition Cost (capital costs excluding site preparation and installation costs), whether purchased or leased.  
 \*\* Planned date of release of equipment.  
 \*\*\* Indicate L(Leased), P(Purchased), or PO(Lease with purchase option). If purchase option is still effective, indicate month and year of expiration.  
 # For leased equipment, obtain from manufacturer price Government would have to pay at release date. If leased with purchase option, also indicate in parenthesis manufacturers advertised purchase price for identical equipment in used condition without option.

**PART 101-43 UTILIZATION OF PERSONAL PROPERTY**

101-43.4909

**(b) Page 2 of the Specimen Description of Reported Excess EDP Equipment**EQUIPMENT DESCRIPTION

All equipment installed and use begun in October 1962.

Codes 001, 103, and 204 of Attachment A to BOB Circular A-55, Revised, are applicable.

Designed for operation on 230 volts, 3-phase, 60 cycles alternating current.

Requires approximately 60,000 b.t.u. of air-conditioning for temperature and humidity control.

Requires approximately 800 square feet of floor space.

Average monthly down time during past 12 months--8 hours.

SOFTWARE

Programming Systems and Compilers: Symbolic Programming System, Basic Autocoder, and Report Program Generator.

Engineering drawings and maintenance manuals available for all items.

Maintenance contract, supplies and spare parts available from manufacturer.

(END OF PART)

# ECONOMIC IMPACT OF FEDERAL PROCUREMENT

THURSDAY, APRIL 29, 1965

CONGRESS OF THE UNITED STATES,  
SUBCOMMITTEE ON FEDERAL PROCUREMENT,  
AND REGULATION OF THE JOINT ECONOMIC COMMITTEE,  
*Washington, D.C.*

The subcommittee met at 10:10 a.m., pursuant to recess, in room 318, Old Senate Office Building, Representative Thomas B. Curtis presiding.

Present: Senator Jordan, and Representatives Curtis and Widnall.

Also present: Ray Ward, economic consultant, James W. Knowles, executive director, and Hamilton D. Gewehr, administrative clerk.

Representative CURTIS. The committee will come to order.

We are very pleased this morning to have Mr. Elmer Staats, Deputy Director of the Bureau of the Budget. Mr. Staats, of course, is no stranger to this subcommittee, and to the deep interests that we have been pursuing. So, without further ado, Mr. Staats, will you please introduce your associates, and then proceed with your statement?

**STATEMENT OF ELMER B. STAATS, DEPUTY DIRECTOR OF THE BUREAU OF THE BUDGET; ACCOMPANIED BY ROGER JONES, SPECIAL ASSISTANT TO THE DIRECTOR; GEORGE G. MULLINS, CHIEF, PROPERTY AND SUPPLY MANAGEMENT BRANCH, OFFICE OF MANAGEMENT AND ORGANIZATION; HAROLD SEIDMAN, ASSISTANT DIRECTOR, MANAGEMENT AND ORGANIZATION; WILLIAM GILL, AUTOMATIC DATA PROCESSING PROGRAM; AND CLIFF MILLER, MILITARY DIVISION, BUREAU OF THE BUDGET**

Mr. STAATS. Thank you, Mr. Chairman.

I am very pleased to be here.

At my immediate right is Mr. Roger Jones, special assistant to the Director; and to my immediate left is Mr. George Mullins, who is head of our Property and Supply Management Branch in our Office of Management and Organization.

We have some others here that I will introduce as we go along, if we need to call on them.

Representative CURTIS. I wonder if you might, just for the record, introduce them with their titles, and then, if you will, refer to them.

Mr. STAATS. All right.

At my back here is Mr. Harold Seidman, who is Assistant Director of the Bureau in charge of Management and Organization. To his left, Mr. William Gill, who has been concerned with our automatic data processing program, and is in charge of that, and Mr. Cliff Miller, to my back here, is in our Military Division, concerned with military supply management.

Mr. Chairman, I would like to say at the outset that this has been an annual occurrence for us, and for the committee, and I would like to go out of my way to compliment the committee for what it has done in this field. It is only by a sustained effort that sometimes we are able to get some of these things accomplished that both you and we are interested in bringing about.

I have had an opportunity to read the statements of the Defense Department, and the General Services Administration, and the Comptroller General, and I think that all these together with the committee's questioning, adds up to a very fine way of assuring all of us that we are on top of the problems in this area.

I just wanted to say that as a personal note of appreciation.

Representative CURTIS. Thank you.

Mr. STAATS. I appreciate the opportunity to appear again before your subcommittee and review, from the standpoint of the Bureau of the Budget, developments in the continuing efforts to improve procurement and supply management and related activities in the executive branch.

I plan to cover briefly subjects to which you referred in your letter of April 7. I would be pleased to discuss more fully any on which you have particular questions.

(The April 7 letter referred to, from Chairman Douglas to the Director of the Bureau of the Budget, appears below :)

APRIL 7, 1965.

HON. KERMIT GORDON,  
*Director, Bureau of the Budget,*  
*Washington, D.C.*

DEAR MR. GORDON : The Subcommittee on Federal Procurement and Regulation will hold hearings on April 27, 28, and 29, 1965, as a continuation of the program of the former Subcommittee on Defense Procurement.

You are scheduled to testify, accompanied by such staff as you desire, on April 29, 1965, at 10 a.m., room 318, Senate Office Building.

In addition to a followup on previous recommendations, the subcommittee will be interested in learning of the progress that has been achieved in the Government-wide cost reduction program including the development of an efficient Federal supply system. This includes not only DOD-GSA relationships, but also relationships between GSA and other civilian agencies such as the Post Office, Veterans' Administration, etc.

We will appreciate progress reports on the automatic data-processing (ADP) program ; the improved management of weather research and hospitals ; and the impact of Buy American policy on costs and balance of payments.

Of growing importance also is the subject of the economic impact of commercial-industrial activities of the Government (see subcommittee reports of July 1963 and September 1964). A discussion as to basic policy on initiation and continuation of such activities will be of value to the subcommittee.

Faithfully yours,

PAUL H. DOUGLAS.

Mr. STAATS. As you know, the Bureau of the Budget is not directly involved in procurement and other administrative operations. Our primary interest is from the point of view of the President's budget and the efficient and economical management of Government programs. A sustained drive for economy in all Government operations is necessary if we are to adequately support our stepped up efforts in such fields as education, the war on poverty, health, manpower training, and housing and urban development. Between 1964 and 1966 the President's budget outlays for national defense and space, together, will decline by \$1.7 billion, and all other administrative budget ex-

penditures are estimated to decrease by \$1.4 billion. Procurement, supply management and the other matters which are the concern of your subcommittee are especially important in this effort.

#### COST REDUCTION PROGRAM

The President has directed each agency head to assume personal responsibility for cost reduction and make quarterly reports on accomplishments. Last year agencies reported actions taken that have or will produce savings in excess of \$3½ billion; \$2.8 billion was reported by Secretary McNamara.

While the President was encouraged by this response, he believes that there are certain aspects of the Defense Department program that could be emulated profitably by all agencies. Accordingly, we have issued recently a circular (A-44) requiring each agency head to establish a formal cost-reduction program. I am attaching a copy of this circular as part of my statement.

(The material referred to follows:)

EXECUTIVE OFFICE OF THE PRESIDENT  
BUREAU OF THE BUDGET  
WASHINGTON, D.C. 20503

March 29, 1965

CIRCULAR NO. A-44  
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Cost reduction and management improvement in Government operations

1. Purpose and coverage. This Circular sets forth policies, procedures and responsibilities for carrying out the President's program to reduce the cost and improve the general effectiveness of Government operations. It applies to all departments and agencies of the executive branch effective July 31, 1965. On that date this Circular replaces Circular No. A-44 of October 31, 1962, as revised.

2. Policy. The President has directed that each department and agency head put into effect and assume direct supervision of a formal, organized cost reduction program. The President is interested in savings for three principal reasons:

- . To reduce the cost of Government;
- . To finance new and needed programs; and
- . To offset increased costs for personnel and other resources.

The following policies will be observed in agency cost reduction activities:

a. The head of each department and agency is as responsible for efficiency and economy in the conduct of agency programs as he is for program results.

b. Management at all levels in each agency is expected to undertake vigorous and continued efforts to reduce costs by eliminating nonessential activities and positions and by increasing productivity.

c. The heads of departments and agencies and their subordinates will make every effort to meet new workload requirements through adjustments in existing activities and procedures, and by improved manpower control and utilization.

d. Government business will be conducted in accordance with the same exacting standards that apply to the most expertly managed private business.

e. Improved organization, more efficient methods and procedures, use of labor-saving equipment, strengthened supervision, wise and economical procurement, and other actions to reduce the cost of current programs will be constantly sought so that available resources can be most effectively utilized in meeting the Nation's urgent needs.

3. Cost reduction plans and reports. Each department and agency head will prepare an annual cost reduction plan with specific savings goals. In preparing his plan he will make a systematic review of agency programs from the standpoint of relative priorities and subject major proposed expenditures to searching scrutiny in terms of cost and benefits. Specific efforts should be planned to eliminate or curtail low priority activities, seek new and less costly approaches to achievement of program objectives, and devise better solutions to management problems. Positive steps should be taken to encourage innovation in the development and use of new techniques for increasing productivity.

a. Goals. At the beginning of each fiscal year each department and agency head will establish cost reduction goals for at least the year just beginning and the following fiscal year. The goals will be quantified to the extent possible and based on reasonable projections of concrete actions contemplated and savings expected, but desirable improvements or benefits which cannot be quantified in terms of dollar savings may be included.

b. Reporting of goals. The head of each department and agency will submit to the President, through the Director of the Bureau of the Budget, by September 1 of each year, a report on the cost reduction goals he has established for the current fiscal year and at least one following year. The report will be submitted in triplicate and provide, in accordance with the attached guidelines and format (Attachments A and B), a brief description of the actions contemplated, when they are to be completed, and appropriate annual man-year and dollar savings targets. If legislative action is required to achieve these goals, this should be noted and a legislative proposal should be submitted, in accordance with Bureau of the Budget Circular A-19, revised.

c. Reporting of progress. Each department and agency will send to the President, through the Director of the Bureau of the Budget, semi-annual progress reports showing the extent to which cost reduction goals are being reached. The reports covering the first half of the fiscal year and the entire fiscal year will be due on March 1 and

September 1, respectively. They will be submitted in triplicate in accordance with the attached guidelines and format (Attachments A and B). Cost reduction goals and improvement actions may be updated in the March 1 progress report. Savings resulting from actions taken in the first half and in the entire fiscal year, respectively, will be estimated for both the fiscal year reported on and the next fiscal year. Savings will be in terms of dollars and man-years, as appropriate. The report will also show the nature of savings or benefits and the proposed disposition of savings.

d. Definition of savings and other benefits.

(1) Savings. Savings generated and reported under this program will be only those which result from new, improved, or intensified management practices and actions or from the elimination or curtailment of low priority activities during the fiscal year reported on. They are not to include reductions due to deferment of programs or activities to some future date. Savings are to be measurable and identifiable. They will be calculated using as a base the level of expenditures or unit costs of the fiscal year immediately preceding the current year, except where another base year has been approved by the Director of the Bureau of the Budget. As a general rule, savings should result in one or more of the following:

- . Reduced level of expenditures for a defined workload or program
- . Increased production or more effective program performance at no added cost
- . Reduced requirements for additional funds

(2) Other benefits. Noteworthy management improvement actions that do not result in measurable monetary savings should be reported as "other benefits." Such benefits might be more prompt service, more effective program results, or more equitable treatment of clientele.

4. Use of savings. Since savings may constitute an additional resource for other worthwhile work, recommended and actual use of savings will be specified and reported by agencies. Recurring savings and those projected for the budget year will be considered during the budget review process. Recommended high-priority uses of savings will be categorized as follows:

- a. Use to finance increased costs, such as statutory pay increases.
- b. Apply to the production of more units of work.

c. Apply to raise the quality of service or performance.

d. Use to finance some other approved program or activity of the reporting agency.

e. Place in reserve, or apply to reducing the President's budget.

The need for application of savings to categories (a) through (d), above, will be fully explained in the report.

5. Validation of savings. Savings will be measured using the techniques appropriate to the particular circumstances. Care will be taken to prevent double counting and to consider offsetting costs. All offsetting costs applicable to an individual savings action, whether incurred within or outside the reporting agency, will be deducted before net savings are reported. Savings should be validated by a review performed independently from the claiming unit. Such validations will be performed before data and reports are submitted to the Bureau of the Budget and the President. The term "validation" means an independent evaluation of the reasonableness of amounts reported as accomplishment against goals through selective examination of reports, records, and operations.

6. Central assistance for improving management.

a. The staff of the Bureau of the Budget is available to advise agencies in their management improvement and cost reduction programs and to serve as a clearinghouse for exchanging information on techniques and programs, from within and outside of the Government, that have produced noteworthy results. To meet unusual problems where the agency does not have the expertise or the financial resources to undertake special management studies, assistance may be provided from the appropriation to the President for Expenses of Management Improvement.

b. Federal Executive Boards in major centers of Federal activity outside of the Washington area will give specific attention to the exchange of information and cooperative efforts designed to improve management and performance of Federal activities in the field.

c. The Bureau of the Budget, the Civil Service Commission, and the departments and agencies have undertaken a systematic program of agency management and manpower reviews. The schedule for these reviews is developed by the Bureau of the Budget and the reviews are carried out jointly by staff of the Bureau, the Commission, and the agency concerned. The reviews are made on a selective basis giving priority attention to areas where the most significant problems and potential savings exist. The results of these reviews are reported to the head of each agency for immediate attention and such action as is necessary.

KERMIT GORDON  
Director

Attachment

ATTACHMENT A  
Circular No. A-44

GUIDELINES FOR REPORTING COST REDUCTION GOALS AND ACCOMPLISHMENTS  
(See paragraphs 3 and 4, Bureau of the Budget Circular A-44)

I. Categories for Goals and Semi-annual Progress Reporting

Cost reduction goals and accomplishments will be reported by the head of each department and agency under the following categories. Additional categories may be used if desirable, and some of those listed here may be excluded if they do not fit.

A. Increased productivity and efficiency. Annual productivity goals and progress in achieving them may be reported for the organization as a whole or for major organizational components. They may be expressed in percentage increases in productivity or decreases in unit costs. All improvement in productivity or efficiency should be translated into specific dollar and manpower savings. Depending on the size of the agency, they may be presented in aggregate or in terms of specific projects.

B. Elimination of low priority activities; substitution of less costly alternatives. This may include savings resulting from such actions as the elimination of unessential programs or activities or reduction of specific program levels (excluding reductions imposed externally by the President's budget or appropriation actions) and the selection of an alternative program or course of action from that originally approved or in use.

C. Increased management and program effectiveness. The intended and actual results or benefits of management improvement actions during the current year for which specific and demonstrable savings are impossible to calculate will be reported under this category.

II. Annual Goals

The statement of cost reduction goals, set by each department and agency and submitted to the President through the Director of the Bureau of the Budget by September 1 of each year, will contain these elements stated as briefly as possible:

A. Narrative description

1. Goal. Describe each separate goal, listed by category as defined in Section I above, including estimated dollar and man-year savings or other benefits.

2. Projects. Under each goal, list and provide a brief description of the program, projects or actions designed to reach the goal, together with a timetable of implementation. These will be reported in terms of general programs, major projects or specific actions, as appropriate to the size of the reporting department or agency.
3. Nature of savings or benefits. For each program, project or action, describe the type of saving or benefit; indicate when it is to be achieved, and indicate whether it is one-time or recurring.
4. Disposition of savings. Explain the proposed use of savings in accordance with the criteria included in paragraph 4 of Circular No. A-44.
5. Problem areas. Note and explain any roadblocks in planning or accomplishing the goal which require the assistance of the Bureau of the Budget, the President, other agencies, and/or require new or revised legislation.
6. Innovation. Identify and describe steps to encourage innovation, including specific actions, planned or underway, to develop and use new management techniques. Where appropriate include evaluation of results.

B. Summary form. Recapitulate in the first five columns of the summary form (Attachment B) the essential information provided in the narrative. The summary form will also be used for subsequent semi-annual reporting of progress.

### III. Semi-annual Progress Report

A. Narrative report. The semi-annual narrative progress reports will contain:

1. Any changes in the narrative description provided at the time the cost reduction plans were submitted.
2. Changes in goals, but these should not ordinarily be reduced unless the original plan was greatly overestimated. Any slippages in goals should be indicated, together with the reasons.
3. A description of major actions taken during the preceding six months on each program, project or action listed in the plan.

4. An explanation of the use proposed for any savings.
- B. Summary form. The summary form (Attachment B) will contain:
1. Recapitulation of the programs, projects or actions by which goals are to be reached, as specified in the annual plan and in the narrative section of the report.
  2. Estimate of savings in dollars and man-years, or other benefits to result from action on each goal or project.
  3. Proposed disposition of anticipated savings using the key provided on the form (Attachment B), that is --
    - a. Use to finance increased costs, such as statutory pay increases.
    - b. Apply to production of more units of work.
    - c. Apply to raise quality of service or performance.
    - d. Use to finance some other program or activity of the reporting agency.
    - e. Place in reserve, or apply to reducing the President's budget.

SUMMARY REPORT  
COST REDUCTION AND MANAGEMENT IMPROVEMENT PROGRAM

(Department or Agency)

(Date)

Goals and Programs, Projects, or Actions To Achieve Them	Annual Savings Goals				Estimated Annual Savings from Actions to Date in Reporting Year						Other Benefits	Proposed Use of Dollar Savings (See Key)
	man-years		dollars		man-years			dollars				
	CY*	NY	CY*	NY	CY*	NY	BNY	CY*	NY	BNY		
(Take by title from the narrative report)											(Check; explain in narrative)	(Provide specifics in narrative report)

Savings Key:

- A. Use to finance increased costs, such as pay increases.
- B. Apply to production of more units of work.
- C. Apply to raise quality of service or performance.
- D. Use to finance some other approved program or activity.
- E. Place in reserve, or apply to reducing President's budget.

Abbreviations:

- CY - Current fiscal year
- NY - Next fiscal year
- BNY - Beyond next year

\*For the second of the semi-annual progress reports the current year column will be the fiscal year ending on the previous June 30.

ATTACHMENT B  
Circular No. 1-44

Mr. STAATS. The circular, in brief, directs the heads of each department and agency to—

- Assume direct supervision of a formal cost-reduction program;
- establish specific dollar-cost reduction goals;
- initiate a systematic and periodic review of programs and operations from the standpoint of relative priorities;
- identify roadblocks to cost reduction which may require legislative action or cooperation from other agencies;
- subject every major proposed expenditure to searching scrutiny in terms of costs and benefits;
- employ independent means to verify reported savings;
- recommend high-priority uses of savings achieved; and
- make periodic progress reports to the President.

Our goal, under the stimulus of this extended program, is to exceed last year's reported cost reduction.

The Bureau of the Budget has recently issued a booklet on "War on Waste," which will give the committee an indication of the wide range of the cost reductions achieved. There are sections reporting savings in property and supply management, in automatic data processing, and other areas of interest to the committee.

#### AUTOMATIC DATA-PROCESSING PROGRAM

On March 2, 1965, the President approved a Bureau of the Budget report on the management of automatic data processing in the Government. Copies of that report, published as Senate Document 15, 89th Congress, have already been provided to this committee.

The report reviews and evaluates our existing policies, regulations, legislation, and practices, and recommends an action program for augmenting our resources and otherwise strengthening the automatic data processing management program. Specific legislative requirements are identified.

Prepared with the advice and assistance of a high-level, Government-industry committee, the report highlights a number of accomplishments in automatic data processing management during the past few years. Some of these are of special interest to this committee.

For example, a fairly dramatic increase has occurred, since 1963, in purchasing automatic data processing equipment rather than renting. Whereas only 15 percent of our equipment inventory was owned in 1962, 46 percent is owned today. Current estimates indicate that over 50 percent will be owned by the end of fiscal year 1966. The net savings resulting from the purchases made in fiscal years 1963, 1964, and 1965 are expected to be about \$200 million within the first 5 years.

Automatic data processing equipment sharing exchanges have been established in six regional areas of the country, under General Services Administration leadership. Up to seven more will be established. As a result, sharing of automatic data processing equipment and services within and between agencies is rising consistently, resulting in greater economy in the performance of needed work.

Excess and surplus automatic data processing equipment, both owned and rented, is put through special screening processes by the General Services Administration to facilitate continued use in Government whenever practical. Hours of utilization of equipment rise steadily, especially for the medium- and large-scale equipment.

As of last year, equipment in the price range of \$1.5 million and up was utilized an average of 410 hours per month, which is virtually around-the-clock operation, 5 days a week. For all equipment, the average was 313 hours, up from 285 the previous year. Figures for this year will be available for publication in about 60 days.

The automatic data processing management report also points to actions which should be taken by the Bureau of the Budget, General Services Administration, National Bureau of Standards, and Civil Service Commission to provide needed additional policies, guidelines, regulations, and consultative assistance and to undertake expanded research in automatic data processing technology.

On March 6, the Bureau of the Budget issued a circular (A-71) defining the responsibilities of these agencies in the administration and management of automatic data processing activities. I have copies available if the committee is interested in them, and a copy of this is in the report, itself, Mr. Chairman.

Representative CURTIS. How long a document is it?

Mr. STAATS. It is very, very brief. It is a matter of three or four pages, sir.

Representative CURTIS. We will include it in the record.

Mr. STAATS. Yes, sir.

(The Bureau of the Budget subsequently furnished the following material:)

EXECUTIVE OFFICE OF THE PRESIDENT  
BUREAU OF THE BUDGET  
WASHINGTON, D.C. 20503

MARCH 6, 1965

CIRCULAR No. A-71

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Responsibilities for the administration and management  
of automatic data processing activities

1. Purpose. This Circular identifies certain responsibilities of executive agencies for the administration and management of automatic data processing (ADP) activities, and is intended to provide for maximum cooperation and coordination between and among the staff and operating agencies of the executive branch.
2. Scope. The ADP equipment affected by this Circular is that equipment identified in paragraph 2 of Bureau of the Budget Circular No. A-54, Policies on the selection and acquisition of automatic data processing (ADP) equipment, October 14, 1961.
3. Responsibilities of the Bureau of the Budget. The Bureau of the Budget will provide overall leadership and coordination of executive branch-wide activities pertaining to the management of automatic data processing equipment and related resources and will develop programs and issue instructions for achieving increased cost effectiveness through improved practices and techniques for the selection, acquisition and utilization of automatic data processing equipment and resources. In this connection, the Bureau of the Budget will:
  - a. Provide policies and criteria, procedures, regulations, information, technical advice and assistance to executive agencies.
  - b. Evaluate, through the review of agency programs and budgets and through other means, the effectiveness of executive agencies and the executive branch as a whole in managing automatic data processing equipment and resources.
  - c. Foster adequate Federal Government support of programs for developing voluntary commercial standards for automatic data processing equipment and techniques, arrange for the approval and promulgation of voluntary commercial standards when it is in the best interests of the Government to do so, and arrange for the development, approval and promulgation of Federal standards for automatic data processing equipment and techniques on an interim basis, or permanent basis, when voluntary commercial standards are not available or usable.

- d. Support the development and promulgation of standard data elements and codes in Government systems, when such data elements and codes are in common use in some or all executive agencies.
- e. Encourage the use of advanced techniques in the design of data systems and support research in advanced system design through demonstration projects.
- f. Advocate intra-agency and interagency integration of systems.
- g. Sponsor the development of a system which provides to line and staff officials at all levels of Government the information needed for effective management of automatic data processing equipment and related resources.

4. Responsibilities of the General Services Administration. The General Services Administration is responsible for aiding in the achievement of increased cost effectiveness in the selection, acquisition and utilization of automatic data processing equipment and appropriate related resources and will perform the following functions:

- a. In connection with the selection of automatic data processing equipment, provide to executive agencies, on request, comparative information on the characteristics and performance capabilities of equipment and on the contractual performance of the firms that supply equipment and programing aids to the Government.
- b. In connection with the acquisition of automatic data processing equipment (1) provide Federal Schedules of Supply for renting, purchasing and maintaining automatic data processing equipment, for use by executive agencies each fiscal year, (2) take such steps as may be feasible and necessary to insure to the extent practicable, that the Federal Schedules of Supply for ADP equipment each year will be available for use on the first day of that year, and (3) through continuous study and negotiation, seek improvements in the terms, conditions, and prices stated in Federal Schedules of Supply for automatic data processing equipment and services.
- c. In connection with the utilization of automatic data processing equipment (1) develop and publish guidelines and criteria governing the replacement of equipment to avoid usage of such equipment beyond the point of economic advantage, (2) provide overall coordination and leadership of the executive branch in fostering the effective utilization of excess and disposal of surplus, automatic data processing equipment, including rented, leased or owned equipment, and promulgate such regulations as may be needed to insure effective Government-wide screening and utilization of excess ADP

equipment; and, further, to plan and undertake appropriate measures for coping with emerging problems associated with the management of excess and surplus automatic data processing equipment, (3) prepare Government-wide inventory reports and other statistical information pertaining to ADP equipment utilization, based upon reports submitted in accordance with applicable Bureau of the Budget circulars; and, further, to cooperate in the continuous refinement and improvement of management information systems relating to automatic data processing activities, (4) exercise leadership for the executive branch in the development and operation of arrangements which are designed to promote the sharing and joint utilization of automatic data processing equipment time and services within and among the executive agencies, and obtain such information on sharing practices as is necessary to evaluate the sharing program on a Government-wide and regional basis, including acquisition of equipment in connection with joint utilization programs, and (5) provide policies, guidelines and evaluation criteria for use by executive agencies in the maintenance of automatic data processing equipment.

d. In connection with the standardization of automatic data processing equipment and techniques, (1) promulgate standard purchase specifications based upon ADP standards which have been approved for adoption by the Federal Government, and (2) support programs for the development of voluntary commercial or Federal standards as they pertain to automatic data processing equipment and techniques and coordinate these activities with other executive agencies similarly involved.

e. In connection with automatic data processing equipment used with data communications systems, insure that planning for the Federal Telecommunications System embraces consideration of the rising need for data communication facilities which provide for high-speed data transmission between computer-based systems.

5. Responsibilities of the Department of Commerce. The Department of Commerce is responsible for aiding in the achievement of increased cost effectiveness in the selection, acquisition and utilization of automatic data processing equipment, and in this connection will perform the following functions:

a. Provide advisory and consultative services to executive agencies on the methods for developing information systems based on the use of computers and the programing and languages thereof.

b. Undertake research on computer sciences and techniques, including system design, oriented primarily toward Government applications.

c. Provide day-to-day guidance and monitorship of an executive branch program for supporting the development, measurement and testing of voluntary commercial standards for automatic data processing equipment, techniques and computer languages.

d. Improve compatibility in automatic data processing equipment procured by the Federal Government by recommending uniform Federal standards for automatic data processing equipment, techniques and computer languages.

6. Responsibilities of the Civil Service Commission. The Civil Service Commission is responsible for providing executive branch-wide leadership and assistance in the personnel management and manpower aspects of automatic data processing. In this connection, the Commission will foster programs designed to:

a. Staff automatic data processing activities effectively by, among other things, (1) formulating position classification and qualification standards, (2) developing necessary special recruiting techniques, (3) devising improved testing and selection devices, and (4) stimulating and coordinating necessary training.

b. Educate executives and other key personnel to achieve greater effectiveness in ADP management.

c. Anticipate and minimize, to the greatest practicable extent, any adverse effects of automatic data processing upon the people involved.

d. Provide a medium within the executive branch to focus and coordinate preparation for the future personnel management and manpower effects and requirements of automatic data processing.

7. Responsibilities of the heads of executive agencies. The heads of all executive departments and establishments are responsible for the administration and management of their automatic data processing activities including:

a. Agency-wide planning, coordination and control of equipment utilization.

b. Determination and use of those equipment applications that offer the greatest return in terms of increased effectiveness in mission accomplishment and higher productivity.

c. Development of data systems that employ the use of the most advanced design techniques.

d. Merger or integration of data systems irrespective of intra-agency or interagency organizational lines, when cost effectiveness in equipment utilization, data systems management, or program accomplishment can be increased.

e. Determination of automatic data processing equipment requirements.

f. Sharing equipment time and services within the agency, and with other agencies through support of the Government-wide program for sharing exchanges; cooperation in the establishment of service centers and other interagency joint use arrangements.

g. Consideration of the potential impact of the introduction of ADP equipment on the agency work force and taking such steps as are necessary to alleviate adverse effects to the greatest extent practicable.

h. Participation in Government-wide studies and programs for improving the administration and management of automatic data processing activities in the executive branch.

8. Effective date. The provisions of this Circular are effective immediately.

KERMIT GORDON  
Director

Mr. STAATS. Of special interest to the committee are recommendations appearing in the automatic data processing report concerning—

(1) the need for increased effort toward achieving greater compatibility among computers and techniques for their use;

(2) the exercise of closer surveillance over the automatic data processing equipment expenditures which are reimbursed to Government contractors, to insure that these reimbursements are no greater than the Government would incur for similar purposes, and in support of this policy the Department of Defense will shortly promulgate revisions in the Armed Services Procurement Regulations relating to the purchase or rental of equipment;

(3) the provision of adequate information for managing the utilization of automatic data processing equipment at all levels of authority in the executive branch; and

(4) the need for improving the processes used to select and procure equipment.

By utilizing experienced personnel in the departments and agencies, either by direct loan or through the Interagency Committee on Automatic Data Processing and the Automatic Data Processing Advisory Council, multiagency task groups are either now at work or will soon begin to carry out most of the recommendations approved by the President.

#### METEOROLOGICAL RESEARCH

Turning to the area of meteorological research, which was indicated as an area of interest in your letter, last year we informed your committee of steps that had been taken to improve the Government's organization for planning meteorological research, which steps included issuance of Bureau of the Budget Circular A-62 in November 1963. That circular prescribes policy and procedural guidelines for planning and conducting Federal meteorological services, including applied research and development to improve these services. I am attaching a copy as part of my statement.

(The material referred to appears below :)

EXECUTIVE OFFICE OF THE PRESIDENT  
BUREAU OF THE BUDGET  
WASHINGTON, D.C. 20503

November 13, 1963

CIRCULAR NO. A-62

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies and procedures for the coordination  
of Federal meteorological services

1. Purpose and coverage. This Circular prescribes policy guidelines and procedures for planning and conducting Federal meteorological services and applied research and development to improve such services.

The guidelines are designed to improve organizational arrangements and procedures for the planning and conduct of Federal meteorological programs with the objective of meeting essential user requirements most effectively and economically. The guidelines (a) reaffirm the central role of the Department of Commerce with respect to basic meteorological services; (b) clarify the respective responsibilities of the Department of Commerce and the user agencies for basic and specialized meteorological services; (c) establish procedures to facilitate coordination and the timely resolution of outstanding issues; (d) provide for evaluating user requirements within the context of a balanced and integrated Federal plan; and (e) fix responsibility for continuing and systematic review of meteorological services and supporting research.

Policies and procedures with respect to basic research in meteorology are not within the purview of this Circular because such research is only indirectly related to improvement of weather services and often has other objectives. The Federal Council for Science and Technology will continue to have cognizance over basic research in the atmospheric sciences, which includes meteorology. This also includes the supporting applied meteorological research, as defined herein, in terms of its dependence upon and contribution to the atmospheric sciences.

2. Statement of meteorological services and requirements. For purposes of this Circular:

a. "Basic meteorological services" include all activities, that are possible within the given state of meteorological science, required to produce or complete a description in time and space of the atmosphere. In general the products of this process are meteorological in nature and are not necessarily useful in such form for the operational needs of users. These services also include those activities required to derive from raw data the products needed by the general public in their normal everyday activities and for the protection of their lives and property.

The general functions involved in providing basic meteorological services include:

- (1) Measurement of the meteorological characteristics of the atmosphere, made with sufficient density and frequency to meet the needs of the general public and the common needs of all users.
- (2) Collection of these measurements for processing.
- (3) Analyses and prognoses of meteorological variables, including estimates of their probable error distribution, and interpretation of the analyses and prognoses for meeting the needs of the general public.
- (4) Distribution of these meteorological analyses and prognoses to outlets for subsequent interpretation for the operational needs of all users, and the distribution and display of operational products to meet the needs of the general public.

b. "Specialized meteorological services" include those activities, derived generally from the output of the basic meteorological services, which produce those products needed to serve the operational needs of particular user groups. These user groups include, among others: aviation, agriculture, business, commerce, and industry.

The general functions involved in providing these services include:

- (1) Establishment of parameters needed to serve solely a particular operational purpose.
- (2) Collection of data from specialized measurements which conform with the established parameters.
- (3) Analysis of the data obtained from specialized measurements.
- (4) Interpretation of the analyzed data and the making of prognoses to meet the operational needs of users.
- (5) Distribution and display of these specialized products to meet the needs of individual users or groups.

c. "Supporting research" includes those applied research and development activities whose immediate objective is the improvement of the basic and specialized meteorological services as defined herein.

d. "User agency" is an agency whose mission requires meteorological services either for its internal operations or as part of its direct services to a clientele group. "Mission requirements" include those requirements directly related to the primary mission of the agency. When such mission involves direct service to a clientele group requiring the provision of meteorological services it is included within the terms of this definition. Also, when the agency has no such clientele relationships but its internal operations require the provision of meteorological services, its mission is included within the terms of this definition.

e. "Common requirements of other agencies" include the needs for basic meteorological services necessary to support their specialized meteorological services. Such requirements also include those needs for specialized meteorological services common to two or more agencies.

### 3. Coordination of meteorological services.

a. The Department of Commerce, with the advice and assistance of other agencies concerned, will establish procedures designed to facilitate a systematic and continuing review of basic and specialized meteorological requirements, services and closely related supporting research. The Department will undertake such reviews with the objectives of (1) establishing, and revising as appropriate, needed basic services, and (2) advising other agencies on the need for and organization of specialized services. The objectives of these continuing reviews are to assure a timely identification of need for new or revised services and to develop those services, either basic or specialized, that most efficiently meet the need.

b. The Department of Commerce, to the maximum extent practicable and permitted by law, will provide those basic meteorological services and supporting research needed to meet the requirements of the general public or the common requirements of other agencies. The Department of Commerce will arrange for the conduct of such services by the Department, by other agencies, or by non-Federal organizations, depending upon the most effective and economical arrangements.

c. User agencies will arrange for specialized meteorological services and supporting research when their mission requirements cannot be effectively accommodated through the basic services and supporting research. Before supporting specialized meteorological services and research, the user agency should obtain the views of the Department of Commerce as to whether its requirements can be met satisfactorily through the basic meteorological services and supporting research, including appropriate adjustments therein. The Department of Commerce will, to the extent consistent with effective and economical use of resources, conduct the specialized services that support the mission requirements of user agencies.

d. The above provisions will not apply to (1) the division of responsibilities between the Department of Commerce and the National Aeronautics and Space Administration for development of meteorological satellites; and (2) meteorological activities involving special military security considerations. Arrangements with respect to the foregoing activities will be set forth in separate determinations.

### 4. Development of a Federal plan.

a. The Department of Commerce will prepare and keep current a plan, and obtain periodic information on its implementation, for the efficient utilization of meteorological services and supporting research. The purpose of such planning is to achieve the maximum integration of

current and future services and research consistent with the effective and economical accomplishment of mission requirements. The plan should include: (1) all civilian meteorological services and supporting research, and (2) those meteorological services (basic and specialized) and supporting research programs of the military which are significantly affected by, or which affect, civilian meteorological services and supporting research. The plan will be directed towards relating such meteorological services and research to requirements, as established by the user agencies. It will also serve to develop the coordinating arrangements needed for the optimal use of the basic and related specialized meteorological services and supporting research in an efficient overall system.

b. Planning should be directed towards the establishment of both long-range and intermediate agency objectives and the development of programs related to both sets of objectives. The Department of Commerce should assure that the plan, relating proposed programs to fiscal year and longer range objectives, is available for the annual preview of the various agencies' budgets for Fiscal Year 1966 and thereafter. The plan should clearly identify planning assumptions, any unresolved interagency issues, and the views of the agencies concerned with respect thereto.

c. In preparing and revising the plan, the Department of Commerce will obtain the advice and assistance of the principal agencies providing or utilizing meteorological services. To this end the Department should establish appropriate arrangements for obtaining continuing advice from the principal agencies concerned. The Department should exercise leadership in assuring that differences of opinion are resolved expeditiously. The division of responsibilities among agencies for provision of meteorological services and supporting research will, insofar as practicable and permitted by law, conform with the guidelines set forth under section 3 above.

#### 5. Overall review procedures.

When major differences among agencies cannot be resolved through consultation, the head of any agency concerned may refer the matter to the appropriate agency within the Executive Office of the President for consideration. The Presidential staff agencies will keep each other currently informed of meteorological issues and will cooperate in achieving their timely resolution.

KERMIT GORDON  
Director

Mr. STAATS. The first annual plan for Federal meteorological services and supporting research has recently been prepared by the Department of Commerce in accordance with its focal responsibilities for coordination assigned by the circular. The plan was based on a comprehensive assessment of meteorological activities, including detailed review at the project level to eliminate duplication and provide for better integration of future plans.

Two program areas in meteorological research were identified as needing further analysis: Weather observing devices and weather analysis and prediction, and these areas are now being intensively studied by the Federal Coordinator who, by the way, is the Assistant Secretary of Commerce for Science and Technology.

Copies of the annual plan have been provided the Appropriations Committees of the House and the Senate to be used in reviewing the budget requests of the various agencies. I have a copy with me for the information of the committee.

#### A FEDERAL SUPPLY AND SERVICES SYSTEM

The committee has heard testimony concerning the joint efforts of the General Services Administration and DSA which culminated in an agreement between the Department of Defense and General Services Administration governing supply management relationships. This agreement was designed to eliminate duplication and foster greater economy and efficiency in the performance of supply management responsibilities pertaining to civil agencies and Defense requirements for personal property. Bureau staff have been actively engaged with the Department of Defense and General Services Administration in this effort. (See pp. 83, 188.)

The Defense Department has reported the results of evaluations to date concerning the feasibility of DSA assuming a Government-wide support role for petroleum, electronics, clothing and textiles, non-perishable subsistence, and medical supplies. DSA and GSA are continuing to develop with the affected civil agencies the necessary detail to permit final determinations in these commodity areas. The Bureau of the Budget is cooperating with DSA and GSA in order to facilitate and expedite these determinations.

In addition to the foregoing, the General Services Administration is in the process of negotiating supply management agreements with the Veterans' Administration, Federal Aviation Agency, and the Post Office Department.

Last year, we indicated that we were working on an agreement between NASA and the Air Force for supply management support at Cape Kennedy. We are pleased to report that NASA has reached agreement with the Air Force for a consolidated supply management system under which the Air Force will provide common supply items for NASA's requirements at Cape Kennedy.

#### CONSOLIDATED PROCUREMENT OF SUBSISTENCE SUPPLIES

(a) *Nonperishable subsistence.*—As indicated last year, we have been concerned about the dispersion of responsibility for procurement and distribution of nonperishable subsistence items for many years. In 1958, we arranged for the Veterans' Administration to assume

overall responsibility for procurement of nonperishable subsistence supplies for all civilian agencies.

A major responsibility of the Defense Supply Agency is the management of wholesale subsistence supplies. We requested the Secretary of Defense to conduct a study to determine whether responsibility for nonperishable subsistence procurement and distribution for all Federal agencies should be consolidated in Defense Supply Agency.

As other witnesses have stated, our request was accepted.

The Defense Supply Agency has now completed the initial phase of its review to determine whether or not it would be economical to support civil agencies' requirements. The Defense Supply Agency's initial findings will now be presented to the major agencies involved in food procurement for their evaluation and further study related to specific program requirements. A date by which a decision can be reached is difficult to forecast. We would hope to arrive at a decision some time during the latter part of calendar year 1965.

(b) *Perishable subsistence.*—As stated last year, the possible integration of perishable subsistence supply support in major metropolitan areas was to be explored. The Government spends more money for perishable subsistence than it does for nonperishable items; however, it is not feasible to stock perishable items in depots.

Consequently, they are purchased locally by many Federal hospitals and other users. The volume of purchases of nonperishable and perishable subsistence items is indicated by the following table:

*Annual volume (in millions)*

Nonperishable subsistence :	
Defense Supply Agency-----	\$330
Veterans' Administration-----	12
General Services Administration and others-----	4
Total-----	<u>346</u>
Perishable subsistence :	
Defense Supply Agency <sup>1</sup> -----	500
Veterans' Administration-----	35
Others-----	15
Total-----	<u>540</u>
Total subsistence within scope of study-----	886

<sup>1</sup> Excludes direct procurement by the armed services.

<sup>2</sup> Estimated.

At our request, the Defense Supply Agency arranged to conduct a test of consolidated procurement and distribution of perishable subsistence items in the Chicago area. A working group representing the agencies concerned was established in Chicago to evaluate the test and their report has been received. This report is now being reviewed by a Washington, D.C., coordinating group made up of representatives of the Defense Supply Agency, Veterans' Administration, General Services Administration, and Public Health Service. It is expected that final recommendations will be developed before the end of May.

Preliminary indications suggest that because of locations of certain Veterans' Administration hospitals, transportation costs, dietary requirements, and quantities consumed at specific locations, nationwide

perishable subsistence support by the Defense Supply Agency may not be economical but that area cross-servicing arrangements on certain items may prove to be a feasible and economical approach.

It would also appear that an effort to achieve greater standardization in food items as between similar types of hospitals should be undertaken immediately. However, the evaluation of the report must be completed and recommendations developed before any final determination can be made. We expect such determination to be made prior to June 30, 1965.

#### THE CIVILIAN PORTION OF THE FEDERAL CATALOG

The Federal catalog program which involves the identification and cataloging of civil agencies' items in the Federal catalog system was scheduled for completion by the end of 1965. It was expected that during 1965 all active items already existing in the civil agencies' supply systems and all new items entering the supply systems during that period would be completely identified and stock numbered.

During the past year, we continued to work closely with cataloging specialists in General Services Administration and in the principal civilian agencies in an effort to develop realistic schedules but principally to expedite the completion of the catalog. As stated last year, we are convinced that further efforts to improve supply management depends largely on whether the cataloging task can be completed promptly.

It is extremely difficult to determine the feasibility of proposals for consolidation of supply responsibility, standardization of similar or identical items, et cetera, when many agencies are not using the Federal catalog for a portion of their supplies.

However, there is now a better understanding among all agencies of the problems and procedures to be followed, and, as indicated last year, the General Services Administration developed a plan for completing the civilian portion of the catalog during fiscal year 1965. While it does not appear at this time that the goal forecast last year will be fully attained, it does appear that the catalog will be substantially completed by the close of fiscal year 1965. About 35,000 items remain.

In fiscal year 1966, all new items entering the supply systems of the civil agencies will be identified and stock numbered, and existing item identifications will be revised to reflect technological and management changes. For all practical purposes, the 35,000 items remaining at the end of fiscal year 1965 will be treated the same as new items entering the system.

Another item, Mr. Chairman, indicated in your letter, had to do with Federal hospitals.

#### IMPROVED MANAGEMENT OF HOSPITALS

Through its Hospital Branch, the Bureau of the Budget carries out a continuous program to improve the planning, operation and management of Federal hospitals and reduce the cost of providing authorized medical services. There are a number of recent examples of results that are being achieved in cooperation with the hospital operating agencies.

In the Veterans' Administration, nursing home type care is being substituted for regular hospital care for patients who no longer need intensive care. Aged veterans comprise the bulk of the long-term patient load of the Veterans' Administration. Many have improved to the point they no longer need hospital care, but, for a variety of reasons, they cannot be discharged as long as they need nursing-home-type care.

Authorization has been given to convert appropriately located existing buildings best suited for this purpose to provide 4,000 beds for nursing-home-type care. As of this date, 430 beds are in operation providing this less costly care. It is planned the balance will be in operation before the end of fiscal year 1968.

Efforts have been continued to obtain the best utilization of Federal hospitals to meet the needs of all Federal beneficiaries in a given area. Two examples of this kind of cross-servicing may be cited as illustrations.

The new 720-bed Veterans' Administration hospital at San Juan, P.R., includes provision for the medical care required by military personnel as well as veterans in the San Juan area. The plan to close seven small Public Health Service hospitals over the next several years is based on use of Veterans' Administration and military hospitals for Public Health Service patients. This will both reduce cost and make hospital care much more accessible for many seamen patients who now travel long distances to the nearest Public Health Service hospital.

We are working jointly with the agencies in the development of criteria to improve the planning of space in Federal hospitals. A study by the Army Surgeon General of medical supply storage requirements permits a reduction of 25 percent in storage space as well as improved efficiency of supply operations. Studies of requirements in Veterans' Administration hospitals for physical medicine and rehabilitation facilities have resulted in substantial savings in the planning of future hospitals. A recently completed comprehensive survey of food preparation and distribution requirements in Federal hospitals will provide a basis for improved planning of these facilities.

#### SUMMARY

The President has stated that as a Government we must get the most out of every dollar of scarce budget resources, reforming old programs and using the savings for the new programs of high priority. The sustained, Government-wide program of cost reduction and management improvement is providing much of the resources needed to finance new, needed programs.

This concludes my statement, Mr. Chairman.

I will be happy to attempt to answer any questions the committee would have.

Representative CURTIS. Thank you very much.

Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

I want to compliment you, Mr. Staats, on this very fine statement. It bears your usual succinct and informative stamp.

## CLOSING OF VETERANS' HOSPITALS

Speaking now of veterans hospitals, and I think that no issue has aroused more interest around over the country, if my mail is any indication, there is a great feeling among the people out in the areas affected that we had better take another good hard look at the closing of some of these veterans hospitals, but that is not directly a matter that you have talked about here today.

Would you care to address yourself to that at this time?

Are we going to get a review of that situation?

## REVIEW UNDERWAY

Mr. STAATS. There is a review underway, Senator, by a group chaired by former Judge Prettyman, which, I believe, is scheduled to report by the 1st of June to the President, and which is looking at the situation anew, reviewing all of the information supplied by the Veterans' Administration, and by the committee concerned, the veterans organizations and others who are interested, in an effort to provide a detailed assessment as to the basis on which this judgment was made, and what services would be provided in the event that those hospitals were to be closed. The report is due by the 1st of June, and I know that the group is staffed and underway.

Senator JORDAN. I hope the study will be detailed and thorough, and take fully into account the healing therapy of a veteran being close to his friends and relatives as part of the rehabilitation to health and productivity. This is quite an important thing, it seems to me, insofar as areas of wide reaches are involved.

When hospitals are far apart, this is of great importance, and I hope that this will be taken fully into account in the study.

Mr. Staats, how many veterans do we now have in hospitals? What hospital capacity do we have for veterans? Do you know?

Mr. STAATS. We have an authorization of 125,000 beds in total. The actual patient load at any one time, as you realize, varies. Some 4,000 of these beds have been converted for nursing home-type care, which I have indicated in my statement as being a better way of taking care of these patients, and on a basis which would cost less money.

Generally, this takes care of both service- and non-service-connected cases to the extent that the beds are available, but the 125,000-bed authorization represents the program for hospital beds that we have at the present time.

Senator JORDAN. Yes; and now action is being taken to convert 4,000 of those beds into more nursing home care, rather than the more costly hospital day-to-day care, and I think this is commendable.

Could you tell me why only 438 of the 4,000-bed goal is now presently being utilized? Is it a matter of getting the program implemented? Why is there a lag in doing this?

Mr. STAATS. Well, this has been purely a lag of getting the construction program underway, the usual budgetary and construction leadtime that is involved.

The 1966 budget anticipates that the first 2,000 nursing home beds in the Veterans' Administration will be in operation in the fiscal year 1966. The budget includes \$8,670,000 for the care of a daily average of 1,510 patients in these beds during the year.

We now estimate that in 1967, there will be an average of 1,800 patients in these first 2,000 beds—that is, 90 percent utilization—so that you can see from these figures that I am giving you here that this is being developed on a scheduled basis with the Veterans' Administration, because it actually has to be a determination, case by case, of what particular facilities will be converted, and in what locations. I think that the program is being well laid out, and I believe that we are moving about as expeditiously as we can expect to move.

Senator JORDAN. Would it be your judgment that 4,000 beds of this nature are too little, too much, or about right?

Mr. STAATS. As of now, this looks like a figure which both the committees of Congress who have been concerned with veterans' problems and the Veterans' Administration, themselves, see as a good figure.

We will obviously keep looking at it and review it annually, in connection with the budget estimate, but we have been satisfied that this is a good move, and, as of now, we think this is a good number.

Senator JORDAN. I think it is a good number, too.

I was on the Labor and Education Committee when we set that up, with quite unanimous approval over there.

#### FEDERAL CATALOG

Now, turning to another matter, the Federal catalog. You said that some agencies are not using the catalog as thoroughly as others. Would you talk on that briefly?

Mr. STAATS. If it may, I would like to suggest Mr. Mullins and Mr. Jones here might comment on that, and then I will add.

Mr. MULLINS. Well, in talking about cataloging, it is necessary to make a distinction between the identification phases of the task and the conversion or utilization of the system after the items have been identified. And, as Mr. Staats said, there still remains a little work to be done in getting the items identified.

There is a considerable amount of work yet to be done in getting the various agencies prepared actually to use it. The principal agencies involved in the remaining identification are the Bureau of Reclamation, the Alaska Railroad, Bonneville Power, a very small number of items in Post Office, and a still smaller number in Census.

I am now speaking from data that was current on the 31st of December 1964. At that time, there were a little over 67,000 items remaining. Now there are a good many other agencies that still have the task of conversion which is quite a complex task, ranging from actually getting the new numbers stamped or marked in some way on the items in stock, to the changing of the bin numbers for items that are stocked, including, also, getting the ADP system geared and programmed under the new system so that it can be used not only for picking stock and filling requisitions, but also in procurement, some phases of transportation, and some phases of excess utilization.

One of our main reasons for wanting to get the catalog system full into effect is that it is really the key tool in getting full utilization between different Federal agencies. If we don't have the catalog, the agencies are not talking the same language, so that they aren't able, really, to know whether one agency has items that another agency can use.

This is something that we have been working on for more than a decade. I think we are finally getting to the point where this big

job is done. The Department of Defense completed its identification job, several years ago and also is fully converted.

Senator JORDAN. It should represent substantial savings once the program is fully implemented, should it not?

Mr. MULLINS. Well, we certainly are betting that it will.

Senator JORDAN. Yes; I would think so.

Mr. STAATS. It kind of underlies, Senator, the whole program, because unless we have a catalog where identification is accurate and complete, then we really can't use our supply system the way it ought to be used.

Senator JORDAN. The description of an item has to mean the same to all the participating agencies.

Mr. STAATS. Exactly.

Senator JORDAN. It has to have the same connotation, the same meaning.

Mr. STAATS. Right.

Senator JORDAN. I am interested in the experiments you are conducting in the Chicago area with respect to the purchase of perishable items. Have you gone far enough with it to draw any preliminary conclusions?

Mr. STAATS. I believe nothing beyond what we have indicated in our statement, that is, it does not look like we can do this on a nationwide basis, but on a cross-servicing basis. It looks very hopeful that we can make substantial savings—not as much as we originally hoped we could do—but still worth while.

Perhaps Mr. Mullins would want to add to that.

Mr. MULLINS. I might say as a matter of interest, that one of the lessons that we learned in this study is that perishable subsistence for a hospital is not the same as perishable subsistence for a military mess, or some other food-consuming group, and a part of our problem has been that the items are different.

I had thought that hamburger would be hamburger, but hospital hamburger is not the same as the kind that other people may require.

We have all of the problems of special diets, salt-free butter, foods with special ingredients in them, sugar-free foods, and other special kinds of requirements for people who have special kinds of health problems. It begins to appear that one of the things we are going to have to do before we can really know how this will come out is to get the dieticians and doctors of the different hospitals, the Veterans' Administration and military, and so on, together to agree on some specifications and catalog identifications for perishable subsistence items specifically for hospital purposes.

Senator JORDAN. Thank you.

#### OWNING VERSUS LEASING OF ADPE

Now, turning to another matter, and I will be brief, Mr. Chairman—you addressed yourself, Mr. Staats, to the owning versus leasing of ADP equipment, and I am pleased to say that substantial progress has been made in the effective use of the machines in our hours-per-month, and in adapting it to the needs of several agencies.

Let me put it this way: We had witnesses here in the last day or two that indicated the savings in this area might be substantially greater than you have indicated here.

Are you being conservative, or how do you account for the difference?

Mr. STAATS. I am not sure that I am able fully to state the extent to which we do actually have a difference, in terms of actual estimated dollar savings potential.

The General Accounting Office has made some estimates starting from a different point of time. For example, they issued a report last year which indicated potential savings over the first 5 years of about \$100 million.

#### ESTIMATED SAVINGS

Now, as time moved on, we, as well as as the GAO, have been able to revise that estimate of saving considerably upward. We have already been able to identify savings through sharing of the use of equipment, and through purchase as against lease, of around \$200 million. So we are well beyond the estimate that was made by the General Accounting Office as recently as a year ago.

There is undoubtedly further potential for saving in this area, but it is a very complicated and complex field, because we are dealing with so many specialized types of automatic data processing equipment. Some of it is so integral a part of our weapons system and our space program, and our research programs, as to be almost inseparable from the program operation, itself. And, much of it is custom-built, in a sense, to a particular problem.

Therefore, it is very difficult to lay down ground rules which can rigidly be adhered to across the board as to when to purchase and when to lease.

#### GROUND RULES FOR ADPE

The Budget Bureau has developed, in cooperation with the agencies, ground rules in this regard. We are making good progress. As I indicated, 46 percent of our equipment is now on a purchase basis. At the end of fiscal year 1966, we expect it to be over 50 percent. We think we can move forward still beyond that point, but we don't want to leave anyone with the impression that we can move to 100 percent, because I just don't think that this is in the realm of foreseeable possibility.

#### STANDARDIZATION AND CENTRAL PROCUREMENT

In an effort to try to achieve a greater degree of standardization in this area, we have been working with the Department of Commerce, and with the Office of Science and Technology, to see if we can't do still more in the area of standardization, so we are using standard nomenclature and standardized types of systems. As we are able to develop greater standardization, working with the manufacturers, we will be able to do more by way of purchase as against lease, and we will be able to do more through central procurement. But this is not an easy thing to work out, and it is going to take time and real hard work.

Senator JORDAN. That is a fine statement.

I can appreciate the difficulties in the requirements for this sort of equipment as, say, between the space effort and commerce, and so on.

I can certainly see the need for having some resilience in the policy, whether it be leased or purchased.

Thank you very much.

#### USES OF ADPE AS ECONOMIC TOOLS

Representative CURTIS. Thank you very much, Senator. These are very good questions, and bring out some of the problems here.

I would like to pick up, if I may, on this field of ADP. I am hopeful that the Joint Economic Committee will make a special study into the potential use and the future of data-processing equipment.

There are some economists who are beginning to suggest that the dampening out of the business cycles, which we have noticed since World War II, has, as one of its main sources, the use and availability of data processing equipment. We certainly see it in the inventories in the private sector, both the raw materials or component parts that the company may have, and also in the stockpiling of the finished items they have for sale.

International Shoe people, for example, said it used to take them about 10 months to get information back on the public acceptance or nonacceptance of a new style of women's shoe. In the meantime, of course, they were continuing to produce. If the style was not accepted, they ended up with a great deal of inventory. Today, with data processing, they say they can get that information within 6 weeks.

I think this is a sufficiently big area for the Joint Economic Committee to study.

#### ANNUAL COSTS OF ADPE

Turning now to Government, our annual cost of data processing equipment was approaching a billion dollars the last time we checked. What is it now? Do you know that figure?

Mr. STAATS. These figures I will give you are fairly rough and, therefore, ought not to be regarded as being completely accurate, but if you take the automatic data processing equipment costs, both purchase and lease, running around a billion dollars a year, excluding what we call special purpose type of equipment, of which some is in highly classified use, and that would add about another billion dollars.

Representative CURTIS. Another billion.

#### THREE BILLION DOLLARS ESTIMATED ANNUAL GOVERNMENT COSTS FOR ADPE

Mr. STAATS. And then if you take a third category, which is the cost of automatic data processing equipment, on cost-type contracts, you would add approximately another billion dollars, so we are talking about, roughly, governmental costs in this area ranging in the order of magnitude of about \$3 billion a year.

#### GOVERNMENT SECTOR UTILIZES ABOUT 30 PERCENT OF TOTAL OUTLAYS FOR ADPE

That adds up to about 30 percent of the total outlays in the economy for automatic data processing equipment; so the Government sector accounts for about 30 percent of the total outlays for ADP in the economy.

Representative CURTIS. Well, I know that some manufacturers for the military, MacDonell Aircraft, for example, use this very heavily, and it comes as a cost item and, really, the Government is paying for it.

#### RATE OF GROWTH

Mr. STAATS. If I may, Congressman Curtis, just add one more figure here, to give you the rate at which this has grown——

Representative CURTIS. That is important.

Mr. STAATS (continuing). I believe my figure in 1954 is correct—we had in the total Government inventory around 17 pieces of equipment. The 1966 budget contemplates something more than 2,000 pieces of equipment, so that, roughly, in a period of 10 to 12 years, we have grown from practically nothing in this area up to more than 2,000 computers, with total outlays of a billion dollars, so that it has been a very rapidly developing area.

#### REPORT TO PRESIDENT ON MANAGEMENT OF ADP

Representative CURTIS. Yes; and, also, of course, as I know you have testified to, accounts for the complexities.

I was just reviewing your chapter 5 in the report to the President on the management of the automatic data processing in the Federal Government that you referred to on March 4, 1965, and putting down some of the problems. You have a subnote on technical improvements and this, it seems, is one of the great problems.

#### HEAVY RATE OF OBSOLESCENCE

The companies that manufacture data processing equipment are constantly innovating, and who can judge whether they are going to come up continually with vastly improved equipment, thus creating obsolescence. In other words, in this area wearing out doesn't mean anything in the field of data processing machines. It is almost all obsolescence. Wouldn't you agree?

Mr. STAATS. That is correct. I think this is really the nub of the problem that we are facing also, in how fast we move, in direction of purchases against lease, because when we purchase something which becomes obsolete, we would better not have made the purchase in the first place. It is of very little value.

Representative CURTIS. Exactly.

We need a little more education along these lines, I think, and what I would suggest, incidentally, before the committee goes further, is to have a few of the data processing companies, possibly IBM and National Cash Register, give this committee some testimony from their side of the coin. We need to have some understanding of what these problems are.

#### PRACTICES IN PRIVATE SECTOR

Let me ask just one more question relating to your increased use of purchase rather than lease: How does that compare to what is being done in the private sector? Of course, the private sector accounts for two-thirds of ADP purchases; Government purchases, one-third.

But they, too, have been heavily in the leasing end, rather than the purchasing end, and I dare say we are seeing a somewhat similar shift.

Mr. STAATS. The experience is very similar.

Perhaps Mr. Gill or Mr. Seidman would have the specific figures, but experience is really very similar on the private side.

Mr. SEIDMAN. Mr. Chairman, I think that the overall figure, the most recent one, is that in private industry, about 85 percent of the computers are leased rather than purchased. However, I have seen some recent unofficial figures on some of the large companies, and they were pretty close to the Government with respect to the percentage of purchased equipment.

Representative CURTIS. Now, is the movement—

Mr. SEIDMAN. Moving toward more purchase.

Representative CURTIS. Moving toward more purchase, and I think as innovation levels out, as it will in this area, we will see a further movement toward purchases rather than leasing, would you not say?

#### TAX SITUATION INVOLVED IN PURCHASE VERSUS LEASE OF ADPE

Mr. SEIDMAN. Yes; of course, industry has some other reasons for lease rather than purchase. It may affect their tax situation and there may be other reasons which make it desirable to lease rather than purchase.

Representative CURTIS. I thank you for mentioning that, because that is something that I have been directing to the attention of my colleagues on the Ways and Means Committee. Certainly, because of our tax laws, which are so often out of date, we don't want to produce an uneconomic kind of operation, and, yet, it matters very much in this area whether you purchase or whether you lease. I would also like to point out that the Government is paying some of the excise taxes that we levy on these machines. I hope we will eliminate that in the next month or so—the excise tax in this area.

It isn't a good income producer and it impedes accounting procedures. When you lease, I think the Government is paying the excise tax. Incidentally, I was looking to see if that were a cost factor you had put in here on this purchase or rental, because in trying to figure out what it costs the Government to rent, you might subtract the amount of excise tax you have coming back to the Federal Treasury.

Mr. SEIDMAN. The tax is foregone.

Representative CURTIS. Yes.

#### TRAINING OF PROGRAMERS

Now, going just a little bit further in this, I suspect that one of the great problems here, as it is in the private sector, is training personnel in the use of ADP, and I don't mean the operators. I mean the people who supply the input.

Mr. SEIDMAN. The programers.

Representative CURTIS. The programers.

Imbecilic input results in imbecilic output. It is very important to understand, and I well recall the president of Dartmouth College, John Dickey, telling his board of trustees that the faculty of the college had reached the conclusion that no person could be called educated in

the latter part of the 20th century who did not know the limitations and the capabilities of data processing and, therefore, all graduates of the college henceforth were going to have to know at least what input can be, what would be imbecilic, and what would be of actual value. His statement resulted in making the complete board of trustees incapable of being graduates.

I have not yet taken a course, and I still remain ignorant, although courses are available, taught by the private companies and the Government. Managers have a short course that lasts just 4 or 5 days, and some probably 10 days or better, to understand what are the possibilities; but, also, and equally important, to understand the limitations of what data processing can do.

Now, as to this training of personnel. What are we doing in a formal way and an understandable way, to have our people in Government trained in this fashion? Because most of our managers in Government are at an age that when they went to school data processing did not exist.

Mr. STAATS. This is a whole new area, and the report, itself, contemplates a stepup in the work of the Civil Service Commission in the training field.

We have here, Mr. Chairman, a directory of ADP training which has been issued by the Civil Service Commission, which outlines the available resources for training by the Federal Government in this area, and the report which you have alluded to contemplates a stepup in the work of the Civil Service Commission, and their efforts in this field.

This is a matter which was given a great deal of consideration in the Advisory Committee which assisted us in developing this report. We had members on that committee representing the insurance companies and other experts outside, and I think they all share in the feeling that unless we have an adequate training program here, that much of this investment can be wasted.

Representative CURTIS. Yes.

#### NEED FOR COST-BENEFIT ANALYSIS

Mr. STAATS. The second point I would like to emphasize that you have mentioned, is this, the important thing here is to make, you might say, a cost-benefit analysis before you make the decision to buy or lease. In other words, will you get the payoff?

#### PAYOFF MAY BE MONETARY OR IN TERMS OF EFFICIENCY

Now, the payoff may be in terms of dollars and cents, as I think we can demonstrate very clearly in some categories, such as the Veterans' Administration insurance operations, where we have been able to reduce costs in some cases by a factor of 200 to 300.

In other cases, we will be able to do things with automatic data processing that we just couldn't do before, so that, while we won't be able to demonstrate a dollars and cents savings, we will be able to carry on a program, like the Coast Guard, for example, in their search and rescue operations. They are able to do things now with automatic data-processing equipment that just were not possible before. We have to measure benefits in terms of greater saving of property and

saving of life, so both of these dimensions, I think, have to be taken into account in assessing whether we use this equipment at all.

Representative CURTIS. Well, thank you very much for that statement, Mr. Staats, because you are really developing the thing that I think must be developed; that this has got much broader and deeper dimensions than are commonly realized. That is why I started out my statement by saying there are economists who are saying that maybe this increased use of data processing is contributing to the dampening out of business cycles.

For anything this significant, whether right or wrong in theory, it behooves this committee to go into it more deeply than we have been doing in regard to the immediate cost items here, the value items, the quality things that we can now do that we never could do before.

We couldn't move in the space field, if we didn't have data-processing equipment; tracking these space objects, and so forth, is just one sample of it. So I am hopeful that we will go further.

#### POINTS OF DIFFERENCE BETWEEN BOB AND GAO

Now, one immediate thing, Mr. Campbell yesterday indicated that the General Accounting Office and the Bureau of the Budget are not in agreement on procurement and management of ADP. I can see this from the testimony and also from your report here.

I think it would be very beneficial to the committee if you would have your experts meet with the General Accounting Office experts and give this committee a short statement as to the points of your disagreement. Again, I want to emphasize that this is a matter of very honest, capable people, viewing the thing a different way, and this is the way we can probably move the dialog forward.

I would like to add to it some of the wisdom of the people in the manufacturing area, the IBM people, and others, who have the technical information available, so that you see their point of view. We are trying to get the best judgments we can in a very dynamic field.

Could you give some sort of report to the committee along those lines?

#### REPORT OF BOB-GAO DIFFERENCES

Mr. STAATS. We would be very happy to furnish you a statement because I think the matter is a very important one, and, therefore, it would be helpful to prepare a statement for the record, but I would like to say this, Mr. Chairman: The General Accounting Office has done some very fine work in this area. They have produced a total, I believe, of around 90 reports, most of them bearing on the question of purchase versus lease, in specific situations.

(Material which follows was later supplied by the Bureau of the Budget; GAO's response appears in appendix, p. 406.)

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., June 14, 1965.

HON. PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, Congress of the United States, Washington, D.C.*

DEAR MR. CHAIRMAN: In accordance with a request made at the Subcommittee on Federal Procurement and Regulation hearings, I am forwarding the enclosed description of what we believe to be the principal difference between our views and those of the Comptroller General on the acquisition of ADP equipment.

Sincerely,

ELMER B. STAATS, *Deputy Director.*

The Comptroller General of the United States and the Bureau of the Budget are deeply concerned about the same problem—"The avoidance of unnecessary costs in the acquisition of computers." There is general agreement on the importance of the problem and on the added costs that are incurred when equipment is leased when it should have been purchased. The principal difference between the Comptroller General and the Bureau of the Budget concerns the methods to be employed to avoid unnecessary costs.

#### *The position of the Comptroller General*

The Comptroller General has 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 least cost to the Government."

The Comptroller General has based his recommendation upon the following premises:

1. Rental costs of ADP equipment will equal the purchase price in 2½ to 4½ years on the average. Accordingly, if ADP equipment is utilized beyond that breakeven point considerable savings accrue to the Government when the equipment is purchased rather than leased.
2. ADP equipment has a physical life of about 10 years. However, since workloads are constantly changing and improved equipment is continually introduced, most agencies and Government contractors do not find it advisable to retain the same equipment for the full period of its physical life. Accordingly, after equipment is no longer suitable to the initial user, it should be passed on to additional users until its physical life has ended.
3. In order to assure proper consideration of all potential users throughout the physical life of equipment, procurement decisions should be made by a central authority on a Government-as-a-whole basis.

Concomitant with central decisionmaking is (a) the concept that equipment may be procured centrally and furnished to using agencies and contractors, and (b) the requirement that a central agency be authorized to direct the use of particular equipment in the Government inventory in order to protect the Government's investment.

#### *Bureau of the Budget position*

The Bureau of the Budget maintains that under the current state of the art, decisions on the procurement and utilization of data processing equipment primarily should be made by agencies using the equipment subject to (1) policy direction and guidelines centrally provided, and (2) the budget review process. Following this concept, agencies have raised their proportion of purchased equipment from 15 to nearly 50 percent, thereby saving in excess of \$200 million in rental costs without infringement upon their managerial responsibilities and without risking large sums on the expectation, but not the assurance, of second and third users. New Defense Department policies are expected to have a similar effect with regard to the use of ADP equipment by cost-reimbursement type contractors.

The Bureau of the Budget believes that making purchase decisions on a Government-as-a-whole basis involves substantial risks that could bring about severe losses of public funds and inevitably would lead to the central control of ADP equipment use and consequent derogation of agency authority.

While currently manufactured ADP equipment has a physical life of at least 10 years, it is not necessarily in the best interest of the Government to use it that long. Agencies and contractors generally have given up ADP equipment prior to the expiration of its physical life for one of the three following reasons:

1. Workload or procedures change, making equipment unsuitable.
2. Newly available equipment is more efficient and has an economic advantage sufficiently large to justify change.
3. Newly available equipment has greater capability and permits accomplishments that would be otherwise impossible.

Under current policies, if the agency believes the equipment will be useful for a period beyond the point where rentals equal the purchase price, the equipment usually is purchased. If the agency believes the equipment will not be useful for that long, the equipment usually is leased. Procuring centrally on a Government-as-a-whole basis would mean that equipment would be purchased even when the original user did not plan to retain it to the breakeven point, in the expectation that some other agency could use it.

The Bureau of the Budget believes that when the original user does not plan to use equipment to the breakeven point, the investment of a large amount of money by a central agency in the purchase of the equipment without positive assurance of subsequent use elsewhere, is tantamount to speculation and is not justified. While it is true that individual pieces of ADP equipment may be described as "general purpose," when the pieces are assembled into a set or configuration they become "special purpose." Each configuration is unique and each task that it performs is unique. To transfer the identical configuration to some other agency for some other task generally would require that agency to operate inefficiently. Accordingly, it is to be expected that substitutions or modifications of pieces will be required whenever a transfer is made.

Furthermore, the same considerations that prompt an agency to change equipment may make it inadvisable for another agency to use it. Each successive generation of equipment has been more effective and more economical to operate. Agencies must make a large investment in program development and training when any particular ADP equipment is required, and it is therefore advisable to make that investment on the most efficient and effective equipment possible.

Accordingly, it is entirely possible that no second user could be found for whom the ADP equipment to be released would be the most effective and economical equipment for his purposes. If the equipment has been purchased centrally in the expectation that a second user would be found, the Government must either suffer a loss or direct the use of the equipment by some other agency.

The Bureau of the Budget does not believe that the Government should be put in a position where the use of particular equipment must be directed in order to protect an investment. ADP equipment is not like paint and automobile tires. The majority of ADP applications and certainly the most significant ones, involve agency programs rather than housekeeping tasks. The type of equipment chosen and its availability can have an important influence over the accomplishment of agency missions. Therefore, the person responsible for mission accomplishment should have authority to make equipment decisions.

#### *The Federal program*

Agencies now make their own decisions whether to lease or to purchase computers based on their knowledge of their own situation. Policies to be followed in making these decisions were published by the Bureau of the Budget in 1961. Agency decisions are subject to review by the Bureau of the Budget in the budget review process. Additionally, the report to the President on the Management of Automatic Data Processing in the Federal Government recommended that agencies exercise caution in purchasing computers when new technology is imminent or when the Government appears to have purchased as many computers of a particular type as can be absorbed.

In addition, procedures have been established whereby leased or purchased computers which are no longer required by a using agency are transferred to another agency whenever it is advantageous to do so. Under these procedures, purchase for a second user of equipment originally leased is made when the availability of the second user is assured. Large risks are thus avoided and the penalty for not purchasing in the first place is reduced to the amount of the rental payments that cannot be applied to the purchase price.

Another procedure is the establishment of ADP sharing exchanges across the Nation whereby agencies may share their equipment with each other on a voluntary basis.

The Bureau of the Budget has stipulated that before acquiring new equipment agencies must first determine that presently installed equipment is not suitable, that interagency sharing is not feasible and that the Government inventory of excess equipment does not contain equipment appropriate to the task.

Under the foregoing policies and procedures, agencies have increased the proportion of computers purchased significantly, hours of use are rising, and used equipment is being made available to second users as appropriate. The tangible savings to the Government are of significant proportions and they have been accomplished without encroaching upon managerial authority and without unduly risking large capital investments.

With regard to cost-reimbursement type Government contracts, the Defense Department is preparing a directive that will allow contractors to exercise their own judgment about the procurement of the ADP and yet permit the Government to avoid unnecessary costs. It is anticipated that the new procedures will accommodate Comptroller General criticisms in that area without encroaching upon the contractor's managerial responsibilities. Furthermore, the Govern-

ment will be able to furnish equipment for contractor use when it can be demonstrated to be economical and efficient to do so, but without making large and unnecessary investments in equipment which becomes obsolescent rapidly.

The policies presently followed are considered suitable to the present state of the art. In this very dynamic field it appears certain that major changes will continue to take place. It is anticipated that there will be an increasing amount of jointly used facilities; that a certain proportion of ADP services will be performed centrally; that time sharing, whereby many users may utilize a single large computer from remote connections in their own offices, will be feasible; and that eventually agencies will be able to procure ADP equipment by competitive bidding against a set of specifications. As these and other changes come about, policies and procedures will be changed to accommodate them.

But the difficulty which I believe we have goes to the question of whether or not there can be a central point in Government which would make the determinations as to what the agencies' equipment needs are. In other words, in effect, setting the specifications for this type of equipment and making lease or purchase decisions. There is legislation pending in the House on this, which is of a broad nature, which is permissive, and, therefore, both of us support the legislation. The difference really goes to the question of whether or not it is possible now for, say, the General Services Administration in this area and at this stage of time, to make the central determinations based on estimates of future needs. I think that—if I understand the Comptroller General correctly—he believes that this can be done. We do not think that we have arrived at the stage where this can be done centrally at the present time.

Now, as time goes on, and as we are able to get more standardization, this may be possible. We certainly believe that we can do a great deal by way of sharing, through the General Services Administration, of equipment.

Representative CURTIS. A pooling process.

#### BOB AND GAO SUPPORT NEED FOR REVOLVING FUND

Mr. STAATS. It is a pooling process, and we, therefore, both of us, support the establishment of a revolving fund.

#### POOLING ARRANGEMENT SUCCESSFULLY TESTED

As of the present time, we see the pooling process at work, and the sharing operations, which the General Services Administration has testified on. We experimented jointly with them up in Philadelphia, and it turned out successfully, so the General Services Administration was asked to extend this concept to their study of some 13 areas, altogether. Six of them, I believe, have been put fully into operation, and the other seven are in process. I think our difference narrows down pretty much to the point which I have indicated.

Representative CURTIS. Very good, and you will prepare such a statement.

I have other questions, but I want to turn it over to my colleague, Mr. Widnall.

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Staats, as I understand your remarks with respect to computerization of inventory, one department now knows almost immediately what is in surplus inventory in another department. Is that so?

Mr. STAATS. That is right.

## FEDERAL UTILIZATION OF PROPERTY EXCESS

Representative WIDNALL. Are there any roadblocks toward the transfer of materials from one department to another?

Mr. STAATS. Mr. Mullins, would you comment on that?

Nothing comes to my mind at the moment, Congressman.

Mr. MULLINS. Well, I think maybe a bit of explanation is necessary: The Department of Defense is, I believe, the only agency that has fully automated its excess and surplus operation. That also is related to the cataloging problem that I mentioned some time ago. It is difficult to automate when the cataloging job hasn't been done yet in some of the civilian agencies.

## CENTRAL ROLE OF GSA

The central theme of this whole subject is that the General Services Administration is the orchestra leader in determining the utilization of excess property within the Government. The way it works is that any agency which has property that it doesn't need is required by law and by regulation to report that to the General Services Administration; and then it becomes the responsibility of the General Services Administration to act as a clearinghouse of information with the other agencies, so that they will know what is available, and can claim it.

Representative WIDNALL. Pardon me for interrupting you at this moment.

What time lag is there between the finding of the surplus and the reporting of it? Is it done on a 6-months' basis, or a 9-months' basis, yearly basis?

Mr. MULLINS. No. The identification of the excess property is a continuing process. It happens every day, and, well, essentially, it is a byproduct of the analysis of inventory levels. When a stock manager looks at how his stock compares with what the requirements are going to be, it is at that time that he becomes aware, that he has too much of it. If old, used material has come back into stock, he becomes aware of that. So this is a continuing kind of a process.

As to the time scheduling, there is a very tight, clearly defined schedule as to the length of time that each agency is allowed to review the lists of available excess, and to put in a claim for any items wanted. And, after that date has been reached, in most instances, the property automatically changes from its status as excess property, to that of surplus property—the distinction being that surplus property is property that no one in the Federal Government needs, whereas excess property is that which is not needed by the agencies that happen to have it.

After the automatic release date is reached, as it is called, then the property is surplus, which means that it becomes available either for donation for education, public health, and other types of purposes, as provided by law, or for sale. Then it is put in a sales catalog listing, and advertised, bids received, and sale consummated.

Representative WIDNALL. I see.

## USE OF COMPUTERS IN R. &amp; D.

Now in the research and development field, I have just been reading about the scientific and technical information now being computerized

to the point where if you can tell who is currently working out a problem where and with whose financial support, and this is available readily.

Is there any attempt to analyze the findings of the reports by computers, so that he could know immediately what has been done in the field, what has been proven or disproven, and what the best methods appear to be in approaching the solution of a problem?

#### APPLICATION TO WATER POLLUTION PROBLEM

I have in mind right now water pollution, where the Congress in its wisdom is going to pass a very substantial bill to try to help solve a lot of problems that exist in the United States today. And a major part of the water pollution problem involves the use of disposal plants.

Statements have been made to me that about all the research and development has been done in this field. It is possible the trouble is, nobody uses it. They are still using obsolete methods for treatment, and we are building 15- to 20-percent efficient plants, where other means are available and can be used.

Now has any attempt been made in Government to computerize an analysis of the findings, and what is available, what is proven and disproven, what is obsolete, along that line?

Mr. STAATS. There is a great deal of work going on. I would like to check this and furnish something for you for the record, because I am not sure I can fully answer your question.

(The following information was later supplied:)

Computers are being widely used in the processing of water quality data and the results are available to aid in the construction of pilot plants of a development and demonstration nature. Local jurisdictions are reluctant to invest in new types of facilities until they have been thoroughly tested and plans are underway in the Department of Health, Education, and Welfare to expedite this process.

In addition, computers are being employed in the design of river basin systems. The combination of data on streamflow, waste treatment plants, and other factors are being thoroughly analyzed through the use of computers.

My impression is that we have not yet been able to develop the data information system to the point where we can do much more than identify who is working on a problem, the subject matter that is involved. Now, whether we can extend this to include results and findings, conclusions, that type of information, I think is in the future. It is a fairly recent effort that we are talking about here.

#### CAPTURING AVAILABLE DATA FOR CURRENT USE

Representative WIDNALL. Well, I think it is a very valuable effort you are making, but it is just beginning to scratch the surface, as we still can run into situations where you continue research and development in fields for maybe 3 or 4 years without having the information that research has already been completed on a subject, and the finding is already there.

Mr. STAATS. That is right. We have made an advance if we can simply tell the researcher who has worked on the same problem, so that he can identify him and directly contact him, and work with him. That is an important development and we may be able to move this further.

Because I am not sure I am completely current on this, I would like to add to my statement for the record.

The Science Information Exchange is a cooperative effort now administered through the Smithsonian Institution. The Science Information Exchange pioneered in the effort to provide at a central point information about who is currently doing what research in various scientific areas. The Exchange has built up a competent staff and makes its chief contribution in the general area of the biological or life sciences.

#### USE OF ADP IN REGULATORY WORK

There are other areas, if I can comment a bit more broadly, going back to part of what Congressman Curtis was talking about, where the use of automatic data processing equipment opens up other areas. For example, we have now a study, financed out of the President's management improvement fund, where we think it will be possible to assist the regulatory agencies in identifying all of the cases that bear on a given regulatory subject, and all of the research that has been done on that subject, so that if a case comes in, instead of its being a laborious library and case-finding research project, we will be able to run it through the computer and narrow it down to the few cases that bear on that subject.

This is in process at the present time, with ICC, Federal Trade Commission, the FCC, all the regulatory agencies that deal on a case-by-case basis.

#### USE IN FOREIGN AFFAIRS FIELDS

Similarly, we feel it is possible in the foreign affairs field to identify the previous cables and communications on a given subject, so that we are able to move much more rapidly, and with full knowledge of all that the particular pieces of paper or reports bear on a given problem, and the Budget Bureau, working with the State Department, AID, and the U.S. Information Agency and other various agencies in the foreign affairs field, have a study going on in this area at the present time, as well.

I am simply saying that the point we are talking about in the research and development field also has applications in other fields, as well, where we will be able to save time and money, and hopefully, do a better job.

#### USE IN MEDICAL FIELD

Representative WIDNALL. Is this also being done in the medical field?

Mr. STAATS. Yes.

Representative WIDNALL. With the findings through Government research?

Mr. STAATS. Yes. This is done through the National Library of Medicine. The National Institutes of Health is working in this field. I don't know whether to refer to the specific area of water pollution. I do not know whether they have done anything at all in this area.

Representative WIDNALL. I would suggest it is an area that would bear looking into.

Mr. Chairman, I ask permission for Mr. Staats to amplify his remarks in the record.

Representative CURTIS. Yes; without objection.

(The Bureau of the Budget subsequently informed the committee that there is no information available from NIH on this subject.)

#### USE IN BUDGET PROCESS

Representative CURTIS. One point—one question from the audience which I would appreciate very much. What is the Bureau of the Budget doing to apply ADP potential uses to budget preparations and control? I think it should be in the record, but if you would just state it briefly.

Mr. STAATS. That is a good question, Mr. Chairman, and one which we have been wrestling with.

We made our first effort, actually, for the 1966 budget. It is not fully implemented. We hope to do so in connection with the 1967 budget.

We have encountered some difficulties, as you might guess we would, in our maiden voyage in this area, but we think it does have application in this area. I know that this is part of the thinking of the joint House-Senate study in the suggested legislation, a study which is underway or getting underway at the present time.

I know Senator Monroney hopes that they can look into the use of automatic data processing equipment as applied to the legislative budget review functions that the Congress performs. Of course, if that is to be done, then it obviously has to tie back into the system that the executive branch would develop, so that our data would be on the same basis.

Representative CURTIS. As a member of that committee, I can assure you we are looking at it.

Mr. STAATS. We think this is a very profitable area to study. We think it is going to be very, very difficult to bring about.

Representative CURTIS. Our chief of staff of the committee was just saying to me that Congress, itself, had almost reached the point, and, indeed, I think we have, where we are going to have to use computers just to find out what we are doing.

Mr. STAATS. We, of course, rely heavily upon the data developed through automatic data processing in our own budget review. For example, in developing statistics on productivity, increases in output in different types of operations, ADP is really essential to developing this kind of information, which we use heavily, but I think your question had to do more with the budget process, per se.

Representative CURTIS. That is true. Yes.

Well, I have one other detail on this, which has almost answered itself. You were talking about the fact that some of our agencies were still not using the Federal catalog. Regarding the question of input, isn't it true that if they don't utilize these standardizations where they make sense, like the Federal catalog, we limit the potential considerably of ADP?

Mr. STAATS. I would agree; yes.

Representative CURTIS. I hope we can get those agencies that are not using the Federal catalog to do so. Maybe there are some instances

where they can't. I don't know. Is that part of the problem? Are there some, or is it just a problem of catching up?

Mr. MULLINS. It is more of a problem of getting the catalog into existence.

You see, we haven't really identified all of the items yet. Then, as I said, we do have the separate problem of utilizing it, and getting all of these other steps taken, so that it is all in the ADP systems, and—

Representative CURTIS. Let me ask this: Are the agencies that aren't using it the ones that have been laggard in identifying the items that would go in? Is it the same group, or is there a different group?

Mr. MULLINS. Well, no. I would say that it is mostly spot kinds of problems. For example, one of the things that we did get accomplished, one of the pluses in this area, is that the Federal Aviation Agency got its catalog completed during this past year—both the identification and the utilization.

Now, that was a tough one, because of the nature of the items that they have. Electronic parts, all of the specialized kinds of information that go into their programs. As I say, the major remaining area for identification is in the Bureau of Reclamation, but I did not want to imply that that was because of some dragging of feet. It is a technical problem.

#### PERISHABLE AND NONPERISHABLE ITEMS

Representative CURTIS. No. I used the phrase "laggard" or dragging feet. That was my comment. I know it wasn't yours.

Now, one other detail that relates directly to this: When you were talking about perishable items versus nonperishables, as always the thought came to my mind as to the line of demarcation between perishable and nonperishable items. Of course, every item in the long run is probably perishable. We apply shelf time—I guess that is the figure of speech—to those that are so-called nonperishable.

Would you just briefly develop, if you would, how you have distinguished and who has done the distinguishing between that which is perishable and that which is nonperishable? And whether you relate shelf time to nonperishable?

Mr. STAATS. If I may, if I could ask Mr. Mullins again.

Representative CURTIS. Surely.

Mr. MULLINS. Well, one of the biggest categories in the perishable area is anything that has to be frozen in order to keep. In other words, if it is frozen vegetables.

Representative CURTIS. How about canned?

Mr. MULLINS. If it is canned, it is not perishable.

Representative CURTIS. And, yet, canned items are. I remember the famous hamburger hearings which I participated in a number of years ago. They were emergency rations, and they were canned, but I think the lifetime was 4 years, and what they weren't doing was rotating them out. They were very expensive hamburger, but they just let them sit 4 years and then junked them. If they had after a period of time rotated it through the general mess, and utilized it, it would have been much safer. That is why I wanted to develop this.

Mr. MULLINS. Yes. Essentially, it is fresh fruits, fresh vegetables, fresh meats, and frozen.

Representative CURTIS. And how about drugs? Because you get into this other category. I am sure you have a lot of drugs that are perishable, for example.

Mr. MULLINS. Yes. Of course, that would not be classed as a subsistence item.

Representative CURTIS. No. I didn't say subsistence, and I didn't think you said subsistence.

Were you just talking about subsistence?

Mr. MULLINS. Yes, sir.

Representative CURTIS. Oh, I beg your pardon.

It is perishable subsistence?

Mr. MULLINS. However, the point you made is applicable to drugs. It is the same kind of a problem. And it is true that the word "perishable" is a relative term. You can have a perishable monkey wrench if it is kept in stock long enough.

Representative CURTIS. Well, some tools actually are for the purpose of almost the throwaway, after they are used. It might be well if we did get better nomenclature here. I don't know. Because this is a spectrum.

You probably have some items like gold, for example. It certainly isn't the fact that the gold perishes that diminishes our gold. It is other items, other factors. But wheat, which we store, we find is perishable. Each one has its own lifetime.

Mr. STAATS. For operational purposes, there certainly needs to be more than two categories.

Representative CURTIS. That is right, and as we get into data processing, perhaps we ought to develop a kind of spectrum indicating those that have only a very short lifetime. Some things, I guess, have a lifetime of 2 or 3 months. Milk has a lifetime of about a day or so.

Mr. MULLINS. The term was used for the purposes of this special test, to distinguish those items which we thought it would pay to keep in stock in a central depot, such as canned goods and things of that nature.

Representative CURTIS. Oh, no. I wasn't quarreling with that.

Mr. MULLINS. As compared to those items where they were so perishable that it didn't pay to central stock them. You had to buy them and take them directly to the point of consumption, rather than keeping them in a depot somewhere. That is essentially the distinction that existed for the purposes of this test.

Representative CURTIS. No. I wasn't quarreling with that. In fact, I commend that. I was going to try to expand the area a bit, because I would like to emphasize that the Joint Economic Committee is not a legislative committee. Our concern with the details is only as they relate to a very broad overall picture, and so, when you give these details which are so important, I would like to relate them back to the problems that exist in a very general area, and we have now done that.

#### STORAGE OF FOODSTUFFS

Mr. MULLINS. Your point is well taken, because a number of years ago, in a survey that Mr. Ward, as a matter of fact, started, it was found that types of food which we now consider to be perishable were being kept in depots, and one of the improvements is that that doesn't happen any more.

Representative CURTIS. That's right.

I remember in the old Bonner committee, with Mr. Ward, and the flashlight batteries. We found a lot of them stored, beautifully stored. They weren't worth anything except for junk.

#### GOVERNMENT IN-HOUSE VERSUS CONTRACTED-OUT ACTIVITIES

Now, I have a few other specifics.

One is in the accounting methods used in trying to evaluate whether Government does something in-house, or contracts it out, which is a very basic problem. Whether it is military or elsewhere, I have been disturbed to find that there doesn't seem to be an allowance for paying local taxes; that, of course, the private sector must do.

#### ALLOWANCE FOR TAXES

Certainly, when a military installation or Government installation is in a certain area, it gets the benefit of police protection, fire protection, sewers, and all that community taxes go to pay for; yet, we haven't, to some degree, developed a legal system of tax payment. In the various cost accountings that I have seen in most areas, this is an item that is left out.

I have talked to the General Accounting Office at great length on this, and I think that there is some dispute within that organization, itself. I think I have got the support of the higher-ups, but I haven't been able to get the point down the line.

Would you comment briefly on this, and possibly supply a statement, not necessarily for this record, but a statement for the committee on this problem?

Off the record.

(Discussion off the record.)

Representative CURTIS. On the record, now.

#### POLICY ON THE GOVERNMENT'S COMMERCIAL-INDUSTRIAL ACTIVITIES

Mr. STAATS. Mr. Chairman, the specific question that you have raised is, of course, related to the broader problem of the policy criteria that are applied in making a decision as to whether you can carry on a commercial or an industrial type activity, and I believe that is what your question was limited to.

Representative CURTIS. Yes; or a service or a product, too.

Mr. STAATS. Whether it carries that on directly or whether it contracts out for it.

Representative CURTIS. Yes.

#### DETERMINING TRUE GOVERNMENT COSTS, OVERHEAD, ETC.

Mr. STAATS. We have been working principally on the question of trying to develop the cost basis for determining what true Government costs are, and this has been very difficult—as to, for example, how much you include for overhead, or whether you include in overhead an amount to carry the same total costs as a private corporation has to pay, in which case you would include in an allowance for cost of Congress, and the judiciary, and the Civil Service Commission, Budget Bureau, and all of the central agencies of Government.

## DIFFICULTIES IN SETTING STANDARDS

The difficulty here is whether or not we go beyond what we might regard as true costs of Government, in performing or carrying out a particular activity. Whether we include all of the costs that are incurred by private enterprise, if it produced the same item.

The reason it gets very complicated is whether or not, for example, would we be able to know in advance what State and local taxes are involved? We are dealing with, say, a prime contractor who may have subcontractors unknown at the time the prime contract is let.

## IN-LIEU PAYMENTS BY THE GOVERNMENT

We also bring in, as you have mentioned, one other factor, what offset do you take for the fact that the Government itself, provides in-lieu payments?

Representative CURTIS. Some of them are actually just that way. I think they actually formalize and figure out what they would be on the assessor's books.

## IMPACTED AID-TO-SCHOOL PROGRAM

Mr. STAATS. Right; and we have, of course, the impacted aid-to-school program.

Representative CURTIS. That is what I was thinking of.

## SHARED REVENUES

Mr. STAATS. And we have shared revenues in many cases, such as in the Oregon and California lands.

## TVA MAKES IN-LIEU PAYMENTS

The TVA actually makes in-lieu payments to the communities.

Representative CURTIS. In lieu of taxes; that's right.

Mr. STAATS. It becomes a very complicated matter on both sides, of ascertaining what these costs are at the time the contract is let, as well as how we take the offset for the fact that the Government, itself, in making certain types of payments in recognition of the fact that it has an impact on an area.

## CONCLUSION NOT YET REACHED

But, we have not reached any conclusion yet. We have been struggling with this central problem.

## GOVERNMENT OWNERSHIP VERSUS LEASING BUILDINGS

Representative CURTIS. Well, I appreciate it, and I will be looking forward to this report. This, to me, is one of the most important things. When you mentioned the impacted school areas, there is no question that when Government moves in and does something itself, and actually occupies a building we have got, to use another illustration, in the Post Office, the lease-purchase kind of thing versus direct purchase. If the Government directly purchases, and builds a post office, that is out of the tax base, but a lease purchase is in the tax base, and relating it just to local taxes rather than State, the property tax is certainly related to specific services, and I mentioned some:

police and fire protection, sewers, water, and so forth. So I think if we just direct attention to that one relatively simple area, we might have some progress.

#### GOVERNMENT-OWNED COMMUNICATIONS SYSTEM

This has been brought to my attention in a recent discussion with the Federal Government in regard to communications, as to whether a communications system should be set up by the Federal Government, or whether they should utilize the present telephone companies. In these conversations, one issue arose whether there shouldn't be an allowance for this in lieu of local taxes. In fact the private utilities are one of our great producers of local revenues, through the real property tax.

#### DEFINITION OF COSTS

Mr. STAATS. Part of the difficulty, Mr. Chairman, to date, has been that there has not been spelled out specifically the criteria with respect to Federal costs, direct costs, such as depreciation, such as Federal taxes foregone, such as the maintenance and operation, interest costs. These kinds of things have not been spelled out in precise enough terms to permit us to determine on a consistent uniform across-the-board basis what it actually costs the Government out of pocket.

Representative CURTIS. Well, maybe with our data processing, we will reach this point.

#### TRANSFER OF MANAGEMENT OF PAINT AND HANDTOOLS FROM DSA TO GSA

If I may move on. The management of paint and handtools has now been transferred from the Defense Supply Agency to the General Services Administration, with your approval, and I know this committee is very pleased with that result. Now, having done it, we want to be sure that we continue to check into the reliability of the requirements determinations, and other factors that are of importance to this program, and I wonder if you would check into that, and report to the committee on this? I think we want to follow this a little bit.

Mr. STAATS. You would like a statement from the Bureau on this point?

Representative CURTIS. Yes.  
(The statement follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., June 8, 1965.

HON. PAUL H. DOUGLAS,

*Chairman, Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, U.S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: At your request, we have looked into the transfer of management responsibilities for paint and handtools from the Department of Defense to GSA. These transfers were effected on October 1, 1963, for paint and on January 1, 1964, for handtools.

Through March 31, 1965, DOD transferred \$63.3 million in inventories to GSA ownership. Some of this inventory remains in Defense storage facilities under GSA control, and will be removed as GSA directs. There remain some relatively small residual inventories to be transferred. Work is going forward on this.

With respect to personnel and operating funds, transfers were made from Defense to GSA for fiscal year 1964 to cover functions to be assumed for part of

that year. For fiscal year 1965, the first full year in which the transfer was effective, the appropriation requests for Defense were reduced by \$5,294,000 and average authorized employment was reduced by 700. In assuming these functions, GSA employment increased by approximately 500.

A number of operating problems were encountered as GSA assumed its new responsibilities. This is inevitable when shifts of this magnitude are made, leaving a great many day-to-day details to be worked out. We have looked into these matters with personnel of GSA, DSA, and the military services. We find that these problems have been approached in a spirit of cooperation, and they appear to have been largely resolved.

In summary, we find that these transfers have gone forward substantially as planned, and that the remaining details are being cleaned up through the cooperative efforts of the agencies concerned.

Sincerely,

ELMER B. STAATS,  
*Deputy Director.*

#### METEOROLOGICAL RESEARCH—DELAY IN APPLYING TECHNOLOGY

Now, this next issue we have had some questions on. In this area of meteorological research, and this is brought to point because of the recent disastrous tornadoes in the Midwest. Some of the newspapers in my State and others have blamed the Weather Bureau for failures in warning, and so forth. And the question is whether we have been derelict in not moving faster to apply the technology that we now have and abilities to do that, and is disorganization part of this problem?

Senator Douglas raised the weather research point 2 years ago.

Do you have anything that you could give us at this time or could supply for the record as to the development in this area?

#### THE FEDERAL PLAN FOR SERVICES AND RESEARCH

Mr. STAATS. I believe we have supplied the Budget Bureau directive on this, and, as I have indicated in my statement, there has now been established what is called the Federal plan for meteorological services and supporting research.

#### A COORDINATED PROGRAM

For the first time, we have what we feel is a truly coordinated program of all the agencies, both the research agencies and the user agencies, in the field of meteorological services and research.

#### PROBLEM OF OPERATIONAL NEEDS VERSUS DUPLICATION

We have been very much concerned about this area, because it has been a tough management problem. A number of agencies have operational needs for weather data. The question really is how we can more effectively relate their efforts and prevent duplication, and particularly in doing the kind of research which would enable us to do the forecasting and the forewarning that you referred to in your question.

#### CONGRESSIONAL UNDERSTANDING NEEDED

We are very pleased at the progress we are making, but we are not going to stop where we are. We think that this is a good first effort. It is going to mean that in some cases, we are going to need an understanding in the Congress, because it will mean shifting appropriations in some cases, from one agency to another.

Representative CURTIS. Yes.

Mr. STAATS. But we are pursuing that. We have written letters to the appropriate subcommittees of the Congress. I do not know whether you have seen this report or not. We would be happy to give you a copy—

Representative CURTIS. No; I have not.

Mr. STAATS (continuing). Or furnish you additional copies, if you like.

Representative CURTIS. Maybe you could furnish to the committee copies, and then if we need additional copies, we would like to have them.<sup>1</sup>

Mr. STAATS. But you will be interested, I think, Mr. Chairman, that the growth of expenditures in this program contemplates a considerable increase from 1965 to 1966—I am sorry. I thought I had figures going back further than that, but there have been sizable increases in expenditures in this area, worked out on a coordinated basis. The science adviser has been very helpful in this area in giving us good help, but we recognize that there is more investment here.

Representative CURTIS. No question of the tremendous economic savings that can come as a result of being able to forewarn in this area to minimize damages. First, we are getting to the point now where Mark Twain said, "Everybody talks about the weather, but nobody does anything about it," Congress is now in a position where maybe we can do something about it, and that is an area I thought we never could do much about, but now we receive complaints, because maybe we have reached the point in our society where we can do something about the weather.

#### TRANSFER OF SURPLUS SALES FROM DSA TO GSA

Has the decision been made to transfer surplus property sales from the Department of Defense, and the Defense Supply Agency, to the General Services Administration? What is the status, and what problems might there be?

#### BOB OUTLINED CONDITIONS TO GSA

Mr. STAATS. I would be glad to answer that question.

We have written a letter to the General Services Administration, indicating that we felt that additional study needed to be given to this matter, before final action is taken to be sure that this will result in economies. We wrote this letter on November 24, to Mr. Boutin, at that time Administrator of General Services, in which we indicated that we felt the studies should proceed further to provide for three things:

One, an agreement with the Department of Defense setting forth the timing of steps to be taken, and a phased plan, covering the transition period during which General Services Administration would assume the disposal function.

Second, an agreement with the Defense Department on the method of handling the functions assumed by the General Services Adminis-

<sup>1</sup> A copy of the Weather Study compiled by the Bureau of the Budget and subsequently supplied to the Joint Economic Committee is now in the committee files.

tration, and the legality of such an agreement, pending an act of legislation which either would extend the General Services Administration authority to defray the cost of disposals out of returns from such disposals or otherwise provide an acceptable permanent authority financing the disposal functions in General Services Administration. In other words, the legal situation is not entirely clear at the moment.

Finally, and most importantly, certain figures to be provided by the General Services Administration that barring unforeseen contingencies, the assumption of the disposal function by the General Services Administration that barring unforeseen contingencies, the assumption of the disposal function by the General Services Administration would not require appropriations of additional funds to the General Services Administration in the fiscal year 1965 or 1966, or require an increase in its manpower ceilings by more than the number of personnel transferred from the Defense Department to the General Services Administration.

#### POSTWAR HISTORY OF SURPLUS SALES FUNCTION

The reason, Mr. Chairman, that we have wanted to proceed here with extra care is that following World War II, we went through an experience with the central sales operation in the War Assets Administration. I think the consensus of the Congress and the executive branch was that we could achieve substantial economies if we utilized military personnel to help in the disposal of property largely generated in the Department of Defense.

And, so we moved in that direction and the War Assets Administration was abolished.

With the enactment of the Federal Property and Administrative Services Act in 1949, the overall authority with respect to policy here is clearly, I think, in the General Services Administration, and properly so. We have been uncertain that we could demonstrate, and we did not feel that the demonstration has been made to date, that transfer of the sales offices would result in an economy.

Now, the other side of it is whether or not we would realize more on sales. In other words, whether, in addition to administrative costs, there was the other element of cost, as far as Government is concerned, whether we would realize more on returns on sales?

Representative CURTIS. Yes.

Mr. STAATS. We are inclined to think that this factor is, of itself, not likely to be significantly different one way or the other.

We believe that if adequate presentation can be made on these three points, that the transfer should go ahead.

Representative CURTIS. Yes.

Well, I hope that you will keep the committee informed. Will you, as this develops?

Mr. STAATS. Yes. We will be happy to have the committee have a copy of our November 24 letter, if you do not already have it.

Representative CURTIS. Yes, because this is something we are following very closely, and we are most anxious to see a determination reached.

(Letter of November 24, referred to above, follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., November 24, 1964.

HON. BERNARD L. BOUTIN,  
Administrator of General Services,  
Washington, D.C.

DEAR MR. BOUTIN: This will constitute the Bureau's formal acknowledgment to your letters of November 3, 9, and 13, 1964, and the conversations between you and Mr. Roger W. Jones concerning those letters.

The principal reservation which the Bureau of the Budget has had about the proposal for GSA to take over disposal of Department of Defense surplus personal property has been whether it would result in either cost benefits or increased sales returns sufficient to justify so important a shift in operating responsibilities. Nevertheless, the Bureau will interpose no further objection to the proposed transfer of the disposal function upon condition that the following documentation is supplied to us in advance of action to set the transfer in motion:

1. An agreement with the Department of Defense setting forth the timing of steps to be taken in a phased plan covering the transition period during which GSA will assume the disposal function.

2. An agreement with the Department of Defense on the method of handling the financing of the functions assumed by GSA, and the legality of such agreement, pending enactment of legislation which either will extend to GSA authority to defray the cost of disposals out of returns from such disposals or otherwise provide acceptable permanent authority for financing the disposal function in GSA.

3. Certification by GSA that, barring unforeseen contingencies, the assumption of the disposal function by GSA will not require appropriation of additional funds to GSA in the fiscal years 1965 and 1966, or require an increase in its manpower ceilings by more than the number of any personnel transferred from the Department of Defense to GSA.

We believe that the foregoing agreements and certification will be necessary as a basis for presentation of testimony by all three agencies to the interested committees of the Congress during the next session of the Congress.

A copy of this letter is being sent to Assistant Secretary of Defense Thomas D. Morris.

Sincerely,

ELMER B. STAATS,  
Deputy Director.

---

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., June 11, 1965.

HON. PAUL H. DOUGLAS,  
Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR SENATOR DOUGLAS: Your letter of May 3, 1965, requested additional information concerning the status of plans for transferring the surplus personal property sales offices from the Department of Defense to the General Services Administration. Our response, dated May 24, 1965, stated that we had asked the Administrator of General Services to furnish information concerning legal aspects of the proposal and its effects on manpower and cost controls and that we understood no action would be taken until we had received the assurances requested.

We have now received a response to our request in which the Administrator has announced that plans for the proposed transfer will be abandoned and that the DOD has concurred in this decision. Enclosed is a copy of the letter announcing this decision.

We believe the Administrator is justified in this decision in view of the legal difficulties and uncertainties concerning possible benefits of transferring the sales offices. We also agree that his decision clears the way for an intensive

effort to improve the management of surplus property throughout the Government and we intend to give strong support to such a program.

Sincerely,

ELMER B. STAATS,  
*Deputy Director.*

---

GENERAL SERVICES ADMINISTRATION,  
*Washington, D.C., May 27, 1965.*

Hon. ELMER B. STAATS,  
*Deputy Director,  
Bureau of the Budget,  
Washington, D.C.*

DEAR MR. STAATS: Your letter dated November 24, 1964, advised that the Bureau will interpose no further objection to the proposed transfer of the surplus personal property disposal function from Department of Defense to General Services Administration, subject to certain conditions set forth therein.

Since that date DOD/DSA and GSA representatives have been working together in an effort to meet the stated conditions.

However, during the same period, I have carefully reconsidered the entire proposal in view of reservations expressed in your letter as to whether this important shift in operating responsibilities will result either in cost benefits or increased sales return sufficient to justify the change. The projections of cost benefits and sales return increases expected to result from the proposed change necessarily are, to some extent, conjectural, and it is reasonable to assume that at least most of the potential improvements could be achieved without a transfer of the function.

Of more immediate concern, our negotiations recently have become stalemated regarding " \* \* \* the method of handling the financing of the functions assumed by GSA, and the legality of such agreement, pending enactment of legislation which either will extend to GSA authority to defray the cost of disposals out of returns from such disposals or otherwise provide acceptable permanent authority for financing the disposal function in GSA," condition 2 of your November 24 letter.

As you know: first, the current DOD authority to reimburse sales expenses out of proceeds stems from section 511 of the Department of Defense Appropriation Act of 1965. A similar provision has been contained in DOI appropriation acts for prior years. Secondly, the annual funding authorization of DOD also makes sales proceeds available to DOD for "expenses involved in the preparation for disposal \* \* \* of military supplies, equipment, and material \* \* \*" and for other purposes, none of which functions are proposed for transfer to GSA under the current plan for the reason that they are so closely related to and inherently so much a part of the military logistics and supply management and maintenance functions that they cannot readily be separated therefrom. Therefore, the continued availability of sales proceeds to the DOD to finance these retained functions would remain a continuing requirement, not only during the sales function transitional period, but permanently thereafter. For reasons which are regarded as significant, DOD feels that efforts by GSA to obtain its own permanent authority to utilize sales proceeds or other satisfactory financing arrangements for financing the DOD sales function would unwisely and unnecessarily prejudice their existing financing arrangements.

Although DOD would be willing to work out continuing arrangements for financing our sales functions on a reimbursable basis under their existing authority, both Bureau and GSA counsel now question the legality of such an arrangement on a continuing as distinguished from a transitional basis.

For the foregoing reasons we have agreed with DOD that plans to transfer the surplus personal property sales function to GSA will be abandoned. In lieu of such transfer GSA and DOD/DSA will work more closely together in the future for the purpose of realizing, under existing assignments of responsibilities, such cost reductions and increased sales returns as are available. GSA expects henceforth to place greater emphasis on the performance of its management assistance responsibility in this area.

I have reviewed this matter with Assistant Secretary of Defense Ignatius who also has reviewed this letter and has authorized me to advise you that we are in complete accord concerning the matter.

Sincerely yours,

LAWSON B. KNOTT, Jr.,  
*Acting Administrator.*

## USE OF CATALOG TO REDUCE LOSS OF SHORT-SHELF-LIFE ITEMS

Representative CURTIS. I am going to revert a bit back here.

Is the Department of Defense fully using its catalog internally to reduce to a minimum the loss in short shelf and other items? In other words, do they have full inventory control and matching of requirements and stock?

Mr. MULLINS. Well, on short-shelf items, I think this is one of the examples that you mentioned where the machine isn't what does it. It is the judgment of the person who programs something into the machine that determines first, whether the item was a short-shelf item, or where it is necessary to change the quantity that you would otherwise buy for economic reasons, because of the perishability of the item. That has to get into the program of an ADP system before the problem can be handled from an ADP standpoint.

However, this problem of short-shelf life items is a very old one. It existed long before we ever got into the present phases of ADP systems. Every merchandising organization in the country really has this same problem. Some of them are able to solve it by putting things in the bargain basement, or by some other disposal means that may not be available to the Government. But it is not limited to the Government. We have instances showing up in the surplus property which is one of the easiest places to detect a problem of this kind, when you find surplus property that isn't fit to use, or that can't be used for its intended purpose, because it has been in stock too long.

Examples that cross my mind are the very large Government stock of rubber heels, many millions of them, containing rubber so brittle that they couldn't be used; adhesive tape that was so old that it wouldn't stick any more. There are many kinds of items of this kind, items that have rubber in them. I recall a large quantity of automobile fan belts, that had been in stock too long. Also leather items, and other things, as was pointed out by the Comptroller General. This is especially true in medical and drug items.

I think rather than pinning this problem to an ADP system, I would say that the emphasis has to be on greater care in the identifying of those items and in realistically determining what the proper shelf life on them is.

I have not yet read the new report which I believe is being reviewed on this, so I don't know what the new findings are.

Mr. STAATS. Perhaps Mr. Miller might have some additional comments on this point.

Mr. MILLER. Well, generally the cataloging, itself, which just provides an 11-digit stock number would not itself help us too much on this. This number merely identifies the item without regard to what kind of an item it is in terms of short shelf life or similar factors.

Representative CURTIS. It would not identify that.

Mr. MILLER. No.

Representative CURTIS. Would it be—of course, I hate to complicate your system even further, but is this important enough that—

## USE OF SPECIAL CODES IN SUPPLY

Mr. MILLER. When the cataloging program was adopted, Mr. Chairman, there was quite a series of discussions as to whether the Federal item identification number, the last seven digits of the stock

number should be significant, so-called, or whether it should be non-significant. For a number of reasons, it was decided that it should be nonsignificant, so these numbers are just assigned serially. We may have a number 1 digit removed from another, one might be a part of an aircraft carrier, and the other one might be a jar of olives. They are not significant.

The catalog is supplemented with special codes which are used both in storage, and requisitioning and distribution. The Navy calls these MARC codes, or special material control codes; the Air Force calls them Technical Orders Compliance (TOC) codes. These indicate whether an item has short shelf life, like film, for example. On these items we frequently get into trouble when we have demand surges, because we simply can't buy enough to meet these surges, owing to its short shelf life. If we buy enough to cover the surges we are going to have a great deal of spoilage.

We have other series of codes that indicate that items require special types of storage. Some are toxic, or dangerous. Others may be classified under the Atomic Energy Act, something of this sort, so we have security-type codes, also. These codes generally are programed into the computer, so that they can be used automatically in the requirements process and in the distribution process.

We know that when we get a requisition for a certain type of item, it must be checked before it is issued. Other types of items can be issued automatically. We know that we have to put strict limitations on the quantities we buy of certain types, but these are more or less supplements to the cataloging system. These coding systems are getting more uniform, but they are not a part of the cataloging system itself.

Representative CURTIS. Well, that is very helpful.

The Comptroller General sent a letter to the subcommittee on April 2, 1965, which is printed in our materials prepared for these hearings, which further discusses this, and if you would like to make additional comments for the record, I would appreciate it.

That is all I have. Mr. Ward, would you like to ask any further questions?

Mr. WARD. I don't believe so; thank you.

Representative CURTIS. Thank you very much.

Mr. WARD. This is the end of the hearing. Approval is requested to put all related matters, letters, and so on, into the record. That is all.

Representative CURTIS. Without objection this will be done. Thank you.

Mr. STAATS. Thank you very much, Mr. Chairman.

(Whereupon, at 11:55 a.m., the hearing adjourned.)

## APPENDIX

---

### SUBCOMMITTEE ON FEDERAL PROCUREMENT AND REGULATION, *Washington, D.C., May 3, 1965.*

HON. ROBERT S. McNAMARA,  
*Secretary of Defense,*  
*Washington, D.C.*

DEAR MR. SECRETARY: AS I indicated at the hearings of the Subcommittee on Federal Procurement and Regulation, our members would be permitted to request replies to written questions. Only one is directed to the Department of Defense:

"Are there additional studies going forth in the Department of Defense with respect to improved management of common supply and service activities pursuant to your project 81 or otherwise? If so, what are they and what is the scheduled action with respect to each?"

In order that we may publish the hearings at an early date, I would like the above information by May 7.

There are other subjects requiring further action that were referred to in the hearings. The committee staff will work with members of your staff in the resolution of these matters.

I again wish to thank and commend you, Secretary Ignatius, and Admiral Lyle for your excellent statements and, moreover, for your accomplishments during the past 4 years.

Your liaison staff and those in Installations and Logistics, and the Defense Supply Agency, who have prepared materials for us, have all been most cooperative and responsive to our requests. I hesitate to try to name them individually lest some may be omitted inadvertently.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*

---

ASSISTANT SECRETARY OF DEFENSE,  
*Washington, D.C., May 8, 1965.*

HON. PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, Congress of the United States.*

DEAR MR. CHAIRMAN: This is in reply to your letter of May 3, 1965, concerning additional studies going forth in the Department of Defense (DOD) with respect to improved management of common supply and service activities.

The DOD has recently taken a number of actions to improve the management of common supplies and services, and is making studies to determine the potential for improvements in certain other areas, including:

Establishment of the Military Traffic Management and Terminal Service (MTMTS): The MTMTS operates under the Secretary of the Army as a single manager for the DOD. MTMTS regulates surface transportation of military cargo and personnel within the continental United States and manages all military ocean terminals except those used by the Navy in support of the fleet. The management of surface military transportation within the continental United States was formerly performed by the Defense Supply Agency (DSA). Under the new organization, transportation procedures will be greatly simplified because one agency will be responsible for each shipment from point of origin to terminal in the case of air shipments, and through the terminal in the case of ocean shipments. Establishment of the MTMTS was announced by the Secretary of Defense in November 1964. The MTMTS is now partially operational.

Establishment of the Defense Contract Audit Agency: The Contract Audit Agency will consolidate the activities of the various contract audit units which exist within the military departments. This consolidation will result in a

uniformity of contract audit and related procedures which was formerly lacking. This situation, as well as the fact that over 40 percent of all Defense contracts were audited by a military service other than the procuring service, led the Defense Industry Advisory Council and others to recommend contract audit consolidation.

The creation of the Contract Audit Agency is related to the consolidation of contract administration functions previously announced. The establishment of the Contract Audit Agency was announced by the Secretary of Defense in December 1964, and is scheduled to begin operation about July 1, 1965.

*Item management coding criteria.*—Within Federal Supply classes assigned to the DSA for integrated management, determination of the specific items to be managed by DSA is accomplished by application of item management coding criteria. In March of 1964, the Director, DSA, was requested to undertake a study of our criteria to identify problems associated with interpretation or application of them, and to recommend uniform criteria which could be simply and consistently applied to all affected items of supply. The DSA completed its study in November 1964. We have completed a field test of new criteria and the Defense Materiel Council approved them on April 26, 1965. The military services now manage 912,000 items of the 2,495,000 items in the Federal Supply classes assigned to DSA. We estimate that application of the new criteria to these 912,000 items will result in the transfer of over 500,000 additional items to DSA. The application of these criteria will begin as soon as procedural details are developed for their use.

*DOD audiovisual study.*—This is a study of all managerial aspects of still and motion photography, television, and training in audiovisual skills to determine whether the best management methods are being employed and to recommend, as appropriate, ways to improve management of these functions. The study, which has just started, is expected to be completed in about 1 year.

*Survey of publications and printing in the Department of Defense.*—This survey has been completed. However, decision on its recommendations has been deferred at the request of the Chairman of the Joint Committee on Printing pending completion of an overall survey of publications and printing within the executive branch of the Federal Government. The DOD is participating in this overall survey.

I am happy to have this opportunity to advise you of actions being taken to improve the management of common supplies and services with the DOD.

Sincerely,

PAUL R. IGNATIUS,  
Assistant Secretary of Defense  
(Installations and Logistics).

SUBCOMMITTEE ON FEDERAL PROCUREMENT AND REGULATION,  
Washington, D.C., May 3, 1965.

Mr. ELMER B. STAATS,  
Deputy Director, Bureau of the Budget,  
Washington, D.C.

DEAR MR. STAATS: With respect to our recent hearings, permission was granted to members of the Subcommittee on Federal Procurement and Regulation to have witnesses answer additional written questions.

1. "Will you please clarify for the record the exact status of the proposed transfer of the surplus property sales function from DSA to GSA? Is July 1 a firm date, or is any date contingent upon additional data being furnished to BOB?"

2. "In the development of a Federal supply system, is consideration being given to the possible overlap in functions as between the GSA and GPO and to some extent between both these agencies and the Post Office?"

3. "If not, will the BOB check into this and make a preliminary report at our hearing next year?"

4. "What is the status of the announced plan to discontinue the Postal Savings System?"

In order that we may publish the hearings at an early date, I would like the above information by May 7.

The testimony of you and your associates was very helpful to the subcommittee, and I wish you would extend to each our appreciation.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., May 24, 1965.

Hon. PAUL H. DOUGLAS,  
Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR SENATOR DOUGLAS: This is in response to your letter of May 3, 1965, requesting additional information in connection with the recent hearings before the Subcommittee on Federal Procurement and Regulation. The questions are answered in the order presented in your letter.

1. *Status of proposed transfer of the surplus property sales function from DSA to GSA.*—When this proposal was received in the Bureau, questions were raised concerning whether low costs or other benefits would result. However, on November 24, 1964, we informed the Administrator of General Services that we would interpose no further objections to the proposed transfer upon condition that we would be furnished certain documentation in advance of action to set the transfer in motion. The documentation which was requested consisted of (1) an agreement with the Department of Defense as to steps to be taken in a phased plan covering the transition period, (2) an agreement with the Department of Defense concerning methods of handling the financing of the function and any legal problems related to the financing arrangements, and (3) a certification by the GSA that its assumption of the additional responsibilities will not require appropriation of additional funds to GSA in the fiscal years 1965 and 1966 nor require an increase in GSA's manpower ceilings by more than the number of any personnel transferred from the Department of Defense to GSA.

We believe the GSA and the DOD have been working together in developing necessary plans but we have not as yet received the requested information. It is our understanding, however, that the documentation and certifications requested in our letter of November 24 are to be furnished before any actions are taken. (See p. 326.)

2 and 3. *Studies of possible overlap in functions of GSA, GPO, and the Post Office.*—The studies undertaken in developing a Federal supply system have not involved the Government Printing Office. All of the studies have been concerned only with activities for which the executive branch is responsible and, since the GPO is a part of the legislative branch, it has not been included.

While we would be reluctant to initiate a study of a legislative branch responsibility, we would be pleased to participate in any joint evaluation or study of GPO-executive branch supply management relationships which the Congress may request or which may be mutually agreed upon by the GPO and the Joint Committee on Printing.

4. *The status of the announced plan to discontinue the Postal Savings System.*—A draft bill which would discontinue the Postal Savings System has been referred to the Bureau of the Budget. The draft has been cleared and returned to the Post Office Department for transmission as proposed legislation to the President of the Senate and the Speaker of the House of Representatives.

We appreciate the opportunity afforded us to appear before your subcommittee to present our views on procurement and related matters.

Sincerely,

ELMER B. STAATS, *Deputy Director.*

MAY 3, 1965.

MR. LAWSON KNOTT,  
Acting Administrator, General Services Administration, Washington, D.C.

DEAR MR. KNOTT: With respect to our recent hearings, permission was granted to members of the Subcommittee on Federal Procurement and Regulation to have witnesses answer additional written questions. Will you please supply, for the record, the answers to these questions:

1. How many vehicles—by types and condition codes—did GSA sell during each of the years 1962, 1963, 1964?

2. Show total receipts and average price for each of the categories in (1) for the same years.

3. Show same data as requested in (1) and (2) for all office machines, i.e., typewriters, by kinds and classes: adding machines, and so forth.

In order that we may publish the hearings at an early date, I would like the above information by May 7.

Your testimony and that of your associates was very helpful to the subcommittee, and I wish you would extend to each my appreciation.

Faithfully yours,

PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Federal Procurement and Regulation.*

MAY 10, 1965.

Mr. LAWSON B. KNOTT, Jr.

*Acting Administrator, General Services Administration, Washington, D.C.*

DEAR MR. KNOTT: With reference to your letter of May 7, 1965,<sup>1</sup> in reply to my letter of May 3, I would like for you to indicate—if possible, within the next 2 weeks—a breakdown of the 43,000 vehicles into automobiles and trucks.

Also—within the next 2 weeks, if possible—it is most desirable that we have data as to the number of typewriters sold, and returns, as well as the average rate of return per machine. We would also like to have the same information for other types of office equipment.

In addition, I would like for you to supply information as to what you consider to be typical sales, including office equipment and motor equipment, from various parts of the country.

The subcommittee is reluctant to ask you to go to an undue expense in obtaining and preparing this data, but since the matter of comparative costs has been raised, I feel we should have this information at least.

Faithfully yours,

PAUL H. DOUGLAS.

GENERAL SERVICES ADMINISTRATION,  
*Washington, D.C., May 27, 1965.*

HON. PAUL H. DOUGLAS,

*Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, U.S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: In accordance with your letter of May 10 and subsequent discussions with Mr. Ray Ward of your staff, we are enclosing the requested information on automobiles and trucks sold by the General Services Administration during fiscal year 1964. The balance represented miscellaneous-type vehicles such as motorcycles, buses, fire engines, and ambulances, with the major portion consisting of a three-wheel-type covered scooter referred to by the Post Office Department as "mailsters." Similar information is enclosed on typewriters, adding machines, and calculators sold by GSA during the same period.

This agency utilizes four types or methods in selling surplus personal property: sealed bid, spot bid, auction, and negotiation, with very limited use being made of the negotiation method. During discussions with Mr. Ward, we were requested also to submit copies of our representative sales offerings, annotated with the high bid accepted for each item. Enclosed is one copy for an auction sale of vehicles, sealed bid sale of office machines, and sealed bid sale of miscellaneous items of property.

We hope this information will be helpful.

Sincerely yours,

LAWSON B. KNOTT, Jr.,  
*Acting Administrator.*

*Sold by General Services Administration, fiscal year 1964*

	Number sold	Acquisition cost	Proceeds	Average rate of return (percent)	Average price
Automobiles.....	4,992	\$8,135,332	\$1,886,258	23.2	\$378
Trucks.....	11,857	22,666,478	3,508,761	15.5	293
Typewriters.....	4,006	614,323	146,436	23.8	37
Adding machines.....	430	101,737	18,099	17.8	42
Calculators.....	204	105,670	22,000	20.8	108

<sup>1</sup> See p. 191 for Mr. Knott's letter of May 1965.

GENERAL SERVICES ADMINISTRATION  
UTILIZATION & DISPOSAL SERVICE  
GSA CENTER  
AUBURN, WASHINGTON 98002  
OFFICIAL BUSINESS

**VEHICLE SALE**

***AUCTION SALE***  
**VANCOUVER, WASHINGTON**  
***U. S. Government Used Vehicles .***

CONDUCTED BY  
PERSONAL PROPERTY DIVISION  
UTILIZATION & DISPOSAL SERVICE  
GENERAL SERVICES ADMINISTRATION

***Saturday, April 24, 1965***  
***Sale Starts 10:30 A. M.***

This property is being offered in accordance with the exchange sale provisions  
of the Federal Property and Administrative Services Act of 1949, 63 Stat. 384.

AUCTIONEER — HAROLD V. STOREY, SEATTLE, WASHINGTON

SALE 10UPS-65-79  
VANCOUVER, WASH.

# PUBLIC AUCTION

## Approximately 85 Government Used Units

SEDANS	STATION WAGONS	SEDAN DELIVERIES	1/2 TON PICKUPS
CARRYALLS	JEEP	4x4 CARRYALLS, PICKUPS & SEDAN DELIVERIES	
1-1/2 TON FIRE TRUCK	1-1/2, 2, 5 & 10 TON TRUCKS		5 TON VAN
5 TON LINE TRUCK	5 TON FLATBED	CRAWLER & WHEELED TRACTORS	
3/4 YARD CRAWLER SHOVEL	1-1/2 YARD WHEELED LOADERS	CRANE	

Lots of Mileage left in these vehicles.

Most units have been in Government service until recently replaced with new equipment.

ALL VEHICLES IN RUNNING CONDITION WILL BE STARTED AND DRIVEN  
THROUGH THE AUCTION BLOCK DURING THE SALE.

<b>DATE</b>	APRIL 24 at 10:30 AM — RAIN OR SHINE	
<b>LOCATION</b>	Vehicle Repair Shop J. D. Ross Substation 1300 N. E. Ross Street Vancouver, Washington	(Located about 1 mile north of Vancouver and 1/2 mile east of U. S. Highway 99 on the Hazel Dell cutoff — turnoff is just south of the Northern Pacific Railroad overpass).
<b>INSPECTION</b>	The vehicles will be available for you to look over at any time between — 9:00 AM and 4:00 PM April 22 & 23 and from 8:00 AM until sale starts at 10:30 AM April 24, 1965.	
<b>TERMS</b>	20% deposit at time of award — Balance by 4:00 PM April 30, 1965 — Payment in full prior to release of property. Payment acceptable in cash; uncertified personal or business check; certified, cashier's or traveler's check; bank draft; postal (including Canadian postal money order for payment in U. S. at face value), commercial or Federal Home Loan Bank money order; Government check; irrevocable commercial letter of credit issued by bank in U.S.; or any combination thereof; and made payable to Treasurer of the United States.	

**DON'T TELEPHONE FOR INFORMATION — COME OUT AND LOOK THEM OVER!**

Tell your friends and neighbors about this sale.

Complete information catalogs will be furnished at the sale site during the inspection period. To receive catalog by mail, please write or telephone Sales Branch, General Services Administration, Auburn, Washington 98002. Telephone TE 3-6500 (Auburn), Ext. 491 or 492. Seattle residents may call MU 2-3300, ask operator for Auburn, then ask Auburn operator for Ext. 491 or 492. **GET OUT EARLY AND SEE THE VEHICLES WHEN YOU CAN TAKE YOUR TIME. DON'T BE RUSHED! YOU HAVE UNTIL APRIL 30, 1965 TO COMPLETE PAYMENT AND REMOVE YOUR PURCHASE.**

Employees of the Federal Government (including members of their immediate families) are cautioned against bidding on this property, except to the extent authorized by their agencies' own regulations and policies.

GENERAL SERVICES ADMINISTRATION  
REGION 10

AUCTION SALE 104PS-65-79  
VANCOUVER, WASHINGTON

SPECIAL TERMS AND CONDITIONS

GENERAL

GOVERNMENT PROPERTY LISTED IN THIS CATALOG WILL BE SOLD AT PUBLIC AUCTION. SEALED BIDS WILL NOT BE ACCEPTED. EACH ITEM WILL BE SOLD SEPARATELY ON AN "AS IS - WHERE IS" BASIS.

TIME

SALE STARTS PROMPTLY AT 10:30 AM APRIL 24, 1965.

LOCATION

VEHICLE REPAIR SHOP J. D. ROSS SUBSTATION 1500 N.E. ROSS STREET VANCOUVER, WASHINGTON	LOCATED ABOUT 1 MILE NORTH OF VANCOUVER AND $\frac{1}{2}$ MILE EAST OF U. S. HIGHWAY 99 ON THE HAZEL DELL CUTOFF. TURNOFF IS JUST SOUTH OF THE NORTHERN PACIFIC RAILROAD OVERPASS.
--	--

INSPECTION

APRIL 22 AND 23 - 9:00 AM TO 4:00 PM.  
APRIL 24 - 8:00 AM UNTIL SALE STARTS AT 10:30 AM.

BID  
DEPOSIT

A DEPOSIT OF AT LEAST 20% OF THE PURCHASE PRICE MUST BE MADE WITHIN 15 MINUTES FROM THE TIME AN ITEM IS AWARDED.

PARAGRAPH 1 UNDER "INSTRUCTIONS TO BIDDER" OF THE GENERAL SALE TERMS AND CONDITIONS, STANDARD FORM 114C, IS AMENDED TO PROVIDE ACCEPTANCE OF ADDITIONAL FORMS OF DEPOSIT AS FOLLOWS: UNCERTIFIED PERSONAL OR BUSINESS CHECKS, PROVIDED SUCH CHECKS ARE NOT DRAWN BY A THIRD PARTY; CANADIAN POSTAL MONEY ORDERS DESIGNED FOR PAYMENT IN THE UNITED STATES, WHICH ARE ACCEPTABLE IN U. S. DOLLARS AT THE STATED FACE VALUE; FEDERAL HOME LOAN BANK MONEY ORDER; GOVERNMENT CHECK, PROPERLY ENDORSED, STANDARD FORM 150, SALE OF GOVERNMENT PERSONAL PROPERTY, DEPOSIT BOND--INDIVIDUAL INVITATION; IRREVOCABLE COMMERCIAL LETTER OF CREDIT ISSUED BY A BANK ESTABLISHED IN THE UNITED STATES. DEPOSITS SHOULD BE MADE PAYABLE TO TREASURER OF THE UNITED STATES. WHEN UTILIZING STANDARD FORM 150, BIDDER MUST DESIGNATE THE REGIONAL OFFICE, REGION 10, GENERAL SERVICES ADMINISTRATION, AUBURN, WASHINGTON, ON THE FACE OF THE BOND IN THE BLOCK ENTITLED "DEPARTMENT OR AGENCY AND ADDRESS TO WHICH BOND IS TO BE SUBMITTED".

PAYMENT

CONDITION NO. 4 OF THE GENERAL SALE TERMS AND CONDITIONS, STANDARD FORM 114C, IS HEREBY AMENDED TO THE EXTENT PAYMENT WILL BE ACCEPTED IN THE SAME FORM AS FOR BID DEPOSIT, EXCEPT FOR THE STANDARD FORM 150, AND SHALL BE MADE PAYABLE TO TREASURER OF THE UNITED STATES.

FINAL  
PAYMENT

PRIOR TO RELEASE OF PROPERTY.  
IN NO EVENT LATER THAN 4:00 PM APRIL 30, 1965.

FOR THE CONVENIENCE OF BUYERS, A COLLECTIONS OFFICER WILL BE AT THE SALE SITE UNTIL 2:00 PM ON THE DAY OF THE SALE. MONDAY APRIL 26, THROUGH FRIDAY, APRIL 30, FINAL PAYMENT MUST BE MADE AT THE ADMINISTRATION BUILDING, BONNEVILLE POWER ADMINISTRATION, VANCOUVER, WASHINGTON.

REMOVAL  
OF  
PROPERTY

APRIL 24 UNTIL 2:00 PM.  
APRIL 26 THROUGH APRIL 30 FROM 9:00 AM TO 4:00 PM.

ALL PROPERTY MUST BE REMOVED BY 4:00 PM APRIL 30, 1965.

THIS PROPERTY IS BEING OFFERED IN ACCORDANCE WITH THE EXCHANGE/SALE PROVISIONS OF THE FEDERAL PROPERTY AND ADMINISTRATIVE SERVICES ACT OF 1949, 63 STAT. 384.

ATTENTION IS INVITED TO THE FACT THAT THE INTERSTATE COMMERCE ACT MAKES IT UNLAWFUL FOR ANYONE OTHER THAN THOSE DULY AUTHORIZED PURSUANT TO THAT ACT TO TRANSPORT THIS PROPERTY IN INTERSTATE COMMERCE FOR HIRE. ANYONE AIDING OR ABETTING IN SUCH VIOLATION IS A PRINCIPAL IN COMMITTING THE OFFENSE. (49 U.S.C. 301-327 AND 18 U.S.C. 2).

EMPLOYEES OF THE FEDERAL GOVERNMENT (INCLUDING MEMBERS OF THEIR IMMEDIATE FAMILIES) ARE CAUTIONED AGAINST SUBMITTING BIDS ON THIS PROPERTY, EXCEPT TO THE EXTENT AUTHORIZED BY THEIR AGENCIES' OWN REGULATIONS AND POLICIES.

STANDARD FORM 114-C  
MARCH 1960 EDITION  
PRESCRIBED BY GENERAL  
SERVICES ADMINISTRATION  
REGULATION 1-IV-302.00

SALE OF GOVERNMENT PROPERTY  
GENERAL SALE TERMS AND CONDITIONS

1. **INSPECTION.** The Bidder is invited, urged, and cautioned to inspect the property to be sold prior to submitting a bid. Property will be available for inspection at the places and times specified in the Invitation. In no case will failure to inspect constitute grounds for the withdrawal of a bid after opening.

2. **CONDITION AND LOCATION OF PROPERTY.** Unless otherwise specifically provided in the Invitation, all property listed therein is offered for sale "as is" and "where is." If it is provided therein that the Government shall load, then "where is" means f.o.b. conveyance of the point specified in the Invitation. The description is based on the best available information. However, the Government makes no warranty, express or implied, as to quantity, kind, character, quality, weight, size, or description of any of the property, or its fitness for any use or purpose. Except as provided in Conditions No. 9 and 10, no request for adjustment in price or for rescission of the sale will be considered. This is not a sale by sample.

3. **CONSIDERATION OF BIDS.** The Bidder agrees that his bid will not be withdrawn within the period of time specified for the acceptance thereof following the opening of bids (sixty (60) calendar days if no period is specified by the Government or by the Bidder but not less than ten (10) calendar days in any case) and that during such period his bid will remain firm and irrevocable. The Government reserves the right to reject any or all bids, to waive any technical defects in bids, and, unless otherwise specified by the Government or by the Bidder, to accept any one item or group of items in the bid, as may be in the best interest of the Government. Unless the Invitation otherwise provides, bids may be submitted on an item or items. However, unless the Invitation otherwise provides, a bid covering any listed item must be submitted on the basis of the unit specified for that item and must cover the total number of units designated for that item. In case of error in the extension of prices, unit prices will govern.

4. **PAYMENT.** The Purchaser agrees to pay for property awarded to him in accordance with the prices quoted in his bid. Payment of the full purchase price, subject to any adjustment pursuant to Condition No. 8, must be made within the time specified for removal and prior to delivery of any of the property. In the event, however, any adjustment is made pursuant to Condition No. 8, then payment must be completed immediately subsequent to such adjustment. The balance of the purchase price after applying the total bid deposit made by the Purchaser under the Invitation (or otherwise in full purchase price) shall be paid to the Contracting Officer in cash, or by certified check, cashier's check, traveler's check, bank draft, or postal or express money order, made payable to the Treasurer of the United States (or, if so specified in the Invitation made payable either to the Government agency conducting the sale or as directed by that agency). The Government reserves the right to apply any bid deposits made under the Invitation by a Bidder against any amounts due to the Government under a contract awarded to him thereunder. In those instances where the total sum becoming due to the Government from the Purchaser on a contract awarded to him under the Invitation is less than the total amount deposited with his bid, the difference will be promptly returned to him. Also, deposits accompanying bids which are not accepted will be promptly returned to him.

5. **TITLE.** Unless otherwise specified in the Invitation, title to the items of property sold hereunder shall vest in the Purchaser as and when full and final payment is made, except that if the Invitation provides that loading will be performed by the Government, title shall not vest until such payment and loading are completed. On all motor vehicles and motor-propelled or motor-driven equipment requiring licensing, a certificate of title released Standard Form 97 (or a State certificate of title if such a certificate of title has been issued to the Government), will be furnished for each vehicle and piece of equipment.

6. **DELIVERY AND REMOVAL OF PROPERTY.** Unless otherwise specified in the Invitation, the Purchaser shall be entitled to obtain the property upon vesting of title of the property in him. Delivery shall be made at the designated location, and the Purchaser shall remove the property at his expense within the period of time originally specified in the Invitation or within such additional time as may be allowed by the Contracting Officer. The Purchaser shall reimburse the Government for any damage to Government property caused by the removal operations of the Purchaser. If the Purchaser is permitted by the Government to remove the property after the expiration of the period prescribed or allowed for removal, the Government, without limiting any other rights which it may have, may require the Purchaser to pay a reasonable storage charge.

7. **DEFAULT.** If, after the award, the Purchaser breaches the contract by failing to make payment as required by Condition No. 4, or by failing to remove the property as required by Condition No. 6, then the Government may send the Purchaser a fifteen-day written notice of default (calculated from date of mailing), and upon Purchaser's failure to cure such default within that period (or such further period as the Contracting Officer may allow), the Purchaser shall lose all the right, title and interest which he might otherwise have acquired in and to the property as to which a default has occurred. The Purchaser agrees that in the event he fails to pay for the property or remove the same within the prescribed time, the Government at its election and upon notice of default shall be entitled to retain (or collect) as liquidated damages a sum equal to 20% of the purchase price of the item (or items) as to which the default has occurred. Whenever the Government exercises this election, it shall specifically apprise the Purchaser either in its original notice of default (or in separate subsequent written notice) that upon the expiration of the period prescribed for curing the default the formula amount will be retained (or collected) by the Government as liquidated damages. The maximum sum, moreover, which may be recovered by the Government as damages for failure of the Purchaser to remove the property and pay for the same shall be such formula amount. If the Purchaser otherwise fails to meet the payment or his obligations thereunder, the Government may exercise such rights and may pursue such remedies as are provided by law or under the contract.

8. **ADJUSTMENT FOR VARIATION IN QUANTITY OR WEIGHT.** When property is sold on a "unit price" basis, the Government reserves the right to vary the quantity or weight delivered by 10% from the quantity or weight listed in the Invitation; and the Purchaser agrees to accept delivery of any quantity or weight within these limits. The purchase price will be adjusted upward or downward in accordance with the unit price and on the basis of the quantity or weight actually delivered. No adjustment for variation will be made where property is sold on a "price for the lot" basis.

9. **WEIGHING.** Where weighing is necessary to determine the exact purchase price hereunder, the Purchaser shall arrange for and pay all expenses of weighing material (unless Government scales are available on the premises). All switching charges shall be paid by the Purchaser. When removal is by truck, weighing shall be under the supervision of the Government and at its option on: (a) Government scales, (b) certified scales, or (c) other scales acceptable to both parties. When removal is by rail, weighing shall be on railroad track scales, or by other means acceptable to the railroad for freight purposes. Government-approved weighing shall establish the exact purchase price and govern the making of full payment thereon.

10. **RISK OF LOSS.** (1) After mailing notice of award, and prior to passage of title to the Purchaser, the Government will be responsible for the care and protection of the property and any loss, damage, or destruction occurring during such period will be adjusted by the Contracting Officer. (2) After passage of title to the Purchaser, and prior to the date specified for removal, the Government shall be responsible only for the exercise of reasonable care for the protection of the property. (3) After passage of title and after the date specified for removal of the property, or any extension approved in writing by the Contracting Officer, all risk of loss, damage, or destruction from any cause whatsoever shall be borne by the Purchaser.

11. **LIMITATION ON GOVERNMENT'S LIABILITY.** Except for transportation charges when a return of property to Government is authorized by the Government, the measure of the Government's liability in any case where liability of the Government to the Purchaser has been established shall not exceed refund of such portion of the purchase price as the Government may have received.

12. **ORAL STATEMENTS AND MODIFICATIONS.** Any oral statement or representation by any representative of the Government, changing or supplementing this contract or any Condition thereof, is unauthorized and shall confer no right upon the Purchaser.

13. **GOVERNMENT AGAINST CONTINGENT FEES.** Purchaser warrants that no person or agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial agencies maintained by the Purchaser for the purpose of doing business. For breach of this warranty, the Government shall have the right to annul this contract without liability or at its option, to recover from the Purchaser the amount of such commission, percentage, brokerage, or contingent fee, in addition to the consideration herein set forth.

14. **OFFICIALS NOT TO BENEFIT.** No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, unless it be made with a corporation for its general benefit.

15. **DISPUTES.** Except as otherwise provided in this contract, any dispute concerning a question of fact arising under this contract which is not disposed of by agreement shall be decided by the Contracting Officer, who shall reduce his decision to writing and mail or otherwise furnish a copy thereof to the Purchaser. The decision of the Contracting Officer shall be final and conclusive unless, within thirty (30) days from the date of receipt of such copy, the Purchaser mails or otherwise furnishes to the Contracting Officer a written appeal addressed to the Secretary. The decision of the Secretary or his duly authorized representative for the determination of such appeals shall be final and conclusive unless determined to have been fraudulent, or capricious, or arbitrary, or so grossly erroneous as necessarily to imply bad faith, or not supported by substantial evidence. In connection with any appeal proceeding under this clause, the Purchaser shall be afforded an opportunity to be heard and to offer evidence in support of his appeal. Pending final decision of a dispute hereunder, the Purchaser shall proceed diligently with the performance of the contract and in accordance with the Contracting Officer's decision.

16. **DEFINITIONS.** As used throughout this contract, the following terms shall have the meaning set forth below:

- (a) The term "Secretary" means the Secretary, the Under Secretary, or any Assistant Secretary of the Department, and the head or any assistant head of the Federal agency and the term "his duly authorized representative" means any person or persons or board (other than the Contracting Officer) authorized to act for the Secretary.
- (b) The term "Contracting Officer" means the person accepting the bid in whole or in part on behalf of the Government, and any other officer or civilian employee who is a properly designated Contracting Officer; and the term includes, except as otherwise provided in this contract, the authorized representative of a Contracting Officer acting within the limits of the representative's authority.

**INSTRUCTIONS TO BIDDERS**

1. **BID DEPOSIT.** Where a bid deposit is required by the Invitation, such deposit must accompany the bid and be furnished in cash, or by postal or express money order, cashier's, certified, or traveler's check, or a combination thereof; made payable to the Government agency conducting the sale unless otherwise directed in the Invitation. An irrevocable commercial letter of credit may be used to cover the bid deposit or the balance of the purchase price should an award be made unless otherwise directed in the Invitation.

2. **PREPARATION OF BIDS.** Bids shall be filled out in ink, indelible pencil, or typewriter, with all erasures, strike overs, and corrections initialed in ink or indelible pencil.

**DEFINITION OF SMALL BUSINESS**

1. For this purpose, a small business concern is a concern which, together with its affiliates, falls within one of the classifications set forth in 2 below; is independently owned and operated; and is not dominant in its field of operation. (See Code of Federal Regulations, Title 13, Part 121, as amended, if additional information is desired.)
2. Small Business Classifications.
  - (a) Primarily engaged in manufacturing and employs not more than 500 persons.
  - (b) Primarily engaged as a nonmanufacturer, except as specified in (c) below, and had an average annual sales volume or receipts, less returns and allowances, of \$5,000,000 or less for its preceding three fiscal years.
  - (c) Primarily engaged in the purchase of materials not domestically produced and had an average sales volume or receipts, less returns and allowances, of \$25,000,000 or less for its preceding three fiscal years.
  - (d) Certified as a small business concern by the Small Business Administration.

<u>Item No.</u>	<u>Description</u>	<u>SALE NO. 10UPS-65-79</u>	
		<u>High Bid</u>	<u>Accepted</u>
1	CARRYALL: 1961 Chevrolet-6, 4 speed trans., spec. trac. diff., serial 1C1460110216 (G41-9533)	\$ 900	
2	SEDAN: 1962 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 62V27203 (G11-3019)	420	
3	SEDAN: 1957 Chevrolet-6, 4 door, serial A570145134 (G11-2968)	320	
4	PICKUP: 1959 Chevrolet-6, 1/2 ton, spec. trac. diff., serial 3A590112852 (G41-5831)	520	
5	STATION WAGON: 1960 Rambler-6, 6 pass., serial C209060 (G21-1987)	550	
6	CARRYALL: 1961 Chevrolet-6, 4 speed trans., spec. trac. diff., serial 1C1460110245 (G41-9534)	920	
7	PICKUP: 1960 Chevrolet-6, 1/2 ton, 4 speed trans., spec. trac. diff., serial 0C1440109247 (G41-9391)	800	
8	SEDAN: 1959 Plymouth-6, 4 door, auto. trans., serial M134102414 (G11-3122)	240	
9	SEDAN DELIVERY: 1961 Willys-6, 4x4, w/winch & lock hubs, serial 15197 (G61-1235)	875	
10	SEDAN DELIVERY: 1961 Willys-6, 4x4, w/winch & lock hubs, serial 15206 (G61-1232)	950	
11	SEDAN DELIVERY: 1960 Chevrolet-6, serial 011700117289 (G41-10404)	460	
12	CARRYALL: 1958 Dodge-6, 4 speed trans., spec. trac. diff., serial L6D1L28644 (G41-4745)	440	
13	PICKUP: 1959 Chevrolet-6, 1/2 ton, serial 3A590112594 (G41-2967)	710	

<u>Item No.</u>	<u>Description</u>	SALE NO. 10UPS-65-79	
		High Bid	Accepted
14	PICKUP: 1962 Ford-6, 1/2 ton, 4 speed trans., spec. trac. diff., serial F10JR271420 (G41-2885)	\$ 800	
15	SEDAN DELIVERY: 1962 Studebaker-8, spec. trac. diff., serial 62V30120 (G41-2563)	400	
16	SEDAN: 1962 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 62V27412 (G11-12488)	520	
17	PICKUP: 1958 Dodge-6, 1/2 ton, spec. trac. diff., serial L6D1L28567 (G41-5819)	510	
18	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V19173 (G11-10697)	460	
19	CARRYALL: 1958 Dodge-6, 4 speed trans., spec. trac. diff., serial L6D1L28559 (G41-4742)	490	
20	PICKUP: 1960 Chevrolet-6, 1/2 ton, 4 speed trans., spec. trac. diff., serial 0C1440108999 (G41-9378)	830	
21	JEEP: 1954 Willys-4, 4x4, w/metal cab & winch, serial 28982 (G61-797)	775	
22	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V18919 (G11-10675)	440	
23	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V18744 (G11-3581)	430	
24	SEDAN DELIVERY: 1959 Ford-6, serial A9RZ167333 (G41-9805)	250	
25	SEDAN DELIVERY: 1961 Studebaker-8, spec. trac. diff., serial 61V22593 (G41-9599)	370	
26	PICKUP: 1958 Dodge-6, 1/2 ton, spec. trac. diff., serial L6D1L28577 (G41-5804)	440	

SALE NO. 10UPS-65-79

<u>Item No.</u>	<u>Description</u>	<u>High Bid Accepted</u>
27	SEDAN: 1960 Rambler-6, 4 door, auto. trans., serial B156198 (G12-7862)	\$ 325
28	TRUCK: Fire, 1942 International-6, 1-1/2 ton, engine 41867, serial 4658 (I-81746)	420
29	TRUCK: Cab & Chassis, 1951 Ford-8, 1-1/2 ton, 4 speed trans., serial 1R8T15598 (I-21058)	410
30	CARRYALL: 1960 Willys-6, 4x4, w/ winch & lock hubs, serial 14167 (I-21240)	825
31	CARRYALL: 1960 Willys-6, 4x4, w/ winch & lock hubs, serial 14174 (I-21251)	900
32	CARRYALL: 1960 Willys-6, 4x4, w/ winch, serial 14186 (I-21255)	900
33	PICKUP: 1957 Dodge-6, 1 ton, 4x4, w/winch & lock hubs, serial 83955688 (I-21084)	900
34	TRUCK: Cab & Chassis, 1953 GMC-6, 2 ton, 4 speed trans., engine 30271488, serial 8754 (I-1276)	630
35	TRUCK: Cab & Chassis, 1958 International-6, 5 ton, serial FA202262 (I-21148)	1,975
36	TRUCK: Cab & Chassis, 1953 White-6, 10 ton, 4x6, 5 speed trans., w/3 speed aux., engine 579, serial 421664 (I-1263)	1,575
37	TRUCK: Line Body, 1955 FWD-6, 5 ton, 4x4, 5 speed trans., w/aux., winch, "A" Frame & Fairlead block, engine 26410, serial A20232 (I-1491)	1,700
38	PICKUP: 1958 Ford-6, 1/2 ton, serial F10J8R23157 (I-21112)	710

<u>Item No.</u>	<u>Description</u>	SALE NO. 10UPS-65-79
		High Bid Accepted
39	POLE DOLLY: Shop made, 2 ton, 2 wheel, no serial number (I-21550)	\$ 60
40	TRUCK: Flatbed, 1953 International-6, 5 ton, 4x6, 5 speed trans., w/3 speed aux., double winch, engine BD2828757, serial RF1721213 (I-1370)	1,150
41	PICKUP: 1961 Chevrolet-6, 1/2 ton, serial 1C1440109773 (I-21365)	890
42	TRUCK: Cab & Chassis, 1953 International-6, 1-1/2 ton, 4 speed trans., engine 96923, serial 7242 (I-1270)	660
43	TRUCK: Cab & Chassis, 1953 International-6, 1-1/2 ton, 4 speed trans., engine 96924, serial 7243 (I-1271)	640
44	TRUCK: Cab & Chassis, 1953 GMC-6, 2 ton, 4 speed trans., engine 30271541, serial 8758 (I-1277)	680
45	DOZER: 1958 Coleman-6, pneu. tired, w/winch, torque converter, engine 867077, serial 44301 (I-1958)	2,000
46	CRANE: Warehouse, 1953 Hughes-Keenan, Model V-6, 6000 lbs., pneu. tires, 6 cyl. motor, serial 6758 (I-1956)	1,650
47	CARRYALL: 1962 Dodge-8, 4x4, w/winch & lock hubs, serial 2181236094 (G61-734)	1,150
48	SEDAN: 1957 Chevrolet-6, 4 door, serial A570145105 (G11-2970)	380
49	SEDAN: 1962 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 62V2796C (G11-12484)	510
50	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V19015 (G11-10688)	420

<u>Item No.</u>	<u>Description</u>	SALE NO. 10UPS-65-79	
		High Bid	Accepted.
51	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V18928 (G11-10677)	\$ 410	
52	TRUCK: Van Body, 1958 International- 6, 5 ton, w/hyd. tailgate, serial FA19105F (G81-223)	2,250	
53	SEDAN DELIVERY: 1959 Ford-6, spec. trac. diff., serial A9RX167338 (G41-9937)	390	
54	SEDAN: 1962 Studebaker-6, 4 door, spec. trac. diff., serial 62S30833 (G12-12508)	440	
55	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V18921 (G11-10682)	400	
56	CARRYALL: 1961 Chevrolet-6, 4 speed trans., spec. trac. diff., serial 1C1460110309 (G41-9550)	880	
57	STATION WAGON: 1960 Rambler-6, 4 door, 6 pass., spec. trac. diff., serial C209062 (G21-1989)	540	
58	SEDAN: 1960 Rambler-6, 4 door, auto. trans., serial B156193 (G12-7852)	310	
59	CRAWLER SHOVEL: 1951 American, Model 375 BC, 3/4 yard, serial GS552 (C16339)	3,900	
60	SEDAN: 1962 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 62V27200 (G11-3010)	490	
61	SEDAN: 1962 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 62V32054 (G11-12536)	460	
62	SEDAN: 1962 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 62V32073 (C11-12528)	610	

<u>Item No.</u>	<u>Description</u>	SALE NO. 10UPS-65-79	
		High Bid	<u>Accepted</u>
63	WHEELED LOADER: 1953 Hough-6, 1-1/2 yard, serial 99008 (C16366)	\$3,350	
64	SEDAN: 1959 Ford-8, 4 door, auto. trans., serial H9RG149664 (ID No. 59-438)	390	
65	SEDAN: 1960 Plymouth-8, 4 door, auto. trans., serial 3005119813 (ID No. 60-093)	500	
66	SEDAN: 1960 Plymouth-8, 4 door, auto. trans., serial 3005120052 (ID No. 60-096)	440	
67	WHEELED LOADER: 1953 Hough-6, 1-1/2 yard, serial 99023 (C16367)	3,550	
68	CRAWLER TRACTOR: 1944 International, TD-18, w/hyd. operated angle dozer, diesel engine, serial TDRS5-8358 (BPR)	4,000	
69	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V18720 (G11-3104)	390	
70	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V18725 (G11-3105)	400	
71	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V18750 (G11-3585)	450	
72	SEDAN DELIVERY: 1961 Studebaker-8, spec. trac. diff., serial 61V19580 (G41-2767)	420	
73	CARRYALL: 1960 Chevrolet-6, 4 speed trans., spec. trac. diff., serial 0C1460110650 (G41-9507)	650	
74	CARRYALL: 1961 Chevrolet-6, 4 speed trans., spec. trac. diff., serial 1C1460110257 (G41-9541)	950	

<u>Item No.</u>	<u>Description</u>	SALE NO. 10UFS-65-79	
		High Bid	Accepted
75	PICKUP: 1959 Chevrolet-6, 1/2 ton, 4 speed trans., spec. trac. diff., serial 3A590113094 (G41-5839)	\$ 795	
76	SEDAN DELIVERY: 1960 Chevrolet-6, spec. trac. diff., serial 011700120017 (G41-2608)	625	
77	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V19142 (G11-10696)	450	
78	PICKUP: 1959 Chevrolet-6, 1/2 ton, spec. trac. diff., serial 3A590113920 (G41-9695)	795	
79	PICKUP: 1963 Dodge-6, 1/2 ton, 4 speed trans., spec. trac. diff., serial 1161284210 (G41-17067)	550	
80	SEDAN: 1962 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 62V27089 (G11-3061)	510	
81	SEDAN: 1961 Studebaker-8, 4 door, auto. trans., spec. trac. diff., serial 61V18751 (G11-10680)	430	
82	SEDAN: 1962 Studebaker-6, 4 door, auto. trans., spec. trac. diff., serial 62S30396 (G12-12500)	530	
83	SEDAN: 1961 Studebaker-6, 4 door, auto. trans., spec. trac. diff., serial 61S23875 (G12-10662)	450	
84	SEDAN: 1962 Plymouth-8, 4 door, spec. trac. diff., serial 3021- 178851 (I-54025)	625	
85	SEDAN: 1962 Plymouth-8, 4 door, spec. trac. diff., serial 3021- 132321 (I-53963)	670	
86	SEDAN: 1962 Plymouth-8, 4 door, spec. trac. diff., serial 3021- 132843 (I-53973)	640	

<u>Item No.</u>	<u>Description</u>	SALE NO. 10UPS-65-79	
		High Bid	Accepted
87	SEDAN: 1963 Plymouth-8, 4 door, auto. trans., spec. trac. diff., serial 3031-133974 (I-54047)	\$ 750	
88	SEDAN: 1963 Plymouth-8, 4 door, auto. trans., spec. trac. diff., serial 3031-134004 (I-54048)	840	
89	SEDAN: 1963 Plymouth-8, 4 door, auto. trans., spec. trac. diff., serial 3031-134129 (I-54049)	1,220	
90	STATION WAGON: 1961 Ford-8, auto. trans., serial 1J66W15296 (Customs 150)	710	
91	SEDAN: 1958 Lincoln-8, Capri, 2 door, auto. trans., serial H8YA409047 (Customs 95)	390	
92	TRAILER: Laboratory, 1946 Stream- lite, 35' x 7', converted house trailer, serial 440681722-2 (C-16419)	360	
93	PICKUP: 1960 Chevrolet-6, 1/2 ton, 4 speed trans., serial 0C1440114310 (I-53870)	985	

STANDARD FORM 114  
MARCH 1960  
PRESCRIBED BY GENERAL  
SERVICES ADMINISTRATION  
REGULATION I-IV-302 00

INVITATION NO: 3UPS-SB-65-119  
(OFFICE MACHINES)

**Sale**

NO DEPOSIT REQUIRED!!

**GOVERNMENT  
PROPERTY**

PAGE No. 1 OF 22 PAGES OF  
INVITATION NO. 3UPS-SB-65-119  
DATED February 23, 1965

Sealed bids in original only  
subject to the terms and conditions set forth here-  
in, for the purchase and removal of the Govern-  
ment-owned property listed in this Invitation, will be  
received until the time, date, and at the place indicated  
below, and then publicly opened.

TIME OF OPENING 10:00 A. M., Eastern Standard Time.  
DATE OF OPENING March 15, 1965

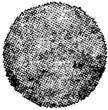
MAIL BIDS TO



PLACE OF OPENING Surplus Sales Center, Bldg. 197 - Mail  
Stop 249 - Washington Navy Yard Annex, Washington 25, D. C.  
Envelope must indicate Invitation No: 3UPS-SB-65-119; 3/15/65  
10:00 A.

INSPECTION INVITED BETWEEN 10:00AM AND 4:00 P. M. EST.  
February 23, thru March 12, 1965 (EXCEPT SATURDAYS & SUNDAYS)  
ARRANGE WITH Persons at Sale Site TELEPHONE WOrth 2-8031

ISSUED BY GSA, Surplus Sales Center, R3, Utilization & Disposal Service  
Address Bldg. 197 - Mail Stop 249, Wash. Navy Yard Annex, Wash. 25, D. C.  
PROPERTY LOCATED AT Surplus Sales Center - Bldg. 197 - Entrance 1st & N Sts.,  
S. E., Washington, D. C.



STANDARD FORM 114-A MARCH 1960 PRESCRIBED BY GENERAL SERVICES ADMINISTRATION REGULATION I-IV-302.00	<b>SALE OF GOVERNMENT PROPERTY BID AND AWARD</b>	
<b>BID</b> (This Section to be completed by the Bidder)		DATE OF BID _____ 19__
<p>In compliance with the Invitation identified on the cover page hereof, and subject to all the General Sale Terms and Conditions (Standard Form 114-C, March 1960 Edition), and any Special Conditions contained in the Invitation, all of which are incorporated as a part of this Bid, the undersigned offers and agrees (as set forth in Condition No. 3 of Standard Form 114-C), if this Bid be accepted within _____ calendar days (60 calendar days if no period be specified by the Government or by the Bidder, but not less than 10 calendar days in any case) after date of Bid opening, to purchase and pay for any or all of the items or lots of property listed on the attached Item Bid page(s) _____ (and, if a detailed description of property is furnished with this Invitation, as more particularly set forth therein) upon which prices are bid, at the price set opposite each item or lot, and unless otherwise specified in the description or in any Special Conditions, to remove the property within _____ calendar days (10 calendar days if no period specified) after notice of acceptance by the Government. The total amount bid is \$ _____ and attached is the required bid deposit in the form of _____.</p> <p><b>NO BID DEPOSIT REQUIRED !!</b> _____, in the amount of \$ _____.</p> <p>(Envelopes containing bids must be sealed and marked on the face with the name and address of the Bidder, the Invitation number and the date and hour of opening.)</p> <p><b>BIDDER REPRESENTS:</b> (Check appropriate boxes)</p> <p>1. That he <input type="checkbox"/> is, <input type="checkbox"/> is not, a small business concern. (See Standard Form 114-C for definition of small business and small business classifications referred to in 2, hereinbelow.)</p> <p>2. If Bidder represents he is a small business concern, he further represents his applicable classification as: (Check one) <input type="checkbox"/> (a); <input type="checkbox"/> (b); <input type="checkbox"/> (c); <input type="checkbox"/> (d).</p> <p>3. (a) That he <input type="checkbox"/> has, <input type="checkbox"/> has not, employed or retained any company or person (other than a full-time bona fide employee working solely for the Bidder) to solicit or secure this contract, and (b) that he <input type="checkbox"/> has, <input type="checkbox"/> has not, paid or agreed to pay any company or person (other than a full-time bona fide employee working solely for the Bidder) any fee, commission, percentage or brokerage fee, contingent upon or resulting from the award of this contract; and agrees to furnish information relating to (a) and (b) above as requested by the Contracting Officer. (For interpretation of the representation, including the term "bona fide employee," see Code of Federal Regulations, Title 44, Part 150.)</p>		
NAME AND ADDRESS OF BIDDER (Street, city, zone, and State. Type or print)		SIGNATURE OF PERSON AUTHORIZED TO SIGN BID  SIGNER'S NAME AND TITLE (Type or print)
<b>ACCEPTANCE BY THE GOVERNMENT</b> (This Section for Government use only)		DATE OF ACCEPTANCE _____ 19__
ACCEPTED AS TO ITEMS NUMBERED _____		UNITED STATES OF AMERICA  BY _____ (Contracting Officer) <b>H. J. Matthews</b>
TOTAL AMOUNT \$ _____	CONTRACT NUMBER <b>GS-03-U-(P)-</b>	TITLE OF CONTRACTING OFFICER <b>Chief, Sales Branch</b>

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 3	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1001	TYPEWRITERS, I.B.M., ELECTRIC Serial #11-454672	149	95	1023	TYPEWRITERS, REMINGTON ELECTRIC CONT. Serial #E-2278168	61	18
1002	Serial #11-121287	72	01	1024	Serial #E-2277860	47	51
1003	Serial # 11-148625	86	01	TYPEWRITERS, UNDERWOOD ELECTRIC			
1004	Serial #11-536718	124	01	1025	Serial #E16-7730039	40	00
1005	Serial #11-135598	72	01	1026	Serial #E16-7628051	41	00
1006	Serial #11-135578	72	01	1027	Serial #E13-8223564	72	53
1007	Serial #11-1106597	237	53	1028	Serial #E13-8306545	69	99
1008	Serial #11-468580	149	95	1029	Serial #E16-7730030	42	00
1009	Serial #41-023180	95	68	TYPEWRITERS, ROYAL ELECTRIC			
1010	Serial #11-614212	163	10	1030	Serial #HE-13-7144744	126	31
1011	Serial #11-022844	67	01	1031	Serial #REE-13-6491505	66	23
1012	Serial #11-383711	124	01	1032	Serial #RES-13-6691578	66	23
1013	Serial #11-452345	149	51	1033	Serial #REE-13-5578555	120	34
1014	Serial #11-329026	132	53	VARI - TYPER			
1015	Serial #11-361188	119	01	1034	Serial #501079-20	61	15
1016	Serial #11-454868	147	01	FLEXOWRITER			
1017	Item 1017 consists of typewriters described in Items 1001 thru 1016. <u>Note</u> Award will be made on Item 1017 <u>only</u> if the amount bid is greater than the total bid for Items 1001 thru 1016.			1035	Serial #11031 Front cover and Platen missing		
				1036	Serial #11013 Front & Back Cover and Platen missing		
				1037	Serial #11030 Platen missing		
				1038	Serial #18368 Front cover & Platen missing		
				1039	Serial #11025 Platen missing		
TYPEWRITERS, REMINGTON ELECTRIC				1040	Serial #18369 Front cover & Platen missing		
1018	Serial #E-2293982	47	53	1041	Serial #11014 Platen missing		
1019	Serial #E-2262818	49	51	1042	Item 1042 consists of Flexowriters as described in Items 1035 thru 1041. <u>Note:</u> Award will be made on		
1020	Serial #E-2293983	49	53				
1021	Serial #E-2291247	47	51				
1022	Serial #E-2238169	47	51				

BIDDER IS CAUTIONED TO INSPECT THE PROPERTY

NAME OF BIDDER (Type or print)

ALL BIDDERS SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING THIS BIDDING PAGE.

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 4	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1042	<u>FLEXOWRITERS, CONTINUED</u> <u>Continued</u> Item 1042 only if the amount bid is greater than the total bid for Items 1035 thru 1041.	1,020	00	1066	Serial #HHE-5436920	53	07
	<u>TYPEWRITERS, ROYAL MANUAL</u>			1067	Serial #KMM-2909794	35	50
1043	Serial #HHE-15-5093950	46	57	1068	Serial #KHM-26-2194724	19	00
1044	Serial #KMG-4197289	41	23	1069	Serial #KMM-2585718	33	01
1045	Serial #HHE-15-4887564	48	88	1070	Serial #KMM-3007491	29	57
1046	Serial #KMG-13-4310868	45	01	1071	Serial #KMM-3039794	28	57
1047	Serial #KMG-15-4598380	38	90	1072	Serial #KMM-2971982	26	57
1048	Serial #KMM-2800080	30	23	1073	Item 1073 consists of type-writers described in Items 1043 thru 1072. Note: Award will be made on Item 1073 only if the amount bid is greater than the total bid for items 1043 thru 1072.		
1049	Serial #KMM-12-2891047	31	57		<u>TYPEWRITERS, REMINGTON MANUAL</u>	27	57
1050	Serial #HHE-16-5437158	60	00	1074	Serial #J-2037250	26	40
1051	Serial #PPE 13-6163678	87	51	1075	Serial #J-2027136	28	57
1052	Serial #HHE-13-4854877	50	57	1076	Serial #J-1808979	40	50
1053	Serial #KMG-4779957	45	01	1077	Serial #X-774103	26	41
1054	Serial #KMM-2927526	29	57	1078	Serial #J-2037326	28	57
1055	Serial #KMM-2368934	28	99	1079	Serial #J-1809184	26	41
1056	Serial #KMM-2330435	28	99	1080	Serial #J-2272894 Front cover missing	26	41
1057	Serial #KMM-12-2802402	28	99	1081	Serial #J-2093645	26	57
1058	Serial #KHM-1990959	30	00	1082	Serial #J-610176	18	57
1059	Serial #KMM26-2742766	22	50	1083	Serial #J-2092615	26	41
1060	Serial #KMM-2493861	30	57	1084	Serial #J-1831902	26	41
1061	Serial #KMG-15-4622834	38	23	1085	Serial #J-2272929	37	80
1062	Serial #KMG-4707260	44	88	1086	Serial #J-1832786	26	57
1063	Serial #HHE-5118222	52	57	1087	Serial #J-602933	26	00
1064	Serial #KMG-4757146	41	23	1088	Serial #J-2279273	35	57
1065	Serial #KMG-19-4300387	32	50				
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b> <b>BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.</b>				NAME OF BIDDER (Type or print)			

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 5	INVITATION NO. 3UPS-SB-65-119			
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		
		DOLLARS	CENTS			DOLLARS	CENTS	
	<b>TYPEWRITERS, REMINGTON</b>		<b>MANUAL CONTD.</b>	1115	Serial #J-1868435	27	57	
1089	Serial #J-1960921		28 88	1116	Serial #J-2445791	34	88	
1090	Serial #J-1805988		27 57	1117	Serial #J-1801755	27	57	
1091	Serial #J-2263828		36 51	1118	Serial #J-2476571	37	88	
1092	Serial #J-823353		24 00	1119	Serial #J-2450601	36	77	
1093	Serial #J-805298		18 57	1120	Serial #J-2275311	28	88	
1094	Serial #J-309863		23 00	1121	Serial #J-2608408	38	88	
1095	Serial #J-572626		18 57	1122	Serial #J-1843896	26	57	
1096	Serial #J-1968324		33 25	1123	Serial #J-1801732	29	96	
1097	Serial #J-1818729		28 88	1124	Serial #J-2037294	27	57	
1098	Serial #J-572624		19 00	1125	Serial #J-1841487	26	57	
1099	Serial #J-2093713		30 88	Item 1126 consists of typewriters described in Items 1074 thru 1125. Note: Award will be made on item 1126 only if the amount bid is greater than the total bid for Items 1074 thru 1125.				
1100	Serial #J-2040786		30 88					
1101	Serial #J-2275356		34 88					
1102	Serial #J-1892176		26 41					
1103	Serial #J-805296		19 00					
1104	Serial #J-1884884		28 88	<b>TYPEWRITERS, UNDERWOOD MANUAL</b>				
1105	Serial #J-1834805		26 40	1127	Serial # 14-6229227	22	90	
1106	Serial #J-1893244		26 41	1128	Serial #11-7339849	27	58	
1107	Serial #J-2122953		30 88	1129	Serial #11-7204971	27	57	
1108	Serial #J-823349		18 57	1130	Serial #11-6953407	30	88	
1109	Serial #J-821324		18 00	1131	Serial #11-7297449	37	88	
1110	Serial #J-2122886		31 25	1132	Serial #11-7205171	27	57	
1111	Serial #J-809876		27 01	1133	Serial #11-7258172	28	90	
1112	Serial #J-1888879 Side cover missing		26 57	1134	Serial #11-7023775	27	60	
1113	Serial #J-1808690		27 57	1135	Serial #11-7205193	37	88	
1114	Serial #J-1775141		28 96	1136	Serial #11-7205087	28	90	
				1137	Serial #11-6631424	24	60	
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b>				NAME OF BIDDER (Type or print)				
<b>BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.</b>								

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.	<b>SALE OF GOVERNMENT PROPERTY</b> ITEM BID PAGE	PAGE NO.	INVITATION NO.
		6	3UPS-SB-65-119

ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
	<b>TYPEWRITERS UNDERWOOD</b>						
	<b>MANUAL CONTD.</b>						
1138	Serial #11-6634759	27	57	1164	Serial #S11-582034	18	88
1139	Serial #11-7510817	35	57	1165	Serial #11-7204943	25	57
1140	Serial #11-6196105	22	60	1166	Serial #11-7298244	32	51
1141	Serial #11-6908115	27	57	1167	Serial #11-7183016	24	31
1142	Serial #11-7258610	29	10	1168	Serial #11-7339878	30	10
1143	Serial #11-6953011	26	57	1169	Serial #11-7002747	26	57
1144	Serial #11-7298206	28	80	1170	Serial #11-7205163	28	57
1145	Serial #11-6948901	27	00	1171	Serial #11-7722697	36	07
1146	Serial #11-7258767	30	00	1172	Serial #11-6631860	27	57
1147	Serial #11-7205133	34	88	1173	Serial #11-7510953	32	53
1148	Serial #11-7204979	28	88	1174	Serial #11-7510923	33	57
1149	Serial #11-7023852	28	88	1175	Serial #11-7510964	38	88
1150	Serial #11-7258770	32	15	1176	Serial #11-7510713	33	53
1151	Serial #S11-5793703	18	88	1177	Serial # 5929948	15	58
1152	Serial #11-6631922	27	57	1178	Serial #11-7775054	41	88
1153	Serial #11-7263131	32	51	1179	Serial #11-7263021	31	88
1154	Serial #S-5568969-11	18	88	1180	Serial #S-5591421-12	15	58
1155	Serial #M-5076782-12	17	51	1181	Serial #11-7619540	32	88
1156	Serial #S-5519790-11	18	88	1182	Serial #11-7780645	42	88
1157	Serial #27-6949954	24	31	1183	Serial #12-6783655	27	57
1158	Serial # 27-7946331	32	01	1184	Serial #21-7046968	24	31
1159	Serial #11-7510617	38	88	1185	Serial #11-7339572	28	90
1160	Serial #11-7775858	42	88	1186	Serial #11-7258523	27	01
1161	Serial #11-7727718	42	88	1187	Serial #12-6791570	26	57
1162	Serial #11-6634696	28	88	1188	Serial #11-7298169	27	90
1163	Serial #11-7205138	29	10	1189	Serial #11-7612206	32	53
				1190	Serial #11-6954238	23	10

**BIDDER IS CAUTIONED TO INSPECT THE PROPERTY** NAME OF BIDDER (Type or print)

**BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.**

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE			PAGE NO. 7	INVITATION NO. 3UPS-SB-65-119	
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
	<b>TYPEWRITERS, UNDERWOOD</b>	<b>MANUAL CONTD</b>		1214	Serial #7A 3202376-11	28	00
1191	Serial #11-7510941	36	57	1215	Serial #6A 3064600-11	25	41
1192	Serial #11-7579351	36	57	1216	Serial #7A 3202575-11	27	57
1193	Serial #11-7297558	30	88	1217	Serial #7A 3204790-11	25	57
1194	Serial #11-7579743	36	57	1218	Serial #2A 2299995-11	25	41
1195	Serial #13-7609097	36	57	1219	Serial #7A 3236824-11	31	07
1196	Serial #13-7608787	32	01	1220	Serial #88E 4123959-11	36	07
1197	Serial #11-6624846	27	57	1221	Serial #88E 4061969-11	41	88
1198	Serial #S5480903-11	19	81	1222	Serial #1A 1701454-11	17	57
1199	Serial #11-7264391	26	23	1223	Serial #6A 3071615-11	27	57
1200	Serial #S5454460-12	21	30	1224	Serial #6A 3103685-11	27	57
1201	Serial #11-7258094	28	70	1225	Serial #6A 3065519-11	24	31
1202	Serial #12-6737390	23	31	1226	Serial #1469227-12	10	58
1203	Serial #11-6748851	24	57	1227	Serial #7A 3155068-11	30	00
1204	Serial #12-6569043	26	57	1228	Serial #6A 3064169-11	27	57
<del>Item 1205 consists of typewriters described in Items 1127 thru 1204. Note: Award will be made on Item 1205 only if the amount bid is greater than the total bid for Items 1127 thru 1204.</del>				1229	Serial #88E-4226306-11	34	88
<del>Item 1231 consists of typewriters described in Items 1206 thru 1230. Note: Award will be made on Item 1231 only if the amount bid is greater than the total bid for Items 1206 thru 1230.</del>				1230	Serial #1A 1592937-11	18	57
	<b>TYPEWRITERS, L. C. SMITH, MANUAL</b>			1231	Serial #6-1157820E26	18	50
1206	Serial #1A1834465-11	16	57	<b>TYPEWRITERS, R. C. ALLEN</b>		<b>MANUAL</b>	
1207	Serial #6A3102989-11	27	57	1232	Serial # 6-1157820E26	18	50
1208	Serial #6A3071380-11	25	57	<b>TYPEWRITERS, PORTABLE HERMES</b>		<b>MANUAL</b>	
1209	Serial #7A 3144901-11	25	57	1233	Serial # 5608902	15	00
1210	Serial #1B 1643841-12	17	01	1234	Serial # 5627813	18	00
1211	Serial # 6A 3050277-11	24	36	1235	Serial # 5608901	15	00
1212	Serial #1A 2134215-11	18	57	1236	Serial # 5620923	18	00
1213	Serial #6A 3101782-11	25	41				
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b>					NAME OF BIDDER (Type or print)		
<b>BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.</b>							

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 8	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1237	<u>CALCULATOR, MONROE- MANUAL</u> Serial # LA6-200C-218246	72	88	1253	Model TA-4 Ser. 837699	21	65
1238	<u>ADDING MACHINE, MONRCE ELECTRIC</u> Model & Serial No: 210-11-001-15621	35	07	1254	Model TB-4, Ser. 968427	8	65
1239	<u>ADDING MACHINE, BURROUGHS ELECTRIC</u> Serial # A-429019	38	42	1255	Model TA-5, Ser. 867372	18	65
1240	<u>ADDING MACHINE, CLARY ELECTRIC</u> Model 115, Serial #130993	45	02	1256	Model TMA-1, Ser. 795186	17	65
1241	<u>ADDING MACHINES, REMINGTON ELECTRIC</u> Serial # 93N-888125	68	19	<u>COPIERS, VERIFAX, KODAK, BANTAM</u>			
1242	Serial #93N-940158	63	23	1257	Model A, Ser. 145243-1	8	50
1243	<u>ADDING MACHINES, UNDERWOOD ELECTRIC</u> Model 10120P-243943	25	00	1258	Model A, Ser. 145243-2	12	69
1244	Model 8140P-275905	25	00	<u>COPIERS, VERIFAX, REGENT, KODAK</u>			
1245	<u>SOUNDSCRIBER</u> Model 200, Serial No: 254187, with mike	NO BID		1259	Model F, Ser. 2127	8	50
1246	<u>MAGNETIC RECORDER "VOICEMASTER"</u> Serial # 53267 with foot control	NO BID		1260	Model, C. Ser. 17044	21	00
1247	<u>MAGNETIC RECORDER "VOICEWRITER"</u> Serial # 53256 with mike and carrying case.	4	61	<u>AUTO-STATS, APECO</u>			
1248	<u>DICTAPHONE, TAPE TYPE DEUR-GRUNDIG</u> Serial # 57978 with mike and foot control.	79	60	1261	Serial #12426	1	00
1249	<u>VOICEWRITERS "EDISON"</u> Serial # VPD -25025 with mike	13	79	1262	Serial #15891 case broken	50	
1250	Serial # VPS-17393 with mike	13	79	1263	Serial #48918 case broken	50	
1251	<u>DICTAPHONE, TIMEMASTERS</u> Model 106010, Serial No: 341145, with foot control	32	79	1264	Serial #12813	5	13
1252	Model TA-4. Serial No: 809369	12	15	1265	Serial #25702	12	00
				1266	Serial # 16817 <del>br</del> <del>SR</del>	50	
				1267	Serial # 47119 case broken	50	
				1268	Serial #90369	12	00
				1269	Serial #60368	1	03
				1270	Serial # 65055	1	07
				1271	Serial #91762	3	01
				<del>Item 1272 consists of Auto-Stats described in Items 1261 thru 1271. Note: Award will be made on Item 1271 only if the amount bid is greater than the total bid for Items 1261 thru 1271</del>			
				<u>COPIER</u>			
				1273	Model 155, Ser. 6234 Mfg. American Photocopy Equip. Company	11	61

BIDDER IS CAUTIONED TO INSPECT THE PROPERTY

BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.

NAME OF BIDDER (Type or print)

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.			SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO.	INVITATION NO.	
					9	3UPS-SB-65-119	
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1274	<u>COPING MACHINES, THERMO-FAX</u> Model 22, Ser. 313446	41	23	1292	Model 87000 Ser. 116635 hand control & cabinet	10	00
1275	Model 22, Ser. 315085	41	23	1293	Model 87000 Ser. 114622 hand control & cabinet	19	00
1276	Model 22, Ser. 304607	41	23	1294	Model 86000 Ser. 21289 mike & cabinet	NO BID	
1277	<u>COPYCATS, DIPLOMAT-APPARATE, K. E. WEDEL - HOLSTEIN</u> Type, Spray-O-Matic, Serial # 2539	NO BID		1295	Model 86000 Ser. 512789 mike & cabinet	NO BID	
1278	Model S-O-M1, Ser. 147	NO BID		1296	Model 87000 Ser. 114619 with cabinet	NO BID	
1279	Type Spray-S1-Ser. EXW-1127	4	70	1297	Model 87000 Ser. 14589 earphones, foot control & cabinet	22	00
1280	<u>TRANSCOPIER, REMINGTON RAND</u> Type LC2502, Ser. C33685	11	60	1298	Model 86000 Ser. 15163 mike & cabinet	NO BID	
1281	<u>VOICEWRTITERS "EDISON"</u> Model 86000 Ser. 21475 with mike and cabinet	NO BID		1299	Model 86000 Ser. 112907 mike & cabinet	NO BID	
1282	Model 86000 Ser. 15089 with mike and cabinet	NO BID		1300	Model 86000 Ser. 115128 mike & cabinet	NO BID	
1283	Model 87000 Ser. 22240 Hand Control & Cabinet	NO BID		1301	Model 86000 Ser. 112935 mike & cabinet	NO BID	
1284	Model 86000 Ser. 15142 with mike & cabinet	21	00	1302	Model 88000 Ser. 10557 mike & cabinet	NO BID	
1285	Model 87000 Ser. 22239 foot control & cabinet	1	29	1303	Item 1303 consists of Voicewriters described in Items 1281 thru 1302. Note: Award will be made on Item 1303 only if the amount bid is greater than the total bid for Items 1281 thru 1302.		
1286	Model 86000 Ser. 15128 mike & cabinet	NO BID					
1287	Model 86000 Ser. 22785 mike & cabinet	5	13				
1288	Model 86000 Ser. 15144 mike & cabinet	21	00				
1289	Model 87000 Ser. 14599 foot control & cabinet	NO BID			<u>DICTAPHONES</u> 1304 Model CA, Ser. 433935 with stand	19	00
1290	Model 86000 Ser. 15216 mike & cabinet	NO BID			1305 Model CA, Ser. 433957 with stand	5	05
1291	Model 87000 Ser. 29149 foot control & cabinet	NO BID			1306 Model CA, Ser. 432073 with stand	5	05

BIDDER IS CAUTIONED TO INSPECT THE PROPERTY

NAME OF BIDDER (Type or print)

BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 10	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1307	<u>DICTAPHONES, CONTD.</u> Model CB, Ser. 328360 with ear phones, foot control & cabinet.			1320	Model HACG, Ser. 16523-8-7		21 00
		5	00	1321		Model HACG, Ser. 20803-1-0	26 00
1308	Shaver, Cameo Model, Serial #85124	NO BID		1322	Model HACG, Ser. 21623-9-0	26 00	
1309	<u>DUPLICATOR, FLUID.</u> Master Model, Ser. 105653 with Automatic Feed. Ser 1838. with cabinet Standard Duplicating Machine Co.	25	35	1323	Model HACG, Ser. 22654-11-0	26 00	
				1324	Model HACG, Ser. 24571-8-1	24 53	
1310	<u>BOOKKEEPING MACHINE, BURROUGHS</u> Serial # A-626133 with Stand	18	70	1325	Model HACG, Ser. 30761-3-54	21 00	
				1326	Model HACG, Ser. 24530-8-1	12 53	
1311	Model F, Series 300 Serial #2451 with stand	150	11	1327	Model HACG, Ser. 25561-10-2	11 53	
1312	<u>ACCOUNTING MACHINE, "NATIONAL"</u> Alphabetical & Numeric registers Serial #5665610, TCT-31-10-12-(20) 26-S.T.	729	99	1328	Model HACG, Ser. 22860-10-0	21 00	
				1329	Model HACG, Ser. 21509-8-0	4 88	
1313	Alphabetical & Numeric registers Serial #4980797, 31-10-12-20-20	411	99	1330	Model HACG, Ser. 28469-5-3	22 53	
1314	Alphabetical & Numeric registers Serial # 4899378, 31-10-12 "20" -20-2RB	389	99	1331	Rapidprint "ROBERTS" Model AR, Ser. 29088	7 53	
				1332	"Stromberg" Model T2	22 53	
1315	<u>BOOKKEEPING MACHINE, NATIONAL</u> Alphabetical & Numeric registers Serial #5252452, WD, 31-10-11(18)76SP	489	99	1333	"Stromberg" Model T12	24 53	
				1334	"Stromberg" Model T12	25 53	
1316	Model HACG, Serial No. 15636-7-30	7	66	<del>Item 1335 consists of time stamps described in Items 1316 thru 1334. Note: Award will be made on item 1335 only if the amount bid is greater than the total bid for items 1316 thru 1334.</del>			
1317	Model HACG, Serial No. 24661-8-1	21	53	<u>AUTOMATIC CASHIER "BRANDT"</u> 1336 Model & Serial #150-99212			
1318	Model HACG, Ser. 27555-10-2	22	53				
1319	Model HACG, Ser. 22465-10-0	23	53				
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b> BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.				NAME OF BIDDER (Type or print)			

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.			SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 11	INVITATION NO. 3UPS-SB-65-119	
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1337	<u>STAPLER "STAPLEX"</u> Model S-54N, Ser. 22185 Electric	45	31	1356	Serial #11-490752	147	01
1338	Stapler "Staplex" Model S54, Ser. 11201, Electric, parts missing.	10	01	1357	Serial #11-655451	151	01
1339	<u>DUPLICATORS, PHOTOCOPIER, A. B. DICK</u> Model 112, Ser. #05987	NO BID		1358	Serial #11-322187	119	01
1340	Model 112, Ser. #01258	NO BID		1359	Serial #11-165741	110	00
1341	Model 110, Ser. #18117	26	50	1360	Serial #11-111536	111	90
1342	<u>DUPLICATOR, MANUAL "LETTERGRAPH"</u> Model D, Ser. D-8055, Heyer Corp., Chicago	17	75	1361	Serial #11-092371	67	01
1343	<u>LABEL PRINTING MACHINE-GENERAL PURPOSE</u> Serial #5278769 -1913-4-5 RP-FP National Cash Register Company	129	66	1362	Serial #11-165763	110	10
1344	<u>ENVELOPE SEALER, Standard Duplicating Co.</u> Model G-64186, Manual	13	60	1363	Serial #11-041854	67	01
1345	Model G-64259, Manual	21	40	1364	Serial #11-140912	91	15
1346	<u>THERMO-FAX MACHINE</u> Model 20, Ser. 20-7532	14	00	1365	Serial #11-115159	75	53
1347	<u>ROBO-TYPERS</u> Model & Ser. UND13025 D with Underwood Electric Typewriter E-12-7070448	51	57	1366	Serial #11-112107	67	01
1348	Model & Ser. REM11673 D	28	00	1367	Serial #11-076975	72	89
1349	<u>I. B. M. TYPEWRITERS, ELECTRIC</u> Serial #11-471714	124	01	1368	Serial #11-111392	67	01
1350	Serial #11-658312	144	88	1369	Serial #11-111956	91	15
1351	Serial #11-177747	93	78	1370	Serial #11-049657	91	15
1352	Serial #11-445265	147	01	1371	Serial #11-192982	107	53
1353	Serial #11-525971	124	01	1372	Serial #11-550221	151	03
1354	Serial #11-748873	148	49	1373	Serial #11-427235	124	01
1355	Serial #11-398070	119	01	1374	Serial #11-448088	147	01
				1375	Serial #11-160638	97	48
				1376	Serial #11-105263 back cover missing	62	01
				1377	Serial #11-324245	119	01
				1378	Serial #11-100090	70	53
				1379	Serial #11-514861	142	79
				1380	Serial #11-494871	143	01
				1381	Serial #11-596856	124	01
				1382	Serial #11-478710	124	01
BIDDER IS CAUTIONED TO INSPECT THE PROPERTY				NAME OF BIDDER (Type or print)			
BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.							

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.			SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 12	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		
		DOLLARS	CENTS			DOLLARS	CENTS	
	<b>I.B.M. TYPEWRITERS CONTD.</b>							
1383	Serial #11-581521	119	01	1409	Serial # 11-434499	115	03	
1384	Serial #11-559490	151	01	1410	Serial # 11-445266	115	53	
1385	Serial #11-445223	124	01	1411	Serial #11-488736	139	54	
1386	Serial #11-452721	124	01	1412	Serial #11-566600	141	79	
1387	Serial #11-480852	119	01	1413	Serial #11-155552	83	03	
1388	Serial #11-445820	119	01	1414	Serial #11-448245	115	03	
1389	Serial #11-194519	72	53	1415	Serial #41-208056 Executive	176	16	
1390	Serial #11-450036	115	03	<del>1416</del> Item 1416 consists of I.B.M. Typewriters described in Items 1349 thru 1415. Note: Award will be made on Item 1416 only if the amount bid is greater than the total bid for Items 1349 thru 1415.				
1391	Serial #41-169996 Executive	176	16					
1392	Serial #11-109789	72	01					
1393	Serial #11-425701	119	01					
1394	Serial #11-485749	119	01					
1395	Serial #11-445208	115	03					
1396	Serial #11-429394	115	03					
1397	Serial #11-445259	115	03					
1398	Serial #11-447896	115	03					
1399	Serial #11-587250	141	53					
1400	Serial #11-515669	121	03					
1401	Serial #11-541510	121	03					
1402	Serial #11-429453	115	03					
1403	Serial #11-429395	115	03					
1404	Serial #11-168541	113	35					
1405	Serial #11-454667	115	03					
1406	Serial #11-436232	131	79					
1407	Serial #11-548961	118	53					
1408	Serial #11-443563	115	47					
					<b>TYPEWRITERS, ROYAL ELECTRIC</b>			
				1417	Ser. REP-13-5627782	72	92	
				1418	Ser. REP-13-6481423	87	01	
				1419	Ser. RP-13-5105974	43	89	
					<b>TYPEWRITERS, REMINGTON-ELECTRIC</b>			
				1420	Serial # E-2234409	45	00	
				1421	Serial # E-2208622	45	00	
				1422	Serial #E-2241403	52	26	
				1423	Serial #E-2137970	40	00	
				1424	Serial #E-2107881	40	00	
				1425	Serial #E-2234248	68	50	
				1426	Serial #E-2282988	61	61	
				1427	Serial #E-2183626	45	00	
				428	Serial #E-3286250	110	00	
				429	Serial #E-2279977	45	00	
				1430	Serial #E-2329163	55	08	
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b> <b>BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.</b>				NAME OF BIDDER (Type or print)				

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 13	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
<u>TYPEWRITERS, REMINGTON-ELEC. CONTD.</u>				1450	Ser. KMG-4676991	47	50
1431	Serial # E-2133113		40 00	1451	Ser. KMG-4256811	38	01
<del>1432 Item 1432 consists of remington typewriters described in Items 1420 thru 1431. Note: Award will be made on Item 1432 only if the amount bid is greater than the total bid for Items 1420 thru 1431.</del>				1452	Ser. KMG-15-4598359	48	48
<u>TYPEWRITERS, UNDERWOOD-ELECTRIC</u>				1453	Ser. KMG-4674994	42	01
1433	Serial #E-127746550		52 30	1454	Ser. HHE-5910299	61	11
1434	Serial #E-12-7410073		37 57	1455	Ser. KMM-29747 09	44	45
1435	Serial #E-12-7831352		52 31	1456	Ser. KMG19-4715865	26	51
1436	Serial #E-12-7839023		52 31	1457	Ser. HHE19-5000700	52	50
1437	Serial #E-12-7915082		52 31	1458	Ser. HHE27-5985352	40	58
<del>1438 Item 1438 consists of typewriters described in Items 1433 thru 1437. Note: Award will be made on Item 1433 only if the amount bid is greater than the total bid for Items 1433 thru 1437.</del>				1459	Ser. HHE19-4999651	37	51
<u>TYPEWRITERS, ROYAL-MANUAL</u>				1460	Ser. KMG13-4304349	47	25
1439	Ser. KMG-4156196		40 23	1461	Ser. HHE-4833560	50	23
1440	Ser. KMG-4678220		42 61	1462	Ser. HHE-4891746	50	57
1441	Ser. HHE-5118249		52 23	1463	Ser. KMG-4179495	47	25
1442	Ser. HHE-19-4950843		46 11	<del>1464 Item 1464 consists of royal typewriters described in Items 1439 thru 1463. Note: Award will be made on Item 1464 only if the amount bid is greater than the total bid for Items 1439 thru 1463.</del>			
1443	Ser. HHE-4835887		47 51	<u>TYPEWRITERS, REMINGTON-MANUAL</u>			
1444	Ser. KMM-2418869		25 58	1465	Serial #J-2265678		
1445	Ser. KMM-2645956		25 58	1466	Serial #J-2093665		
1446	Ser. KMM-14-2873230		28 99	1467	Serial #J-2037197		
1447	Ser. KMGR-4468554		44 31	1468	Serial #J-2273363		
1448	Ser. KMGR-4509252		46 31	1469	Serial #J-1834158		
1449	Ser. HHE-4832663		47 81	1470	Serial #J-2245360		
				1471	Serial #J-1834789		
				1472	Serial #J-2733799		

BIDDER IS CAUTIONED TO INSPECT THE PROPERTY  
 BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.

NAME OF BIDDER (Type or print)

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 14	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
<del>TYPEWRITERS, REMINGTON-MANUAL CONTD.</del>							
<del>1473</del>	<del>Serial #J-2278870</del>			1495	Serial #7A-3145511-11	35	11
<del>1474</del>	<del>Serial #JC 490345 front cover missing.</del>			1496	Serial #6A-3073763-11	27	31
<del>1475</del>	<del>Serial #J-2058997</del>			1497	Serial #6A-3074217-11	27	31
<del>1476</del>	<del>Serial #J-1160635</del>			1498	Serial #6A-3023866-11	27	31
<del>1477</del>	<del>Serial #J-1760692</del>			1499	Serial #7A-3199824-11	43	50
<del>1478</del>	<del>Serial #J- 2038702</del>			1500	Serial #7A-3144959-11	36	30
<del>1479</del>	<del>Serial #J-2478393</del>			1501	Item 1501 consists of typewriters described in Items 1481 thru 1500. Note: Award will be made on Item 1501 only if the amount bid is greater than the total bid for Items 1481 thru 1500.		
1480	Item 1480 consists of typewriters described in Items 1465 thru 1479. Note: Award will be made on Item 1480 only if the amount bid is greater than the total bid for Items 1465 thru 1479.	637	40	<del>TYPEWRITERS, UNDERWOOD-MANUAL</del>			
<del>TYPEWRITERS, SMITH-CORONA MANUAL</del>							
1481	Serial #88E-4235976-11	43	61	1502	Serial #20-7707870	32	01
1482	Serial #7A-3144725-11	32	91	1503	Serial #11-7510980	40	01
1483	Serial #6A-3071405-11	35	11	1504	Serial #11-7614189	33	06
1484	Serial #7A-3202590-11	28	61	1505	Serial #11-7573687	40	01
1485	Serial #6A-3074308-11	33	65	1506	Serial #11-7067569	27	57
1486	Serial #6A-3074058-11	35	11	1507	Serial #S11-5767427	22	51
1487	Serial #7A-3202687-11	35	11	1508	Serial #11-6950512	27	57
1488	Serial #6A-3023157-11	35	11	1509	Serial #11-6631356	27	57
1489	Serial #6A-3104301-11	27	77	1510	Serial #11-6950582	40	01
1490	Serial #6A-3074108-11	27	31	1511	Serial #12-6791946	36	96
1491	Serial #88E-4095106-19	35	11	1512	Serial #11-6953031	26	57
1492	Serial #6A-3074241-11	35	11	1513	Serial #19-7196028	38	28
1493	Serial #6A-3074985-11	27	57	1514	Serial #85520604-11	38	28
1494	Serial # 6A-3104195-11	35	11	1515	Serial #19-7057196	38	28
				1516	Serial #19-7194196	22	50
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b> BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.				NAME OF BIDDER (Type or print)			

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 15	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1517	<del>Item 1517 consists of typewriters described in Items 1502 thru 1516. Note: Award will be made on Item 1517 only if the amount bid is greater than the total bid for Items 1502 thru 1516.</del>			1533	<del>Item 1533 consists of audographs described in Items 1527 thru 1532. Note: Award will be made on Item 1533 only if the amount bid is greater than the total bid for Items 1527 thru 1532.</del>		
1518	<u>BILLING MACHINE</u> Flat Bed Type Underwood Elliott Fisher, Pica type face, Type slugs have been removed. Ser. T11-300061	12	50	1534	<u>SOUNDSCRIBERS</u> Mdl. 56T Ser. #90799 with foot control	18	88
1519	Same as lot 1518, Ser. T11-350736	12	50	1535	Mdl. 5TA, Ser. #63713	16	88
1520	Same as lot 1518, Ser. T11-300060	12	50	1536	Mdl. 56T, Ser. #83857 with foot control	16	88
1521	<u>COMPTOMETER, FELT &amp; TARRANT MANUAL</u> Serial # M428491	47	50	1537	Mdl. 56T, Ser. #86400 with foot control	16	88
1522	<u>CALCULATOR, MONROE-ELECTRIC</u> Model & Ser. #CAA10-575889	165	01	1538	Mdl 56R, Ser. #577211 with mike and cabinet	16	16
1523	<u>CALCULATOR, MARCHANT, ELECTRIC</u> Model & Ser. #CT10M-126744	88	88	1539	Mdl. 56T, Ser. #81878 with foot control & cabinet	16	16
1524	<u>CALCULATOR, PRINTING-REMINGTON RAND</u> Serial #99N-1188989	163	73	1540	Mdl. 5R, Ser. #517335	NO BID	
1525	Serial #98-963062	68	00	1541	Mdl. 5R, Ser. #509919 with mike and case	5	00
1526	<u>ADDING MACHINE, VICTOR ELECTRIC</u> Serial #716315C	45	08	1542	Mdl. 56T, Ser. #87964	8	10
1527	<u>AUDOGRAPHS- GRAY</u> Serial # SV-178813 with foot control			1543	Mdl. 56RC, Ser. #578922 with mike & cabinet	17	16
1528	Serial #G-176933 with mike			1544	Mdl. 5TA, Ser. 63621	NO BID	
1529	Serial #M-191640 with mike and carrying case			1545	Mdl. 5TA, Ser. 55648	NO BID	
1530	Serial #M-169836			1546	Mdl. 5R, Ser. 520365 with mike	5	79
1531	Serial #EL-206399			1547	Mdl. 5TA, Ser. 56937 with foot control	NO BID	
1532	Serial #M-181422 with mke			1548	<del>Item 1548 consists of sound-scribers described in Items 1534 thru 1547. Note: Award will be made on Item 1548 only if the amount bid is greater than the total bid for items 1534 thru 1547.</del>		
BIDDER IS CAUTIONED TO INSPECT THE PROPERTY				NAME OF BIDDER (Type or print)			
BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.							

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 16	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1549	<u>TIMEMASTERS, DICTAPHONES</u> Mdl. TDU-3 Ser. 931641 foot control	12	65	1564	HACG, Ser. 26207/2-2	21	00
1550	Mdl. TDU-5-15-30, Ser. 425270	12	65	1565	HACG, SER. 26634/2-2	21	00
1551	Mdl. TAU-5, Ser. 856197 with mike	27	65	1566	HACG, Ser. 26608/2-2	21	00
1552	Mdl. TAU-5, Ser. 142840 with mike	27	65	1567	Mdl. HACG, Ser. 21685/ 9-0	21	00
1553	Mdl. TBU-3, Ser. 940806 foot control	12	65	1568	Mdl. HACG, Ser. 20658/ 4-0	21	00
1554	Mdl. TBU-5, Ser. 986886 foot control	36	36	1569	<u>Time Recorder, Cincinnati Electric</u> Mdl. 1368E, Ser. 550942	169	15
1555	Mdl. TAU-5, Ser. 106529 with mike	27	15	1570	Item 1570 consists of time recorders described in Items 1561 thru 1569. Note: Award will be made on Item 1570 <u>only</u> if the amount bid is greater than the total bid for Items 1561 thru 1569.		
1556	Mdl. TB6, Ser. 396383 with foot control	37	65		<u>COPIERS, SIGNET, VERIFAX, KODAK</u>		
1557	Type P-7, Ser. 678810 with mike	35	79	1571	Serial #245487 with Timer	4	70
1558	Type P-7, Ser. 683088 with mike	52	23	1572	Serial #238980 with Timer	10	00
1559	Item 1559 consists of time- masters described in Items 1549 thru 1558. Note: Award will be made on Item 1549 <u>only</u> if the amount bid is greater than the total bid for Items 1549 thru 1558.			1573	Serial #244410 with timer	11	12
1560	<u>VOICEWRITER, "EDISON"</u> Mdl. DPC-1, Ser. 8830 mike and case	27	65	1574	Serial #251161 with timer	10	09
1561	<u>TIME RECORDERS ELECTRIC "SIMPLEX"</u> Mdl. HACG, Ser. 31892 3-54	22	53	1575	Item 1575 consists of Copiers described in Items 1571 thru 1574. Note: Award will be made on Item 1575 <u>only</u> if the amount bid is greater than the total bid for Items 1571 thru 1574.		
1562	Mdl. HACG, Ser. 20488/11- 9	36	36	1576	<u>COPIER, PHOTOSTAT -INSTANT</u> Mdl. 2, Ser. 15417. Photostat Corp., Rochester, N.Y.	11	61
1563	Mdl. HACG, Ser. 26723/ 2-2	26	36	1577	<u>COPIER, CONTURA, F.G. LUDWIG CO.</u> Mdl. 514, Ser. AL 12093, legal size in carrying case	14	78
				1578	AUTO-STATS "APECO" Serial #14483 case broken		50
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b> BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.				NAME OF BIDDER (Type or print)			

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 17	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1579	<u>AUTO-STATS APECO CONTD.</u> Serial #60353	1	00	1597	Mdl. 22, Ser. 343127	95	11
1580	Mdl. 150, Ser. 6438 case broken			1598	Mdl. 22, Ser. 309810	61	11
1581	Serial #30191	1	01	1599	Mdl. 225A, Ser. 386893	91	11
1582	Serial #8399 case broken		50	1600	Mdl. 22BG, 411216	71	11
1583	Serial #28147 case broken		49	1601	Mdl. 223A, Ser. 386850	86	11
1584	Serial #9403 case broken		48	1602	Mdl. 22BG, Ser. 408313	45	05
1585	Item 1585 consists of auto- stats described in Items 1578 thru 1584. Note: Award will be made on Item 1585 only if the amount bid is greater than the total bid for Items 1578 thru 1584.			1603	Mdl. 19, Ser. 1684	40	01
1586	<u>COPIERS, "HUNTER ROYAL SCOT"</u> Mdl. Laird Ser. 2630	37	37	1604	Mdl. 19BA, Ser. 01072A	96	76
1587	Mdl. Laird Ser. 2897 with paper dispenser	37	37	1605	Item 1605 consists of copy- ing machines described in Items 1592 thru 1604. Note: Award will be made on Item 1605 only if the amount bid is greater than the total bid for Items 1592 thru 1604.		
1588	Mdl. Laird Ser. 1242	REJECTED		1606	<u>DUPLICATING MACHINES, GESTETNER</u> Mdl. 260, Ser. #620307	126	88
1589	Mdl. 300, Ser. 600, "Wee Scot"	REJECTED		1607	Mdl. 160, Ser. #521065	115	00
1590	Item 1590 consists of copiers described in Items 1586 thru 1589. Note: Award will be made on Item 1590 only if the amount bid is greater than the total bid for Items 1586 thru 1589.			1608	Mdl. 260, Ser. #637062	116	88
1591	<u>VICI - COPY 12 SMITH CORONA</u> Mdl. 200, Ser. B-7065	9	78	1609	Mdl. 260, Ser. #625978	138	88
1592	<u>COPYING MACHINES, THERMO-FAX</u> Mdl. 17H, Ser. 25473	37	51	1610	Item 1610 consists of dupli- cating machines described in Items 1606 thru 1609. Note: Award will be made on Item 1610 only if the amount bid is greater than the total bid for Items 1606 thru 1609.		
1593	Mdl. 22, Ser. 349228	135	00	1611	<u>TYPEWRITER, ROYAL -MANUAL</u> Serial #HHE-13-5258501	68	00
1594	Mdl. 22, Ser. 311041	80	11	1612	<u>TYPEWRITER, L. C. SMITH-MANUAL</u> Serial # 1A-1701959-18	17	61
1595	Mdl. 22, 340954	76	11	1613	<u>TYPEWRITERS, ROYAL PORTABLE-MANUAL</u> Serial # B-1102430	33	05
1596	Mdl. 22, Ser. 314171	76	11	1614	Serial # B-1067995	33	77
				1615	Serial # B-926201	25	01
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b> BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CON- TAINING A BID.				NAME OF BIDDER (Type or print)			

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.			SALE OF GOVERNMENT PROPERTY ITEM BID PAGE			PAGE NO. 18	INVITATION NO. 3UPS-SB-65-119
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1616	<del>TYPEWRITERS, ROYAL CONT'D. Serial #B-1058503</del>	<del>33</del>	<del>20</del>	1637	Serial # J-584282	19	60
1617	<del>Serial #B-1027676</del>	<del>25</del>	<del>01</del>	1638	Serial # J-2118781	35	11
1618	<del>Serial #B-959300</del>	<del>34</del>	<del>15</del>	1639	Serial # J-359932	22	50
1619	<del>Smith Corona, Portable Typewriter-Manual Serial #3A-76622</del>	<del>27</del>	<del>50</del>	1640	Serial # J-1818655	47	56
1620	<del>Item 1620 consists of typewriters described in Items 1613 thru 1619. Note: Award will be made on Item 1620 only if the amount bid is greater than the total bid for items 1613 thru 1619.</del>			1641	Serial # J-2411174	35	11
1621	<del>CALCULATOR, MARCHANT, Serial No. &amp; Model ACT10M-259615</del>	<del>109</del>	<del>02</del>	1642	Serial # J-2274404	30	95
1622	<del>ADDING MACHINES, BURROUGHS Serial #8A-31762</del>	<del>21</del>	<del>75</del>	1643	Serial # J-2118785	35	11
1623	<del>Serial #8A-31789 in case</del>	<del>23</del>	<del>33</del>	1644	Serial # J-2038798	38	28
1624	<del>ADDRESSING MACHINE "WEBER" Mdl. A, Manual</del>	<del>9</del>	<del>00</del>	1645	<del>Item 1645 consists of typewriters described in Items 1625 thru 1644. Note Award will be made on Item 1645 only if amount bid is greater than the total bid for items 1625 thru 1644.</del>		
1625	<del>TYPEWRITERS, REMINGTON-STANDARD Serial # J-1893891</del>	<del>31</del>	<del>06</del>	1646	<u>TYPEWRITERS, ROYAL - MANUAL</u> Serial # KMM-2743954	31	11
1626	Serial # JC-548864	19	60	1647	Serial # KMM-2771330	30	23
1627	Serial # J-1966219	30	95	1648	Serial # KMM-2741552	35	45
1628	Serial # J-1845678	35	01	1649	<u>TYPEWRITERS, UNDERWOOD- MANUAL</u> Serial # 13-6889558	27	51
1629	Serial # J-2122960	36	38	1650	Serial #13-8192610	40	01
1630	Serial # J-1801811	34	81	1651	Serial #11-7139185	40	01
1631	Serial # J-2122142	35	11	1652	Serial #S12-5671600	19	60
1632	Serial # J-1884855	30	85	1653	Serial #13-8136178	42	51
1633	Serial # J-2118739	34	26	1654	Serial #13-6874180	28	51
1634	Serial # J-1965942	35	01	1655	Serial #S11-5720527	22	31
1635	Serial # J-359751	22	51	1656	Serial #S-5391626-18	19	60
1636	Serial # J-2389858	36	51	1657	Serial #13-8192613	50	01
				1658	Serial #20-8013214	28	00
				1659	Serial #11-6283179	26	51

BIDDER IS CAUTIONED TO INSPECT THE PROPERTY

NAME OF BIDDER (Type or print)

BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO.	INVITATION NO.		
				19	3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
<del>1660</del>	<del>Item 1660 consists of typewriters described in Items 1649 thru 1659. Note: Award will be made on Item 1660 only if amount bid is greater than the total bid for Items 1649 thru 1659.</del>			1676	<u>Contd.</u> facturers, parts missing. 1 - Lot	202	57
1661	<u>TYPEWRITERS, SMITH-CORONA, MANUAL</u> Serial #6A-3019563-11	22	53	1677	<u>Adding Machine, Burroughs</u> Serial # A-618004	50	01
1662	Serial #1A-1834354-11	18	00	1678	<u>Adding Machine, Underwood</u> Mdl. 10140P, Ser. 477048	69	51
1663	Serial #88E-4208786-13	35	00	1679	<u>CALCULATORS, MONROE - ELECTRIC</u> Mdl. CSA-10-3. Ser. 591916	160	28
1664	Serial #7A-3184616-11	29	95	1680	Mdl. LA5-200, Ser. 578135	69	99
1665	<u>AUDOGRAPHS, GRAY</u> Serial #EL-150448	31	00	1681	<u>TYPEWRITERS, ROYAL ELECTRIC</u> Serial #REE13-5759617	127	80
1666	Serial #S-164576	31	00	1682	Serial #REP13-5595965	50	00
1667	<u>AUTO-STATS APECO</u> Serial # 27208	1	11	1683	Serial #REE13-5771014	61	53
1668	Serial # 61460	1	01	1684	<u>TYPEWRITERS, UNDERWOOD ELECTRIC</u> Serial #E12-7912042	45	57
1669	Serial # 69268	1	37	1685	Serial #E12-7912040	41	31
1670	Serial # 68150		75	1686	Serial #E12-7912047	42	00
1671	Serial # 39440 case broken		50	1687	Serial #E12-7912048	41	31
1672	Serial # 30452 case broken		48	1688	<u>TYPEWRITERS, REMINGTON</u> Serial #E-2125640	25	00
1673	<del>Item 1673 consists of auto-stats described in Items 1667 thru 1672. Note: Award will be made on Item 1673 only if the amount bid is greater than the total bid for Items 1667 thru 1672.</del>			1689	Serial #E-2127892	27	57
1674	<u>COPYING MACHINE - THERMO-FAX</u> Mdl. 17H, Ser. 6131	11	11	1690	<u>RECORDER, F. G. LUDWIG CO.</u> Ser. TL 22359 with constat Motor Ser. MO-40885	1	03
1675	Mdl. 17H, Ser. 6758	12	00	1691	<u>BILLING MACHINE - UNDERWOOD ELLIOTT - FISHER</u> Flatbed type, pica type face (type slugs have been removed); machine serial # T11-351102; mounted on stand number D12EK-2464-42	5	00
1676	Typewriters approximately 32, Calculators approximately 8, various manu-			1692	Flatbed type, pica type face (type slugs removed); machine number T11-351103 mounted on stand #DD12-261239 together with two		
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b>				NAME OF BIDDER (Type or print)			
<b>BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID.</b>							

ALL ITEMS USED UNLESS OTHERWISE SPECIFIED.		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 20	INVITATION NO. 3UPS-SB-65-119		
ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID		ITEM NO.	ARTICLES FOR SALE	TOTAL PRICE BID	
		DOLLARS	CENTS			DOLLARS	CENTS
1692	<u>BILLING MACHINES CONTD.</u> 3-drawer auxiliary utility cabinets - one used on each side of the machine stand.	14	05				
1693	<u>FLEX-O-WRITERS</u> Serial #10755 with stand and motorized tape reader Mdl. #2	202	00				
1694	Serial #3621 with stand	55	55				
1695	<u>VOICEWRITER, Edison</u> Mdls. 74000, 86000 and 87000 with mikes and cabinets. Quantity 49	NO BID					
1696	<u>DUPLICATING MACHINE MANUAL</u> Rex-O-Graph Mdl. R, Serial #01729,	12	51				
1697	<u>DUPLICATING MACHINE, A. B. DICK, Electric</u> Mdl. 430, Ser. 005023- 430	127	50				
1698	Mdl. 445, Ser. 003425- 445	93	76				
<b>BIDDER IS CAUTIONED TO INSPECT THE PROPERTY</b> <b>BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CON-</b> <b>TAINING A BID.</b>				NAME OF BIDDER (Type or print)			

SPECIAL CONDITIONS

## BIDDERS — PLEASE READ

1. Payment in full is requested within 5 days after notification of Award.
2. Property must be removed within twenty (20) calendar days after date of Notice of Award.
3. Employees of the Federal Government including members of their immediate family may bid on this property provided they are not prohibited by their Agency's own internal regulations.
4. INTERSTATE COMMERCE. "Attention is invited to the fact that the Interstate Commerce Act makes it unlawful for anyone other than those duly authorized pursuant to that Act to transport this property in interstate commerce for hire. Anyone aiding or abetting in such violation is a principal in committing the offense. (49 U.S.C. 301-327 and 18 U.S.C. 2)."
5. CERTIFICATION OF NONCOLLUSION. (a) By submission of this bid the bidder certifies in connection with this sale that:
  - (1) The price in this bid has been arrived at without collusion with any other bidder or with any competitor;
  - (2) Unless otherwise required by law, the price in this bid has not been knowingly disclosed prior to opening, directly or indirectly to any other bidder or to any competitor; and
  - (3) No attempt has been or will be made to induce any other person or firm to submit or not to submit a bid.(b) The person signing this bid certifies that he has fully informed himself regarding the accuracy of the statements contained in this certification.
  - (c) A bid will not be considered for award where (a) (1), (a) (3), or (b) above has been deleted or modified. Where (a) (2) above has been deleted or modified, the bid will not be considered for award unless the bidder furnishes with the bid a signed statement which sets forth in detail the circumstances of the disclosure and the head of the agency, or his designee, determines that the disclosure was not made with collusive intent.
6. PAYMENT CLAUSE. "Condition No. 4 of the Standard Form 114-C, General Sale Terms and Conditions, is hereby amended to the extent that payment in the following forms also will be acceptable: Government or uncertified personal or business check; bank or commercial money order; or irrevocable commercial letter of credit issued by a bank established in the United States. Payments should be made payable to General Services Administration."
7. BID DEPOSIT. "Paragraph 1 under 'Instructions to Bidders' of the Standard Form 114-C, General Sale Terms and Conditions, is amended to provide that bid deposits in the following forms will also be acceptable:

Except as otherwise provided in the invitation, where a bid deposit is required, such deposit must accompany the bid and may be furnished in: Government or uncertified personal or business check; bank or commercial money order; Standard Form 150, Sale of Government Personal Property, Deposit Bond-Individual Invitation; irrevocable commercial letter of credit issued by a bank established in the United States; or any combination thereof; made payable to the General Services Administration. When utilizing a deposit bond, bidder must designate the GSA Regional Office (insert region number and location) on the fact of the bond in the block entitled 'Department or agency and address to which bond is to be submitted.'

The complete bid tabulation will be available for inspection at the Surplus Sales Center, Building 197, Navy Yard Annex, Washington, D.C., 48 hours after bid opening.

**\*THIS PROPERTY IS BEING OFFERED IN ACCORDANCE WITH THE EXCHANGE/SALE PROVISIONS OF THE FEDERAL PROPERTY & ADMINISTRATIVE SERVICES ACT OF 1949 AS AMENDED.**

Letters of request for bid information should be addressed to: GSA BUSINESS SERVICE CENTER ROOM 7122, SEVENTH & "D" STS., S.W., WASHINGTON, D.C., 20407

STANDARD FORM 114-C  
MARCH 1960 EDITION  
PRESCRIBED BY GENERAL  
SERVICES ADMINISTRATION  
REGULATION 1-IV-302.00

SALE OF GOVERNMENT PROPERTY  
GENERAL SALE TERMS AND CONDITIONS

1. **INSPECTION.** The Bidder is invited, urged, and cautioned to inspect the property to be sold prior to submitting a bid. Property will be available for inspection at the places and times specified in the Invitation. In no case will failure to inspect constitute grounds for the withdrawal of a bid after opening.

2. **CONDITION AND LOCATION OF PROPERTY.** Unless otherwise specifically provided in the Invitation, all property listed therein is offered for sale "as is" and "where is." If it is provided therein that the Government shall load, then "where is" means F.O.B. conveyance of the point specified in the Invitation. The description is based on the best available information. However, the Government makes no warranty, express or implied, as to quantity, kind, character, quality, weight, size, or description of any of the property, or its fitness for any use or purpose. Except as provided in Conditions Nos. 8 and 10, no request for adjustment in price or for rescission of the sale will be considered. This is not a sale by sample.

3. **CONSIDERATION OF BIDS.** The Bidder agrees that his bid will not be withdrawn within the period of time specified for the acceptance thereof following the opening of bids (sixty (60) calendar days if no period is specified by the Government or by the Bidder but not less than ten (10) calendar days in any case) and that during such period his bid will remain firm and irrevocable. The Government reserves the right to reject any or all bids, to waive any technical defects in bids, and, unless otherwise specified by the Government or by the Bidder, to accept any one item or group of items in the bid, as may be in the best interest of the Government. Unless the Invitation otherwise provides, bids may be submitted on any or all items. However, unless the Invitation otherwise provides, a bid covering any listed item must be submitted on the basis of the unit specified for that item and must cover the total number of units designated for that item. In case of error in the extension of prices, unit prices will govern.

4. **PAYMENT.** The Purchaser agrees to pay for property awarded to him in accordance with the prices quoted in his bid. Payment of the full purchase price, subject to any adjustment pursuant to Condition No. 8, must be made within the time specified for removal and prior to delivery of any of the property. In the event, however, any adjustment is made pursuant to Condition No. 8, then payment must be completed immediately subsequent to such adjustment. The balance of the purchase price after applying the total bid deposit made by the Purchaser under the Invitation (or otherwise the full purchase price) shall be paid to the Contracting Officer in cash, or by certified check, cashier's check, traveler's check, bank draft, or postal or express money order, made payable to the Treasurer of the United States (or, if so specified in the Invitation made payable either to the Government agency conducting the sale or as directed by that agency). The Government reserves the right to apply any bid deposits made under the Invitation by a Bidder against any amounts due to the Government under a contract awarded to him thereunder. In those instances where the total sum becoming due to the Government from the Purchaser on a contract awarded to him under the Invitation is less than the total amount deposited with his bid, the difference will be promptly refunded to him. Also, deposits accompanying bids which are not accepted will be promptly returned to him.

5. **TITLE.** Unless otherwise specified in the Invitation, title to the items of property sold hereunder shall vest in the Purchaser as when full and final payment is made, except that if the Invitation provides that loading will be performed by the Government, title shall not vest until such payment and loading are completed. On all motor vehicles and motor-propelled or motor-drawn equipment requiring licensing, a certificate of release, Standard Form 97 (or a State certificate of title if such a certificate of title has been issued to the Government), will be furnished for each vehicle and piece of equipment.

6. **DELIVERY AND REMOVAL OF PROPERTY.** Unless otherwise specified in the Invitation, the Purchaser shall be entitled to obtain the property upon resting of title of the property in him. Delivery shall be made at the designated location, and the Purchaser shall remove the property at his expense within the period of time originally specified in the Invitation or within such additional time as may be allowed by the Contracting Officer. The Purchaser shall reimburse the Government for any damage to Government property caused by the removal operations of the Purchaser. If the Purchaser is permitted by the Government to remove the property after the expiration of the period prescribed or allowed for removal, the Government, without limiting any other rights which it may have, may require Purchaser to pay a reasonable storage charge.

7. **DEFAULT.** If, after the award, the Purchaser breaches the contract by failing to make payment as required by Condition No. 4, or by failing to remove the property as required by Condition No. 6, then the Government may send the Purchaser a fifteen-day written notice of default (calculated from date of mailing), and upon Purchaser's failure to cure such default within that period (or such further period as the Contracting Officer may allow), the Purchaser shall lose all the right, title and interest which he might otherwise have acquired in and to the property as to which a default has occurred. The Purchaser agrees that in the event he fails to pay for the property or remove the same within the prescribed time, the Government at its election and upon notice of default shall be entitled to retain (or collect) as liquidated damages a sum equal to 20% of the purchase price of the item (or items) as to which the default has occurred. Whenever the Government exercises this election, it shall specifically advise the Purchaser either in its original notice of default (or in separate subsequent written notice) that upon the expiration of the period prescribed for curing the default the formula amount will be retained (or collected) by the Government as liquidated damages. The amount of any quantity which may be recovered by the Government as damages for failure of the Purchaser to remove the property and pay for the same shall be such formula amount. If the Purchaser otherwise fails in the performance of his obligations thereunder, the Government may exercise such rights and may pursue such remedies as are provided by law or under the contract.

8. **ADJUSTMENT FOR VARIATION IN QUANTITY OR WEIGHT.** When property is sold on a "unit price" basis, the Government reserves the right to vary the quantity or weight delivered by 10% from the quantity or weight listed in the Invitation; and the Purchaser agrees to accept delivery of any quantity or weight within these limits. The purchase price will be adjusted upwards or downwards in accordance with the unit price and on the basis of the quantity or weight actually delivered. No adjustment for variation will be made where property is sold on a "price for the lot" basis.

9. **WEIGHING.** Where weighing is necessary to determine the exact purchase price hereunder, the Purchaser shall arrange for and pay all expenses of weighing material (unless Government scales are available on the premises). All switching charges shall be paid by the Purchaser. When removal is by truck, weighing shall be under the supervision of the Government and at its option on: (a) Government scales, (b) certified scales, or (c) other scales acceptable to both parties. When removal is by rail, weighing shall be on railroad track scales, or by other means acceptable to the railroad for freight purposes. Government-approved weighing shall establish the exact purchase price and govern the making of full payment thereon.

10. **RISK OF LOSS.** (1) After mailing notice of award, and prior to passage of title to the Purchaser, the Government will be responsible for the care and protection of the property and any loss, damage, or destruction occurring during such period will be adjusted by the Contracting Officer. (2) After passage of title to the Purchaser, and prior to the date specified for removal, the Government shall be responsible only for the exercise of reasonable care for the protection of the property. (3) After passage of title and after the date specified for removal of the property, or any extension approved in writing by the Contracting Officer, all risk of loss, damage, or destruction from any cause whatsoever shall be borne by the Purchaser.

11. **LIMITATION ON GOVERNMENT'S LIABILITY.** Except for transportation charges when a return of property at Government cost is authorized by the Government, the measure of the Government's liability in any case where liability of the Government to the Purchaser has been established shall not exceed refund of such portion of the purchase price as the Government may have received.

12. **ORAL STATEMENTS AND MODIFICATIONS.** Any oral statement or representation by any representative of the Government, changing or supplementing this contract or any Condition thereof, is unauthorized and shall confer no right upon the Purchaser.

13. **CONVENTION AGAINST CONTINGENT FEES.** Purchaser warrants that no person or agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial agencies maintained by the Purchaser for the purpose of doing business. For breach of this warranty, the Government shall have the right to annul this contract without liability or at its option, to recover from the Purchaser the amount of such commission, percentage, brokerage, or contingent fee, in addition to the consideration herein set forth.

14. **OFFICIALS NOT TO BENEFIT.** No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, unless it be made with a corporation for its general benefit.

15. **DISPUTES.** Except as otherwise provided in this contract, any dispute concerning a question of fact arising under this contract which is not disposed of by agreement shall be decided by the Contracting Officer, who shall reduce his decision to writing and mail or otherwise furnish a copy thereof to the Purchaser. The decision of the Contracting Officer shall be final and conclusive unless, within thirty (30) days from the date of receipt of such copy, the Purchaser mails or otherwise furnishes to the Contracting Officer a written appeal addressed to the Secretary. The decision of the Secretary or his duly authorized representative for the determination of such appeals shall be final and conclusive unless determined to have been fraudulent, or capricious, or arbitrary, or so grossly erroneous as to necessarily imply bad faith, or not supported by substantial evidence. In connection with any appeal proceeding under this clause, the Purchaser shall be afforded an opportunity to be heard and to offer evidence in support of his appeal. Pending final decision of a dispute hereunder, the Purchaser shall proceed diligently with the performance of the contract and in accordance with the Contracting Officer's decision.

16. **DEFINITIONS.** As used throughout this contract, the following terms shall have the meanings set forth below:

(a) The term "Secretary" means the Secretary, the Under Secretary, or any Assistant Secretary of the Department, and the head or any assistant head of the Federal agency; and the term "his duly authorized representative" means any person or persons or board (other than the Contracting Officer) authorized to act for the Secretary.

(b) The term "Contracting Officer" means the person accepting the bid in whole or in part on behalf of the Government, and any other officer or civilian employee who is a properly designated Contracting Officer; and the term includes, except as otherwise provided in this contract, the authorized representative of a Contracting Officer acting within the limits of the representative's authority.

INSTRUCTIONS TO BIDDERS

1. **BID DEPOSIT.** Where a bid deposit is required by the Invitation, such deposit must accompany the bid and be furnished in cash, or by postal or express money order; cashier's, certified, or traveler's check; or a combination thereof; made payable to the Government agency conducting the sale unless otherwise directed in the Invitation. An irrevocable commercial letter of credit may be used to cover the bid deposit or the balance of the purchase price should an award be made unless otherwise directed in the Invitation.

2. **PREPARATION OF BIDS.** Bids shall be filled out in ink, indelible pencil, or typewriter, with all erasures, strike overs, and corrections initialed in ink or indelible pencil.

DEFINITION OF SMALL BUSINESS

1. For this purpose, a small business concern is a concern which, together with its affiliates, falls within one of the classifications set forth in 2 below, is independently owned and operated, and is not dominant in its field of operation. (See Code of Federal Regulations, Title 13, Part 121, as amended, if additional information is desired.)

2. Small Business Classifications.

(a) Primarily engaged in manufacturing and employs not more than 300 persons.  
(b) Primarily engaged as a nonmanufacturer, except as specified in (c) below, and had an average annual sales volume or receipts, less returns and allowances, of \$3,000,000 or less for its preceding three fiscal years.

(c) Primarily engaged in the purchase of materials not domestically produced and had an average sales volume or receipts, less returns and allowances, of \$25,000,000 or less for its preceding three fiscal years.

(d) Certified as a small business concern by the Small Business Administration.

STANDARD FORM 114  
MARCH 1962  
PREPARED BY GENERAL  
SERVICES ADMINISTRATION  
REGULATION 114-302.00

Sale

GOVERNMENT  
PROPERTY

NOTE

Information shown in Block below  
must appear in lower left hand  
corner of your bid envelope

SALE NO. GUPS-65-176  
DATE OF OPENING: 1/27/65  
TIME OF OPENING: 1 p.m.

PAGE No. 1 of 10 PAGES OF  
INVITATION No. GUPS-65-176  
DATED January 8, 1965

Sealed bids in single copy  
subject to the terms and conditions set forth herein, for  
the purchase and removal of the Government-owned prop-  
erty listed in this Invitation, will be received until the time,  
date, and at the place indicated below, and then publicly opened.

TIME OF OPENING 1:00 PM, Central Standard TIME.  
DATE OF OPENING January 27, 19 65  
PLACE OF OPENING General Services Administration, UDS  
1500 East Bannister Road, Kansas City, Missouri 64131  
BID DEPOSIT OF 20 % OF TOTAL AMOUNT OF BID IS REQUIRED.

INSPECTION INVITED BETWEEN 8:00 AM AND 4:00 PM Jan. 18, 19, 20,  
1965

ARRANGE WITH See Description Pages, TELEPHONE \_\_\_\_\_

ISSUED BY GENERAL SERVICES ADMINISTRATION, Utilization & Disposal Svc,  
ADDRESS 1500 East Bannister Road, Kansas City, Missouri 64131  
PROPERTY LOCATED AT See Description Pages,

746

STANDARD FORM 114-A MARCH 1950 PRESCRIBED BY GENERAL SERVICES ADMINISTRATION REGULATION I-IV-302.00	<h2 style="margin: 0;">SALE OF GOVERNMENT PROPERTY BID AND AWARD</h2>
---	---

<b>BID</b> (This Section to be completed by the Bidder)	DATE OF BID _____ 19____
--	--------------------------

In compliance with the Invitation identified on the cover page hereof, and subject to all the General Sale Terms and Conditions (Standard Form 114-C, March 1950 Edition), and any Special Conditions contained in the Invitation, all of which are incorporated as a part of this Bid, the undersigned offers and agrees (as set forth in Condition No. 3 of Standard Form 114-C), if this Bid be accepted within \_\_\_\_\_ calendar days (60 calendar days if no period be specified by the Government or by the Bidder, but not less than 10 calendar days in any case) after date of Bid opening, to purchase and pay for any or all of the items or lots of property listed on the attached Item Bid page(s) \_\_\_\_\_ (and, if a detailed description of property is furnished with this Invitation, as more particularly set forth therein) upon which prices are bid, at the price set opposite each item or lot, and unless otherwise specified in the description or in any Special Conditions, to remove the property within \_\_\_\_\_ calendar days (10 calendar days if no period specified) after notice of acceptance by the Government. The total amount bid is \$ \_\_\_\_\_ and attached is the required bid deposit in the form of \_\_\_\_\_, in the amount of \$ \_\_\_\_\_.

*(Envelopes containing bids must be sealed and marked on the face with the name and address of the Bidder, the Invitation number and the date and hour of opening.)*

**BIDDER REPRESENTS:** (Check appropriate boxes)

1. That he  is,  is not, a small business concern. (See Standard Form 114-C for definition of small business and small business classifications referred to in 2, hereinbelow.)
2. If Bidder represents he is a small business concern, he further represents his applicable classification as:  
 (Check one)  (a);  (b);  (c);  (d).
3. (a) That he  has,  has not, employed or retained any company or person (other than a full-time bona fide employee working solely for the Bidder) to solicit or secure this contract, and (b) that he  has,  has not, paid or agreed to pay any company or person (other than a full-time bona fide employee working solely for the Bidder) any fee, commission, percentage or brokerage fee, contingent upon or resulting from the award of this contract; and agrees to furnish information relating to (a) and (b) above as requested by the Contracting Officer. (For interpretation of the representation, including the term "bona fide employee," see Code of Federal Regulations, Title 44, Part 150.)

NAME AND ADDRESS OF BIDDER (Street, city, zone, and State. Type or print)	SIGNATURE OF PERSON AUTHORIZED TO SIGN BID
	SIGNER'S NAME AND TITLE (Type or print)

<b>ACCEPTANCE BY THE GOVERNMENT</b> (This Section for Government use only)	DATE OF ACCEPTANCE _____ 19____
---	---------------------------------

ACCEPTED AS TO ITEMS NUMBERED	UNITED STATES OF AMERICA
	BY _____ (Contracting Officer)

TOTAL AMOUNT \$ _____	CONTRACT NUMBER	TITLE OF CONTRACTING OFFICER
--------------------------	-----------------	------------------------------

STANDARD FORM 114-B MARCH 1960 PRESCRIBED BY GENERAL SERVICES ADMINISTRATION REGULATION 141-302 00		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 3	INVITATION NO. 6UPS-65-176		
TO BE SUPPLIED BY BIDDER							
ITEM NO.	ARTICLES FOR SALE	QUANTITY (No. of Units)	UNIT OF MEASURE	PRICE BID PER UNIT	TOTAL PRICE BID		
					DOLLARS	CENTS	
	Items 1 end 2 are located at <u>Leavenworth, Kansas.</u>						
1	SAW	1	EA	\$	247	70	
2	SAW, BAND	1	EA	\$	247	70	
	Items 3 thru 11 are located at <u>Wichita, Kansas.</u>						
3	AUDIOMETER	1	EA	\$	12	67	
4	ANESTHESIA APPARATUS	1	EA	\$	25	00	
5	CENTRIFUGE	1	EA	\$	27	50	
6	WATER BATH & CABINETS	1	LOT	XXX	\$	15	00
7	REFRIGERATORS	1	LOT	XXX	\$	16	70
8	PROJECTOR	1	EA	\$	12	00	
9	TYPEWRITER	1	EA	\$	25	00	
10	TYPEWRITER	1	EA	\$	27	00	
11	FANS	1	LOT	XXX	\$	66	66
	Items 12 thru 25 are located at <u>Topeka, Kansas.</u>						
12	HYDRAULIC JACK & GRINDER	1	LOT	XXX	\$	52	00
13	TELEVISION	1	EA	\$	21	66	
14	TELEVISION	1	EA	\$	21	66	
15	TELEVISION	1	EA	\$	21	66	
16	RESPIRATOR	1	EA	\$	18	00	
17	CHAIRS	1	LOT	XXX	\$	12	00
18	SKELETON	1	EA	\$	35	57	
19	SPECTROPHOTOMETER	1	EA	\$	476	06	
20	WATER BATH	1	EA	\$	21	00	
BIDDER IS CAUTIONED TO INSPECT THE PROPERTY			NAME OF BIDDER (Type or print)				
BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID							

STANDARD FORM 114-9 MARCH 1960 PRESCRIBED BY GENERAL SERVICES ADMINISTRATION REGULATION 1-4-302 00		SALE OF GOVERNMENT PROPERTY ITEM BID PAGE		PAGE NO. 4	INVITATION NO. 6UPS-65-176	
TO BE SUPPLIED BY BIDDER						
ITEM NO.	ARTICLES FOR SALE	QUANTITY (No. of Units)	UNIT OF MEASURE	PRICE BID PER UNIT	TOTAL PRICE BID	
					DOLLARS	CENTS
21	PROJECTOR	1	EA		\$	51 64
22	REFRIGERATORS	1	LOT	XXX	\$	30 37
23	ADDING MACHINE	1	EA		\$	40 50
24	HORN	1	EA		\$	29 00
25	SNOOKER TABLE	1	EA		\$	141 00
Items 26 thru 29 are located at <u>Kansas City, Missouri.</u>						
26	CASSETTE CHANGER	1	EA		\$	6 66
27	RADIOGRAPHIC UNIT	1	EA		\$	165 00
28	TABLE TREATMENT	1	LOT	XXX	\$	4 11
29	RUG	1	EA		\$	2 11
GRAND TOTAL OF BIDS					\$	
AMOUNT OF DEPOSIT					\$	
BIDDERS ARE URGED TO INSPECT PROPERTY.						
BIDDER IS CAUTIONED TO INSPECT THE PROPERTY				NAME OF BIDDER (Type or print)		
BIDDER'S NAME SHOULD APPEAR ON EACH ITEM BID PAGE CONTAINING A BID						

STANDARD FORM 114-C  
MARCH 1960 EDITION  
PRESCRIBED BY GENERAL  
SERVICES ADMINISTRATION  
REGULATION 1-IV-302.00

**SALE OF GOVERNMENT PROPERTY  
GENERAL SALE TERMS AND CONDITIONS**

1. **INSPECTION.** Where weighing is required, and continued to inspect the property to be sold prior to submitting a bid. Property will be available for inspection at the places and times specified in the invitation. In no case will failure to inspect constitute grounds for the withdrawal of a bid after opening.

2. **CONDITION AND LOCATION OF PROPERTY.** Unless otherwise specifically provided in the invitation, all property listed therein is offered for sale "as is" and where it is if it is provided therein that the Government shall load, there "where is" means a full conveyance of the point specified in the invitation. The description is based on the best available information. However, the Government makes no warranty, express or implied, as to quantity, kind, character, quality, weight, size, or description of any of the property, or its fitness for any use or purpose. Except as provided in Conditions No. 8 and 10, no request for adjustment in price or for rescission of the sale will be considered. This is not a sale by sample.

3. **CONSIDERATION OF BIDS.** The bidder agrees that his bid will not be withdrawn within the period of time specified for the acceptance thereof following the opening of bids (sixty (60) calendar days if no period is specified by the Government or by the Bidder but not less than ten (10) calendar days in any case) and that during such period his bid will remain firm and irrevocable. The Government reserves the right to reject any or all bids, to waive any technical defects in bids, and, unless otherwise specified by the Government or by the Bidder, to accept any one item or group of items in the bid, as may be in the best interest of the Government. Unless the invitation otherwise provides, bids may be submitted on any or all items. However, unless the invitation otherwise provides, a bid covering any listed item must be submitted on the basis of the unit specified for that item and must cover the total number of units designated for that item. In case of error in the extension of prices, unit prices will govern.

4. **PAYMENT.** The Purchaser agrees to pay for property awarded to him in accordance with the prices quoted in his bid. Payment of the full purchase price, subject to any adjustment pursuant to Condition No. 8, must be made within the time specified for removal and prior to delivery of any of the property. In the event, however, any adjustment is made pursuant to Condition No. 8, then payment must be completed immediately subsequent to such adjustment. The balance of the purchase price after applying the total bid deposit made by the Purchaser under an invitation (or otherwise the full purchase price) shall be paid to the Contracting Officer in cash, or by certified check, cashier's check, traveler's check, bank draft, or postal or express money order, made payable to the Treasurer of the United States (or, if so specified in the invitation made payable either to any Government agency conducting the sale or as directed by that agency). The Government reserves the right to apply any bid deposits made under the invitation by a Bidder against any amounts due to the Government under a contract awarded to him thereunder. In those instances where the total sum becoming due to the Government from the Purchaser on a contract awarded to him under the invitation is less than the total amount deposited with his bid, the difference will be promptly refunded to him. Also, deposits accompanying bids which are not accepted will be promptly returned to him.

5. **TITLE.** Unless otherwise specified in the invitation, title to the items of property sold hereunder shall vest in the Purchaser as when full and final payment is made, except that if the invitation provides that loading will be performed by the Government, title shall not vest until such payment and loading are completed. On all motor vehicles and motor-propelled or motor-driven equipment requiring licensing, a certificate of release, Standard Form 92 (or a State certificate of title if such a certificate of title has been issued to the Government), will be furnished for each vehicle and piece of equipment.

6. **DELIVERY AND REMOVAL OF PROPERTY.** Unless otherwise specified in the invitation, the Purchaser shall be entitled to obtain the property upon vesting of title of the property. Delivery shall be made at the designated location, and the Purchaser shall remove the property at his expense within the period of time originally specified in the invitation or within such additional time as may be allowed by the Contracting Officer. The Purchaser shall reimburse the Government for any damage to Government property caused by the removal operations of the Purchaser. If the Purchaser is permitted by the Government to remove the property after the expiration of the period prescribed or allowed for removal, the Government, without limiting any other rights which it may have, may require the Purchaser to pay a reasonable storage charge.

7. **DEFAULT.** If, after the award, the Purchaser breaches the contract by failing to make payment as required by Condition No. 4, or by failing to remove the property as required by Condition No. 6, then the Government may send the Purchaser a fifteen-day written notice of default (calculated from date of mailing), and upon Purchaser's failure to cure such default within that period (or such further period as the Contracting Officer may allow), the Purchaser shall lose all the rights, title and interest which he might otherwise have acquired in and to the property as to which a default has occurred. The Purchaser agrees that in the event he fails to pay for the property or remove the same within the prescribed time, the Government at its election and upon notice of default shall be entitled to retain (or collect) as liquidated damages a sum equal to 20% of the purchase price of the item (or items) at which the default has occurred. Whenever the Government exercises this election, it shall specifically apprise the Purchaser either in its original notice of default (or in separate subsequent written notices) that upon the expiration of the period prescribed for curing the default the former amount will be retained (or collected) by the Government as liquidated damages. The maximum sum, moreover, which may be recovered by the Government as damages for failure of the Purchaser to remove the property and pay for the same shall be such formula amount. If the Purchaser otherwise fails to perform any of his obligations thereunder, the Government may exercise such rights and may pursue such remedies as are provided by law or under the contract.

8. **ADJUSTMENT FOR VARIATION IN QUANTITY OR WEIGHT.** When property is sold on a "unit price" basis, the Government reserves the right to vary the quantity or weight delivered by 10% from the quantity or weight listed in the invitation, and the Purchaser agrees to accept delivery of any quantity or weight within these limits. The purchase price will be adjusted upwards or downwards in accordance with the unit price and on the basis of the quantity or weight actually delivered. No adjustment for variation will be made where property is sold on a "price for the lot" basis.

9. **WEIGHING.** Where weighing is necessary to determine the exact purchase price hereunder, the Purchaser shall arrange for and pay all expenses of weighing material (unless Government scales are available on the premises). All switching charges shall be paid by the Purchaser. When removal is by truck, weighing shall be under the supervision of the Government and at its option on: (a) Government scales, (b) certified scales, or (c) other scales acceptable to both parties. When removal is by rail, weighing shall be on railroad track scales, or by other means acceptable to the railroad for freight purposes. Government-approved weighing shall establish the exact purchase price and govern the making of full payment thereon.

10. **RISK OF LOSS.** (1) After mailing notice of award, and prior to passage of title to the Purchaser, the Government will be responsible for the care and protection of the property and any loss, damage, or destruction occurring during such period will be adjusted by the Contracting Officer. (2) After passage of title to the Purchaser, and prior to the date specified for removal, the Government shall be responsible only for the exercise of reasonable care for the protection of the property. (3) After passage of title and after the date specified for removal of the property, or any extension approved in writing by the Contracting Officer, all risk of loss, damage, or destruction from any cause whatsoever shall be borne by the Purchaser.

11. **LIMITATION ON GOVERNMENT'S LIABILITY.** Except for transportation charges when a return of property at Government cost is authorized by the Government, the measure of the Government's liability in any case where liability of the Government to the Purchaser has been established shall not exceed refund of such portion of the purchase price as the Government may have received.

12. **ORAL STATEMENTS AND MODIFICATIONS.** Any oral statement or representation by any representative of the Government, changing or supplementing this contract or any condition thereof, is unauthorized and shall count no right upon the Purchaser.

13. **COVENANT AGAINST CONTINGENT FEES.** Purchaser warrants that no person or agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial agencies maintained by the Purchaser for the purpose of doing business. For breach of this warranty, the Government shall have the right to annul this contract without liability or at its option, to recover from the Purchaser the amount of such commission, percentage, brokerage, or contingent fee, in addition to the cost thereon then set forth.

14. **OFFICIALS NOT TO BENEFIT.** No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, unless it be made with a corporation for its general benefit.

15. **DISPUTES.** Except as otherwise provided in this contract, any dispute concerning a question of fact arising under this contract which is not disposed of by agreement shall be decided by the Contracting Officer, who shall reduce his decision to writing and mail the same to the Purchaser. The Contracting Officer may, at his discretion, require the Purchaser or otherwise furnish a copy thereof to the Purchaser. The decision of the Contracting Officer shall be final and conclusive unless, within thirty (30) days from the date of receipt of such copy, the Purchaser mails or otherwise furnishes to the Contracting Officer a written appeal addressed to the Secretary. The decision of the Secretary or his duly authorized representative for the determination of such appeals shall be final and conclusive unless determined to have been fraudulent, or capricious, or arbitrary, or so grossly erroneous as necessarily to imply bad faith, or not supported by substantial evidence. In connection with any appeal proceeding under this clause, the Purchaser shall be afforded an opportunity to be heard and to offer evidence in support of his appeal. Pending final decision of a dispute hereunder, the Purchaser shall proceed diligently with the performance of the contract and in accordance with the Contracting Officer's decision.

16. **DEFINITIONS.** As used throughout this contract, the following terms shall have the meaning set forth below:

- (a) The term "Secretary" means the Secretary, the Under Secretary, or any Assistant Secretary of the Department, and the head or any assistant head of the Federal agency, and the term "his duly authorized representative" means any person or persons or board (other than the Contracting Officer) authorized to act for the Secretary.
- (b) The term "Contracting Officer" means the person accepting the bid in whole or in part on behalf of the Government, and any other officer or civilian employee who is a properly designated Contracting Officer; and the term includes, except as otherwise provided in this contract, the authorized representative of a Contracting Officer acting within the limits of the representative's authority.

**INSTRUCTIONS TO BIDDERS**

1. **BID DEPOSIT.** Where a bid deposit is required by the invitation, such deposit must accompany the bid and be furnished in cash, or by postal or express money order; cashier's, certified, or traveler's check, or a combination thereof, made payable to the Government agency conducting the sale unless otherwise directed in the invitation. An irrevocable commercial letter of credit may be used to cover the bid deposit or the balance of the purchase price should an award be made unless otherwise directed in the invitation.

2. **PREPARATION OF BIDS.** Bids shall be filled out in ink, indelible pencil, or typewriter, with all erasures, strikes over, and corrections initialed in ink or indelible pencil.

**DEFINITION OF SMALL BUSINESS**

1. For this purpose, a small business concern is a concern which, together with its affiliates, falls within one of the classifications set forth in 2 below, is independently owned and operated, and is not dominant in its field of operation. (See Code of Federal Regulations, Title 13, Part 121, as amended, if additional information is desired.)

- 2. Small Business Classifications
  - (a) Primarily engaged in manufacturing and employs not more than 500 persons.
  - (b) Primarily engaged as a nonmanufacturer, except as specified in (c) below, and had an average annual sales volume or receipts, less returns and allowances, of \$5,000,000 or less for its preceding three fiscal years.
  - (c) Primarily engaged in the purchase of materials not domestically produced and had an average annual sales volume or receipts, less returns and allowances, of \$25,000,000 or less for its preceding three fiscal years.
  - (d) Certified as a small business concern by the Small Business Administration.

SPECIAL TERMS AND CONDITIONS

BID DEPOSIT. Paragraph 1 under "Instructions to Bidder" of the General Sales Terms and Conditions, Standard Form 114C, is amended to provide acceptance of additional forms of deposit as follows: Uncertified personal or business check, provided such checks are not drawn by a third party; Canadian Postal Money Order designed for payment in the United States, which is acceptable in U. S. dollars at the stated face value; Federal Home Loan Bank Money Order; Government Check, properly endorsed; Standard Form 150, Sale of Government Personal Property; Deposit Bond-Individual Invitation; Irrevocable Commercial Letter of Credit issued by a bank established in the United States. Deposits should be made payable to General Services Administration or the Treasurer of the United States. When utilizing Standard Form 150, bidder must designate the Regional Office, Region 6, General Services Administration, Kansas City, Missouri, on the face of the bond in the block entitled "Department or Agency and address to which bond is to be submitted".

PAYMENT. Successful bidder will have 10 days from Notice of Award to make full payment. Condition No. 4 of the General Sales Terms and Conditions, Standard Form 114C, is hereby amended to the extent that payment will be accepted in the same form as for bid deposit, except for the Standard Form 150, and shall be made payable to General Services Administration or Treasurer of the United States.

REMOVAL OF PROPERTY. All property must be removed within 20 days from date of Notice of Award or storage charges may accrue. If there is crating or packing to be done in order to ship the property by commercial transportation, arrangements for such packing and crating will be done by the successful bidder.

STATUS OF PROPERTY. All property is sold "As is - where is".

BIDDER INFORMATION

BIDS. Bids should be mailed to General Services Administration, 1500 East Bannister Road, Kansas City, Missouri 64131. Make certain that a 20% bid deposit accompanies your bid.

LATE BIDS. No bid or modification thereof received after the time set for opening will be considered except when a bid or modification arrives by mail after bid opening time but before award is made and it is determined by the Government that a late delivery was due solely to delay in the mails, for which bidder was not responsible. Such bid or modification thereon, with the required bid deposit, will be considered. Bidders are reminded that the Post Office Department has announced, effective February 1, 1964, the hour designation would no longer be shown in postmarks. In determining whether or not a late bid was timely mailed and that late delivery was due solely to delay in the mails, for which the bidder was not responsible, the time of mailing shall be deemed to be the last minute of the date shown in the postmark unless the bidder furnishes evidence from the Post Office Station of mailing which establishes an earlier time. Bidders using certified mail are cautioned to obtain a Receipt for Certified Mail showing a legible, dated postmark and retain such receipt against the chance that it will be required as evidence that a late bid was timely mailed.

TELEGRAPHIC OR TELEPHONIC BIDS. Telegraphic or telephonic bids will not be considered, but modification by telegram of bids already submitted will be considered if both the bid and the telegraphic modification thereto are received by the Sales Contracting Officer prior to the time set for opening of bids. Increased bids must provide for increased bid deposit, which must be received by the Sales Contracting Officer prior to the time set for the opening of bids. Telegraphic modifications which are received late will be considered only if received before award and if lateness was due to abnormal delay in transmission.

SALES TO GOVERNMENT EMPLOYEES. (a) Non-GSA Employee Transactions. Employees of the Federal Government (including members of their immediate families) are cautioned against submitting bids on this property except to the extent authorized by their agency's own regulations and policies. (b) GSA Employee Transactions. No officer or employee of GSA and no member of the family of such officer or employee who is wholly or partially dependent upon him or resides with him shall purchase, either for his own account or that of any other person, and no person acting in behalf of such officer or employee, or such member, shall purchase any Government personal property being sold as surplus or for replacement purposes.

SALES AND USE TAX LIABILITY. Purchasers of property from the Government may be subject to payment of a State sales and/or use tax. The United States Government is not responsible for collection of State taxes. Purchasers may obtain information from the nearest office of the State Board of Equalization. Sales and/or use tax officials are permitted to examine all sales records of material to determine tax liability.

NO BID RESPONSE. "No bid" responses are not required to be submitted for this sale from a person or firm to be eligible to continue to receive sales offerings.

INTERSTATE TRANSPORTATION. Attention is invited to the fact that the Interstate Commerce Act makes it unlawful for anyone other than those duly authorized pursuant to that Act to transport this property in interstate commerce for hire. Anyone aiding or abetting in such violation is a principal in committing the offense. (49 U.S.C. 301-327 and 18 U.S.C. 2).



Page No.  
9~~DO NOT RETURN WITH BID~~Invitation No.  
GUPB-65-173ITEM NO.                      DESCRIPTIONNOTE: ALL QUANTITIES STATED ON "LOT" ITEMS ARE APPROXIMATE. DESCRIPTIONS ARE BASED ON THE BEST INFORMATION AVAILABLE TO SELLING ACTIVITY.BIDDERS ARE URGED TO INSPECT PROPERTY.

- 7      ONE LOT CONSISTING OF REFRIGERATOR, HOUSEHOLD, 6',  
FRIGIDAIRE, MODEL MJ-6, S/N 49A82745, 1 EACH;  
REFRIGERATOR, KELVINATOR, S/N 3983979, 1 EACH;  
WESTINGHOUSE REFRIGERATOR, MODEL S-6-40, S/N  
WE-010479, 1 EACH (USED)                      \_\_\_\_\_
- 8      PROJECTOR, SLIDE, OPAQUE, 2x2" SLIDES, MANUAL OPERATING,  
5" LENS, S/N 95102, PROFESSIONAL 750 (3-DIMENSION) (USED)                      \_\_\_\_\_
- 9      TYPEWRITER, MANUAL, 11" CARRIAGE, ROYAL, S/N KMM-3131064  
(USED)                      \_\_\_\_\_
- 10     TYPEWRITER, MANUAL, 14" CARRIAGE, ROYAL, S/N KMM-14-2914762,  
(USED)                      \_\_\_\_\_
- 11     ONE LOT CONSISTING OF: FANS, OSCILLATING, 10" BLADE, 1 EACH;  
12" BLADE, 1 EACH; 16" BLADE, 19 EACH (USED)                      \_\_\_\_\_

ITEMS 12 THRU 25 ARE LOCATED AT VETERANS ADMINISTRATION HOSPITAL, TOPEKA, KANSAS  
ARRANGE WITH C. W. SOMERS, ASSISTANT CHIEF, SUPPLY DIVISION, TELEPHONE CE 3-6411

- 12     ONE LOT CONSISTING GENERALLY OF: JACK, HYDRAULIC, 4-TON,  
BLACKHAWK, MODEL NO. 64, ON FOUR WHEELS, APPROX. LENGTH  
4-FT. LONG, S/N 809476, 1 EACH; GRINDER, ELECTRIC, B&D,  
2-WHEEL, WITH EYE SHIELDS, 220-440 VOLT, 3600 RPM,  
1/2 HP, 3-PHASE, S/N 802608, 1 EACH (USED)                      \_\_\_\_\_
- 13     TELEVISION, RCA, 14-INCH PORTABLE, S/N A1862944 (USED)                      \_\_\_\_\_
- 14     TELEVISION, RCA, 14-INCH PORTABLE, S/N A1864594 (USED)                      \_\_\_\_\_
- 15     TELEVISION, RCA, 14-INCH PORTABLE, S/N A1862788 (USED)                      \_\_\_\_\_
- 16     RESPIRATOR, CHEST, PORTABLE, MONAGHAN MODEL P-12, S/N  
273-0, SHELL UNIT MODEL S, S/N 252 W/BATTERY UNIT AND  
POWER UNIT MODEL B-12, S/N 283, MFG. MONAGHAN PORTABLE  
RESPIRATOR (USED)                      \_\_\_\_\_
- 17     ONE LOT CONSISTING GENERALLY OF: CHAIR, SPECIALIST'S,  
METAL, REVOLVING SEAT, ADJUSTABLE BACK, ARM AND HEAD RESTS,  
WHITE ENAMEL, ON LEGS, APPROX. 2 EA; SETTEE, TUBULAR STEEL,  
3-SEAT, MAROON COLORED LEATHERETTE UPHOLSTERY, APPROX. 22"  
HIGH X 60" LONG X 18" DEEP, 1 EACH (USED)                      \_\_\_\_\_
- 18     SKELETON, HUMAN, ADULT, ARTICULATED, CLAY ADAMS CO. (USED)                      \_\_\_\_\_

Page No.  
10

DO NOT RETURN WITH BID

Invitation No.  
GUPS-65-176

ITEM NO.                      DESCRIPTION

NOTE: ALL QUANTITIES STATED ON "LOT" ITEMS ARE APPROXIMATE. DESCRIPTIONS ARE BASED ON THE BEST INFORMATION AVAILABLE TO SELLING ACTIVITY.

BIDDERS ARE URGED TO INSPECT THE PROPERTY.

- |  |   |       |
|--|---|-------|
| 19   | SPECTROPHOTOMETER, QUARTZ, BECKMAN, WITH WATER COOLER, MODEL D. U., S/N 1987, 30" LONG X 9" HIGH X 9" DEEP, WITH PHOTOMULTIPLIER, BATTERY OPERATED BECKMAN NO. 4300, S/N 171666, AND HYDRGGEN LAMP POWER SUPPLY MODEL 8, S/N 1681, AND BATTERY CHARGER & BATTERY, BECKMAN MODEL 14500, S/N 139788, 115 VOLT, 60 CYCLE, AC (USED)  | _____ |
| 20   | WATER BATH, SEROLOGICAL, 200-WATT, 110-VOLT, AC-DC, MDL. NO. 4030420, S/N 1535, MFG. MODERN LAB. EQUIP. CO. (USED)  | _____ |
| 21   | PROJECTOR, MOTION PICTURE, 16MM, BELL & HOWELL, SILENT OR SOUND, PORTABLE W/CASE, MODEL 179, FILMOSOUND 202, S/N 901242 (USED)  | _____ |
| 22   | ONE LOT CONSISTING GENERALLY OF: REFRIGERATOR, ELECTRIC, HOUSEHOLD TYPE, 6 CU. FT., FRIGIDAIRE, W/FREEZING COMPARTMENT, S/N 91A84786, 1 EA; REFRIGERATOR, MECHANICAL, HOUSEHOLD TYPE, W/FREEZING COMPARTMENT, KELVINATOR, S/N 1114044 (8 CU. FT.) 1 EA; REFRIGERATOR, ELECTRIC, HOUSEHOLD TYPE, W/FREEZING COMPARTMENT, DEEPPFREEZE S/N 117849 (10 CU. FT.) 1 EACH (USED) | _____ |
| 23   | ADDING MACHINE, MONROE, LISTING, 9-COLUMN, ELECTRIC, S/N 15414 (USED)   | _____ |
| 24   | HORN, BARITONE, WITH MOUTHPIECE AND CASE, S/N 143538, MFG. MARTIN HANDCRAFT (USED)  | _____ |
| 25   | TABLE, SNOOKER-POOL, 4'x8', BRUNSWICK BALKE COLLENDER CO., (DISMANTLED) (USED)  | _____ |
| ITEMS 26 THRU 29 ARE LOCATED AT VETERANS ADMINISTRATION HOSPITAL, 4801 LINWOOD BLVD., KANSAS CITY, MISSOURI. ARRANGE WITH M. J. JONES, ASSISTANT CHIEF, SUPPLY DIVISION, TELEPHONE WA 1-9900, EXTENSION 212 KANSAS CITY. |   |       |
| 26   | CASSETTE CHANGER, STEREOSCOPIC W/POTTER BUCKY DIAPHRAM 110V, 60C, UPRIGHT MAGNETICALLY CONTROLLED, WESTINGHOUSE, S/N 582121 (6-1100) (USED)   | _____ |
| 27   | RADIOGRAPHIC UNIT, MOBILE, 30MA, 110V, 60C, PICKER XRAY CO., S/N 3236 (6-2700) (USED)   | _____ |
| 28   | ONE LOT CONSISTING GENERALLY OF: TABLE TREATMENT, PHYSICAL THERAPY, WOOD, 78" L x 30" W x 30" H (7-6200)                      APPROX. 7 EA. (USED)  | _____ |
| 29   | RUG, NUBBYWEAVE TWISTED COTTON, 15x15' (27-4000) (USED)   | _____ |

GENERAL SERVICES ADMINISTRATION,  
Washington, D.C., May 18, 1965.

HON. PAUL H. DOUGLAS,

Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: On January 11, 1965, we furnished you with data concerning paint stocks transferred to GSA by the Department of Defense. The data we furnished at that time was as of November 30, 1964.

Your letter of March 29, 1965, indicated that you were interested in reports on handtools as well as paint and the attachment as of March 31, 1965, is therefore forwarded for your information.

In summary, paint declared excess because of deterioration represents 6 percent of the value of inventory decapitalized from the Department of Defense to General Services Administration. In addition, the discovered shortages of paint from the book value of the inventory decapitalized totaled \$1,019,480 or 8 percent of the value of the inventory decapitalized.

In the handtool commodity category, the excess declarations totaled \$2,473,755 or 5 percent of the handtool inventory decapitalized and in addition, the discovered shortages amount to \$1,275,082 or 2.5 percent of the handtool inventory decapitalized.

Copies of this letter have been furnished to the Department of Defense and to the General Accounting Office.

Sincerely yours,

LAWSON B. KNOTT, Jr.,  
Acting Administrator.

*Summary of paint and handtool writeoffs, Mar. 31, 1965*

	Paint	Handtools	Total
Excess:			
Usable.....	\$85,687	\$2,411,220	\$2,496,907
Deteriorated.....	832,521	62,535	895,056
Total, declared excess.....	918,208	2,473,755	3,391,963
Stock adjustments:			
Shortages.....	1,019,480	1,275,082	2,294,562
Overages.....	498,557	411,025	909,582

REPORT OF THE JOINT GENERAL SERVICES ADMINISTRATION-DEPARTMENT OF DEFENSE SHELF LIFE MATERIALS STUDY GROUP (see pp. 72, 80, 194)

CONTENTS

- I. Introduction.
    - A. Authority.
    - B. Purpose and scope.
    - C. Objectives.
  - II. Background.
  - III. Schedule of study group tasks.
  - IV. Facts.
  - V. Conclusions.
  - VI. Recommendations.
- Assistant Secretary of Defense (Installations and Logistics) memo, September 25, 1964.  
subject: Project to identify and use short shelf life materials, appendix A.  
Congressional subcommittee report extract, appendix B.  
Shelf-life controls exercised by Federal agencies, appendix C.  
Observation of shelf life controls as applied, appendix D.  
Analysis of current shelf life items, appendix E.  
Shelf life codes, appendix F.  
Application of condition codes, appendix G.  
Proposed DOD instruction 4140, appendix H.  
Proposed agreement between GSA and DOD, appendix I.

I. INTRODUCTION

A. Authority

The Deputy Assistant Secretary of Defense (Supply and Services) on September 25, 1964, addressed a memorandum to the Defense Supply Agency which referred to pages 10 and 11 of the report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, dated September 3, 1964, specifically that portion dealing with short shelf life items. The memorandum, appendix A, requested the Defense Supply Agency to establish

a joint Department of Defense-General Services Administration project to accomplish the following:

1. To identify items currently managed as shelf life items.
2. To provide for standardization of shelf life periods to the extent possible.
3. To explore the possibilities for increase interservicing arrangements for maximum Government-wide utilization prior to disposal action.

By copies of the memorandum, the military services were directed to provide the participation and assistance required by the Director, Defense Supply Agency.

#### *B. Purpose and scope*

The report of the congressional subcommittee, appendix B, recommended a threefold purpose for the project, as follows:

1. Identification and use of shelf life items now in stock.
2. Development of ways and means to reduce losses from these items in the future.
3. Report to the subcommittee in 1965.

NOTE.—The time required to gather the current shelf life assets data precludes implementation of interagency usage of existing shelf life assets prior to the reporting date set by the subcommittee. Further, a long-range system for optimum use of shelf life items must be implemented after the GAO reporting date set by the subcommittee because of the complexities of shelf life problems and the time required to plan and install a management system that will be Government wide.

#### *C. Objectives*

The objectives of the study group were:

1. To identify current shelf life assets which may expire if not used promptly.
2. To furnish standard shelf life terminologies and definitions for use throughout the Federal Government.
3. To devise a means of offering current and future shelf life assets to other potential users within the Federal Government for use prior to expiration of these assets.
4. To devise standard coding structures, management techniques and procedures which will effect stricter controls for items identification, marking, and storage required to protect shelf life items, facilitate issue, and to preclude losses due to expiration.

## II. BACKGROUND

A. Research by the study group revealed that shelf life controls have been in use for age-sensitive materiel for many years. Presentations by the representatives of the military services and GSA indicate that varying systems are applied to the management of shelf life items. These systems, while offering internal controls and some intraservicing, do not provide a method for the interservicing of shelf life items among the military services and other Federal agencies prior to the expiration of shelf life periods.

B. Until the advent of the Federal Catalog System, no method existed for the standard identification of any item. Conversion to the centrally controlled cataloging system was completed less than 10 years ago; however, no attention was given to the identification of shelf life items within the central file.

C. Only recently has attention been given to standard supply management procedures such as milstrip and milstrap, which apply across military service lines, and to the General Services Administration through support agreements with the Department of Defense.

## III. SCHEDULE OF STUDY GROUP TASKS

October 28–November 9, 1964: Presentations by representatives on shelf life controls (app. C).

November 17, 1964–January 1, 1965: Reports of shelf life items from inventory managers.

November 24–December 23, 1964: Observation of shelf life control in use (app. D).

January 1–February 10, 1965: Analysis of shelf life term reports (app. E).

January 10–February 10, 1965: Development of report and proposed DOD instruction.

February 8–February 10, 1965: Development of procedures for interservice of current assets.

## IV. FACTS

A. Management controls of shelf life items are exercised by the various agencies. These controls generally include considerations of shelf life periods in requirements computations. All agencies practice first-in, first-out (FIFO), although agencies issue stocks with a maximum remaining shelf life period to selected customers, due to mission assignment (app. C and D).

B. There were 41,700 line items reported in 249 Federal supply classes which are accorded shelf life management protection by agencies of the Federal Government, with an on-hand asset value of \$703,500,000 (app. E).

C. Eight hundred and forty line items, identified by the same Federal stock numbers are managed by 2 or more services; 580 have been assigned varying shelf life periods by their respective managing agencies (app. E).

D. Of the 41,700 line items reported, 10,000 lines reflected zero on hand assets. Consequently, the balance of 31,700 lines should be reviewed by their respective managers to determine any existing excesses (app. E).

E. Assigned shelf life periods vary from 3 months to 10 years (app. E).

F. Procedures are available for reporting items in long supply and true excess for interservice; however, these procedures do not provide for the reporting of shelf life items in a potential excess position due to a diminishing shelf life time period. (Reference Defense Utilization Manual, DSAM 4140.1).

G. The stockage objectives at base level vary from 1 to 3 months (app. D).

## V. CONCLUSIONS

A. Standard procedures have not been developed for posts, camps and stations to report or exchange stocks approaching the expiration date.

B. Shelf life controls were not always transferred from the losing agency to the gaining agency with the transfer of management responsibilities. At times the transfer of management responsibility was followed by changes in unit of issue, marking and buying controls which disrupted shelf life controls.

C. There is less probability of shelf life items becoming outdated at consumer activities providing smaller quantity and more frequent requisitioning policies are instituted.

D. Extendable shelf life items must undergo tests or restorative action at the end of the shelf life time period. There are no interservice standards for directing or performing such actions. The lack of such standards may hamper interservicing of shelf life items.

E. The military services and GSA did not report quantities of fuels as shelf life items. It is the opinion of the study group that shelf life controls are applied to fuels by each service. The degree and necessity for shelf life controls was not determined.

F. Certain drugs and biologicals require refrigeration and deepfreeze during transportation and storage periods. Detrimental effects may occur through use of these items due to possibility of lowered potency resulting from improper refrigeration. Due to the varied storage and transportation systems involved in redistribution no assurance can be had that correct conditions have been maintained at all times. The margin of doubt concerning the proper handling and storage of these items is such that it is not considered prudent to allow return of them to a single manager's system after initial issue.

## VI. RECOMMENDATIONS

A. That shelf life codes outlined in appendix F be coordinated and applied Government-wide to current shelf life items, entered into Federal Catalog System records, and disseminated through cataloging channels to all registered managers of the items involved.

B. That when variations in shelf life periods for any Federal stock number (FSN) are encountered, Defense Logistics Services Center (DLSC) request the registered managers to resolve the differences. If such differences are not resolved within the time frame normally permitted, the standardization assignee (Standardization Directory SD-1) will be requested to resolve the differences.

C. That condition codes outlined in *instron* be applied to shelf life items in accordance with appendix G, to assure that condition codes reflect the remaining shelf life time period for interservicing and use.

D. That optimum use be made of computer capability and high-speed communications systems in the management of shelf life items in order that stocks on hand may be reported promptly to DLSC for interservicing.

E. That flexible shelf life stockage objectives be permitted to encourage the claiming and use of stocks approaching expiration providing rotation of stocks on hand is possible.

F. That appropriate documentation such as specifications, standards, purchase descriptions, and provisioning documentation include shelf life marking or dating requirements, recommended environmental protection during assigned shelf life period, guaranteed freshness, and test or restorative processes if the item may be restored to issuable status after expiration of the assigned shelf life time period.

G. That shelf life codes be assigned on the basis of the most critical known application and the best technical basis for shelf life protection.

H. That commodities having a prescribed shelf life period of 6 months or less be delivered as near to the point of use as practicable in lieu of storage for replenishment distribution.

I. That offers of shelf life items assets for interservicing be processed within a shorter schedule than other long supply or excess assets because of diminishing life, and that the Defense Utilization Manual, 4140.1, be revised to permit this.

J. That assemblies controlled as shelf life items because of deteriorative components or lubrication be subjected to intensive technical study to determine their interservice potential. Those determined to have no potential interservice should be excluded on an item-by-item (F5N) basis from interservicing.

K. That a study be made in the fuel areas to determine whether existing controls are adequate, or whether fuels should be interserviced under this program.

L. That drugs and biologicals requiring refrigeration be excluded from reporting for interservice use because of hazard to the patient should environmental controls be interrupted.

M. That shelf life items be subjected to a continuing technical review to improve protection and to substitute stable component materials for less stable ones in order to eliminate or, at least, to extend the shelf life period.

N. That technical support for the shelf life program be provided to the Defense Supply Agency by the military services in accordance with DSAR 3200.1.

O. That current tests or maintenance techniques for updating extendable shelf life items be reviewed, standardized and coded, so that processing codes may be disseminated through the Federal Catalog System.

P. That the proposed DOD Instruction, Identification, Control, and Utilization of Shelf Life Items, appendix H, and the proposed GSA and DOD Agreement, Government Cross-Servicing of Shelf Life Assets, appendix I, be approved and implemented concurrently.

M. Bland, U.S. Army Representative, Supply and Maintenance Command; Ralph E. Corwin, U.S. Air Force Representative, Air Force Logistics Command; George Tracy, General Services Administration Representative, Federal Supply Services; Arthur Peterson, Defense Supply Agency Representative, Defense General Supply Center; Albert N. Koontz, Defense Supply Agency Representative and Project Office, Defense Supply Agency, Headquarters; John C. Dellinger, U.S. Navy Representative, Bureau of Supplies and Accounts; William Whitmoyer, U.S. Marine Corps Representative, Headquarters, U.S. Marine Corps; John Burgbacher, Defense Supply Agency Representative, Defense Construction Supply Center; Jack Warkow, Defense Supply Agency Representative, Defense Medical Supply Center.

#### APPENDIX A

ASSISTANT SECRETARY OF DEFENSE,  
Washington, D.C., September 25, 1964.

Installations and Logistics.

Memorandum for the Director, Defense Supply Agency.

Subject: Project to Identify and Use Short Shelf Life Materials.

Reference is made to the Report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, dated September 3, 1964, specifically that portion dealing with short shelf life items (pp. 10 and 11 of report).

Losses to the Government by surplus declaration of items on which the shelf life has expired requires the constant attention of our inventory managers. It

is imperative that inventories of these items be matched with requirements on a continuing basis. Management must insure maximum utilization of these stocks to include all Government activities prior to disposal action.

It is hereby requested that the Defense Supply Agency contact the General Services Administration with the view of establishing a joint project for the purpose of identifying items having limited shelf life, standardizing the shelf life time periods to the maximum extent possible, and exploring the possibilities for increased interservicing arrangements as a medium for providing the maximum Government-wide utilization of such items prior to disposal action.

The military services will provide the Director, Defense Supply Agency such participation and assistance as may be required in the discharge of this responsibility.

PAUL H. RILEY,  
*Deputy Assistant Secretary of Defense*  
(Supply and Services).

#### APPENDIX B

EXTRACT OF THE REPORT OF THE SUBCOMMITTEE ON DEFENSE PROCUREMENT TO THE JOINT ECONOMIC COMMITTEE, CONGRESS OF THE UNITED STATES, DATED SEPTEMBER 3, 1964 (pp. 10 and 11)

##### SHORT SHELF LIFE ITEMS

There are many items in Federal stocks which are subject to spoilage, deterioration, and obsolescence and are known as short shelf life items. Common items in this category are rubber goods, paints, lacquers, varnishes, photographic film, paper, drugs, batteries, and, of course, food. Some of these items are dated by the manufacturer in order to assure full use of the product.

The subcommittee has collected samples of some of these items after the goods were declared surplus to Government needs and made available to educational institutions generally for salvage value.

##### IMPACT OF FEDERAL SUPPLY AND SERVICE ACTIVITIES

The losses from short shelf life items in the past have run into millions of dollars annually, and the subcommittee raised the issue at hearings in 1961.

It appears that the problem is far from solved since the recent transfer of responsibility for management of paints from the DSA to the GSA reveals that of the inventory transferred 5.7 percent valued at \$350,560 was unusable. (See app. 5, p. 25.)

##### RECOMMENDATION

It is therefore recommended that the GSA and the DSA set up a joint project to identify and use throughout the Government the existing short shelf life items now in stock and to devise ways and means to reduce losses from these items in the future. The subcommittee will expect a full reporting on this subject at its hearings next year. The GAO is also requested to check into this subject and to report to the subcommittee by March 1965.

#### APPENDIX C

##### SHELF LIFE CONTROLS EXERCISED BY FEDERAL AGENCIES

1. Defense Supply Agency system for controlling short shelf life materiel.
2. General Services Administration procedure for handling shelf life items.
3. Army presentation on recognition and control of short self life items.
4. Summary of Air Force presentation to Department of Defense shelf life group.
5. Management of shelf life materials in the U.S. Navy.
6. Management of shelf life materials in the U.S. Marine Corps.

##### THE DSA SYSTEM FOR CONTROLLING SHORT SHELF LIFE MATERIEL

*Definition: shelf life item.*—An item of a deteriorating nature which has a predetermined expiration date.

1. The Defense Supply Agency utilizes the "First-In, First-Out" (FIFO) principle to avoid or minimize losses due to outdated materiel. Within the FIFO

concept, DSA uses a condition code structure to identify the condition of materiel in stock before the remaining shelf life time of this materiel expires.

2. As the remaining shelf life time decreases this information is reported by the depots to the cognizant DSC and the quantity reported is reclassified to the appropriate condition code (B or C) on the Center's accountable records. Upon the reflection of this data in the computer, the search patterns of the Centers result in the lowest coded condition materiel (C) being issued first to satisfy customer demands. In addition, if condition coding does not exhaust stock, selected major military customers are contacted and advised of the availability of materiel rapidly approaching expiration. As an impetus to the customers to requisition this materiel, a price reduction is offered by the Center.

3. The Centers maintain close liaison with the depots to insure that short shelf life materiel is stored and issued properly. In this respect the DSC's promulgate listings, manuals, and other paraphernalia which identify the dated items to the depots, and informs the depots of the applicable surveillance cycles, serviceability standards, and any special storage requirements required to protect and prolong the life of the materiel in stock.

4. Whenever appropriate the depots and/or Centers conduct laboratory testing and examination of stock samples to determine the suitability for extending the shelf life time of the stocks. When inspections indicate shelf life periods can be extended the material in stock is re-marked accordingly and reclassified to a higher condition code.

5. To preclude overstocking of dated items, the DSC's maintain requisitioning (procurement) and stockage objectives commensurate with the shelf life period of the individual item. Stockage is limited to the capability of the system to properly rotate stocks on the basis of demand data, and the quantity procured is almost never in excess of the shelf life plus the procurement leadtime less the current on-hand assets. On a situation basis additional stocks may be procured to protect mobilization requirements. However, this portion of the procurement is scheduled in such a manner that the requirement is invariably covered by on-order assets.

#### GSA PROCEDURE FOR HANDLING SHELF LIFE ITEMS

1. The commodity manager prepares an application for catalog action for all new items. When the new item is to be carried in stock, a copy of the application is forwarded to the Distribution Programs Division. A coordinated review by the Distribution Programs Division and the Quality Control Division is made to determine whether the item is subject to deterioration. If it is determined that the item is one with a limited shelf life, the Distribution Programs Division prepares an EAM card in the prescribed format and forwards it to the Procurement Operations Division. The Procurement Operations Division takes action to add the card to the master deck and arranges for furnishing a duplicate to the Standardization Division and each region. The Distribution Programs Division also takes action to amend the "Storage Guide for Limited Shelf Life Items" if the guide does not already include it. All of these actions are performed in the central office of the Federal Supply Service.

2. The "Storage Guide for Limited Shelf Life Items" provides for establishment of shelf life periods based on storage conditions, for many items. The Regional Supply Distribution Division, in coordination with the Regional Quality Control and Regional Buying Divisions establishes a shelf life period for each item for which an EAM card has been received. The shelf life period is established as appropriate for the particular storage conditions of the region.

3. As shelf life periods are established, the Supply Distribution Division arranges for the shelf life period to be punched into the appropriate EAM card. A machine listing of cards punched is prepared in stock number sequence. One copy of the listing is furnished to the Supply Distribution Division and one copy is furnished to the Buying Division for annotating of shelf life period on the reorder buyer record.

4. For each order covering incoming stores material, a set of EAM cards (receiving sets) is produced. These cards are checked against the machine listing of deteriorative items. Those which cover such items are annotated as to shelf life months. The receiving set card and the stock locator card are stamped "Shelf Life." Upon receipt of material, the receipt notification card from the receiving set is forwarded to the Buying Division. The day after the receiving report is processed, such cards as are stamped "Shelf Life" are returned to the

Supply Distribution Division, where they are filed in a monthly control file by date as to when inspection is due.

5. The oldest stock is to be issued first. The Supply Distribution Division is responsible to insure that this policy is followed. The stock locator card contains the information necessary to fulfill this requirement.

6. When shelf life material in a given location is exhausted, the pertinent receipt notification card is removed from the control file. At the same time, the stock locator card is so annotated or removed, as applicable.

7. On the first working day of each month the inspection cards remaining in the control file for that month are referred to the Quality Control Division as notice to inspect the related material.

8. Upon completion, of the inspection, the cards, annotated as to condition of the material covered, are returned to the stock locator. Those cards on which it is indicated that the material is unfit for issue are immediately forwarded to the Order Branch to forestall issue of the unsuitable material, and appropriate notation is made on the stock locator card. The inspector places a "Do Not Issue" card on the unsuitable material. Disposal or other action is taken, as applicable, as soon as possible.

9. Those cards on which it is indicated the material is in a ready-for-issue condition are so annotated and refiled in the control file for reinspection on the date indicated.

10. EAM cards for Federal group 80 items for which GSA assumed support from DSA were not prepared for inclusion in the master shelf life file. Shelf life data was made a part of the master stock item record (MSIR) as was all shelf life information contained in the existing EAM master shelf life deck. Shelf life controls are initiated at the replenishment requirement stage, the information emanating from the MSIR.

#### ARMY PRESENTATION RECOGNITION AND CONTROL OF SSLI

1. The Army has always been cognizant of supply items that are inherently deteriorable or deteriorate because of environmental factors.

2. However, within the previous Army logistic alignment the control of shelf-life items was treated adjunctively by each technical service and there was not a unified Army voice or procedure on the subject.

3. Since realignment of the logistical responsibilities within the Army the control of shelf-life items is being addressed by the various commodity commands and identification of items together with the life of such items is being treated in the Army master item data file by use of a one-digit numeric code. This code indicates whether the item is subject to deterioration or perishability and establishes for such items specific time limitations measured from the date of manufacture, after which the item is not suitable for issue. This code structure runs from 1 to 0, covers a span from 6 months to 10 years, and is applied by each commodity command to existing items and new items as they occur. This system is not fully active as yet but is in the process of application.

4. With regard to existing systems for controlling shelf-life items, there are several controls on high-dollar issues that I will explain briefly and then give a presentation on the control of batteries.

(a) *Tires and tubes*.—These items are aged by date of manufacture. Those 18 months or under are identified by "N" in the MIBF and those over 18 months are identified by "O." Stocks identified by "O" are exhausted prior to those identified by "N."

(b) *Film, paper, and batteries*.—In order that customers are aware of remaining shelf life on these issued items, the expiration dates will be applied in block FF of DOD form 1348-1, release and receipt document, when such dates are available.

(c) *FIFO*.—The first-in first-out method is inherent in all Army warehousing.

#### Briefing

#### DRY CELL BATTERY CONTROL FLIP CHART ENTRIES AND INTRODUCTION

The Army Electronics Command has DOD procurement responsibility for dry cell batteries. Procurement on this item is approximately \$22 million annually. Last year we had a loss of only \$7,000 due to expiration. This is nominal considering the buy quantity and the fact that this item requires refrigeration.

*Flip Chart Entries***Identification :**

Army master data file.  
 AR 700-1.  
 Perishability code assignment.  
 FSC 6135 dry batteries.  
 Volume \$22 million yearly.

**SB 11-30****Control :**

Transportation.  
 Storage.  
 Testing.  
 Shelf-life tables.  
 Quantity unit pack.

**AMC regulation No. 743-1 :**

Occupancy report.  
 Aging report.

**USE****Information obtained from AMC reg. 743-1 :**

FSN.  
 Manufacturing date.  
 T.B.U. date.  
 Aging information.  
 Quantity.

**Supply control studies (1794 form) :**

Clear picture of asset.  
 Obtain forecasted requirements from major commands.  
 Satisfy requirements using oldest stock first.

**Redistribution :**

Conus.  
 Overseas (Army).  
 Map.  
 Navy.  
 Marine Corps.  
 Air Force.  
 Utilization of worldwide assets to satisfy worldwide requirements.

**SUMMARY OF AIR FORCE PRESENTATION TO DOD SHELF LIFE GROUP**

1. Shelf life: That period of time during which an item can remain unused in storage before being reconditioned or condemned.
2. The primary purpose of age control is to specify age controls on items only when absolutely necessary, specify a minimum of inspection action and the maximum amount of shelf life without compromising performance and safety; and to assure that items shipped or issued to combat units will satisfactorily perform their intended mission.
3. Establishes the criteria for age controlled items, including end assemblies and components which have a direct effect on safety of flight and life sustaining items.
4. Air Force instructions provide for an analysis of age control materials at the time of expiration for determination whether such materials can be retained for use beyond established expiration date.
5. Provides for segregated storage, segregation within property class is permissible.
6. Items are identified by stock number, noun and part number.
7. Provides for base activities to dispose of items at base level with a line item value of \$9.99 or less upon expiration.
8. Headquarters, Air Force Logistics Command and each (AMA) air materiel area have assigned a monitor for the program.
9. This program and progress is being reviewed by headquarters, AFLC supply personnel during regularly scheduled visits to the AMA's. These visits are made every 6 months.

## MANAGEMENT OF SHELF LIFE MATERIALS IN THE U.S. NAVY

*Terminology*

The term "short shelf life" is used in paragraph 24830-3 of the BUSANDA manual relative to the determination of retention limits for field-controlled material. The term is equated to less than 5 years. The term also is used in BUSANDA INST 4440.38A: Establishment of Retention Limits and Utilization of Stock Above Protection Limits, equated to perishability.

The term "limited shelf life" is used in paragraphs 27056-14 and 24560-2a of the BUSANDA manual. The former reference relates to cyclic preservation procedures and the latter to inclusions in the annual inventory.

The terms "perishable materials" and "short storage life" are referred to in DSAM 4145.1 (NAVSANDA PUB 284, TM 743-200, AFM 67-3, NAVMC 1101) in relation to storage care, protection level, date-marking, and issue procedures (FIFO). The term used by the Navy's manager of aviation material is "ready for issue storage time limitation" (RFI STL) which is always associated with a processing code directing inspection, testing, disassembly, and relubrication, or other action at the end of the prescribed period of time for items which deteriorate in storage.

*Organization for material management*

The naval material support establishment under the Chief of Naval Material (CNM) is the principal organizational part of the Navy responsive to the needs of the naval and Marine Corps operating forces. CNM has delegated to the Chief, Bureau of Supplies and Accounts (BUSANDA), the responsibility for development, promulgation, and operation of the Navy supply system and coordination of supply policies common to the U.S. Navy and Marine Corps. The Chief, BUSANDA, calls upon the material management experience and capability of the technical material bureaus: Bureau of Naval Weapons (BUWEPS), Bureau of Ships (BUSHIPS), Bureau of Yards and Docks (BUDOCKS). The technical bureaus manage fewer than 33,000 items, mostly major weapons and equipments procured with appropriated funds. The bulk of naval supply system's items, approximately 750,000 items, are managed by inventory control points (ICP's) under administrative control of the Bureau of Supplies and Accounts and taking technical direction from one or more technical bureaus. The Navy ICP's are:

## ICP:

*Technical direction from—*

U.S. Naval Aviation, Supply Office (ASO).....	BUWEPS.
U.S. Naval Ordnance Supply Office (phasing out).....	BUWEPS.
U.S. Naval Ships Parts Control Center.....	BUSHIPS.
U.S. Naval Electronics Supply Office.....	BUSHIPS.

NOTE.—The Bureau of Yards and Docks has decentralized its material management function to the Construction Battalion Center, Port Hueneme, Calif., not under administration of BUSANDA. BUSANDA has also established the Fleet Material Supply Office (FMSSO) as a retail control office to consolidate Navy's requirements of some 550,000 items managed for the Navy by defense supply centers.

The Bureau of Supplies and Accounts has promulgated in NAVSANDA 408 and other directives a system of shelf life codes and shelf life action codes for use throughout the Navy supply system. It has directed its ICP's to publish these in "Navy Stock List Price and Management Data" (catalog) publications. It has also provided for failure and unsatisfactory reports to the item managers for material received through the supply distribution system. The feedback corrects shelf life ratings and packaging and storage protection levels. The Bureau is currently installing a uniform automatic data processing system in its inventory control and distribution points to enhance supply communication and control. This system accommodates and includes the shelf life coding and controls system referred to above. In addition, BUWEPS and the ICP's are pursuing an ambitious program of extending the life of deteriorative items through upgrading of material contents, technological advances in preservation and storage, and continuous review and evaluation by overhaul and repair departments, quality evaluation laboratories, fleet readiness representatives, and industrial-type activities.

## MARINE CORPS

1. Items with short shelf life are defined in the Marine Corps as items that have a life expectancy of 24 months or less, due to their deteriorative nature and many require special storage.

2. Short shelf life items are identified in our master inventory record (MIR) by source code P-3 as the first two digits of the source maintenance recoverability code. The short shelf life code is a two-digit numeric code which represents the number of months of maximum shelf life for an item. The short shelf life code is utilized to designate the maximum shelf life for each item coded with source code P-3.

3. Special handling codes are assigned to items which require some type of external control concurrent with, or prior to issue. Items coded "P" in our inventory record will protect issues of such items as photographic film and paper. The computer action on this code will cause the words "Date coded item" to be printed on the issue document.

4. The computation of requirements for items with a short shelf life code is done at the time of updating the MIR. The computer will adjust the procurement quantity or stock adjustment period retention level to insure that the sum of the calculated safety level, procurement quantity, and stock adjustment period retention level quantity does not exceed the shelf life in months, times the average monthly recurring demands. General mobilization reserve materiel requirements (GMRMR) and mobilization reserve materiel requirements (MRMR) will not be computed for short shelf life items, except in cases where overriding military effectiveness requires retention of such assets. Economic retention or insurance retention stock levels will not be calculated or loaded for short shelf life items.

5. Physical stocks of code project requirements will be segregated, marked and preserved for overseas shipment when such stocks cannot otherwise be readily available for shipment. Material that will not be prepared in advance are those items that must be rotated to prevent deterioration.

6. The Marine Corps has a stock status report which is printed at least once a quarter for each item in the MIR. This will indicate whether an item has short shelf life, also shows the date of entry into the system, and date of issue. Any excesses would be redistributed among the stock accounts. Items no longer required due to age or condition are offered at one-half price to other services.

## APPENDIX D

1. Activities visited.
2. Visit to GSA region 3.
3. Visit to Walter Reed Army Medical Center.
4. Visit to Atlanta Army Depot.
5. Visit to Bethesda Naval Hospital.
6. Visit to the U.S. Naval Supply Center Norfolk, Va.
7. Visit to Naval Air Station, Norfolk, Va.
8. Visit to Andrews Air Force Base.
9. Visit to Defense General Supply Center, Richmond, Va.
10. Samples of forms used to control shelf life items.

## ACTIVITIES VISITED

## General Services Administration activities:

GSA region 3 depot, Franconia, Va., November 24, 1964.

GSA regional office, Washington, D.C., November 25, 1964.

## Department of the Army:

Walter Reed Army Medical Center, Washington, D.C., December 2, 1964.

Atlanta Army Depot, Forrest Park, Ga., December 22, 1964.

## Department of the Navy:

Naval Medical Center, Bethesda, Md., December 1, 1964.

Naval Supply Center, Norfolk, Va., December 15, 1964.

Naval Air Station, Norfolk, Va., December 15, 1964.

## Department of the Air Force:

Andrews Air Force Base, Suitland, Md., December 3, 1964.

## Defense Supply Agency:

Defense General Supply Center, Richmond, Va., December 16, 1964.

## VISIT TO GSA REGION 3

1. On November 24, 1964, the shelf life study group visited the GSA region 3 stores depot at Franconia, Va., to explore the methods used to control shelf life items.

2. Mr. Matera, administrative officer of the depot, explained the procedures and documents used in the warehouse to control the issue and maintain surveillance on shelf life items.

3. Identification information necessary to control the issue and maintain surveillance of shelf life items is placed with the depot locator files. The locator files identify shelf life items. One copy of the EAM card from the receiving deck is utilized to signal reinspection. This is accomplished by placing the EAM card in an inspection control tickler file for inspection and test to determine further suitability on a predetermined future date. On reinspection, if found suitable, the shelf life is extended and a new inspection date established. If found unsuitable, disposal action is initiated. The control at the locator site assures issue of oldest suitable material.

## VISIT TO REGION 3 OFFICE, SEVENTH AND D STREETS SW.

Stock control records are maintained at this office for material stored in the Franconia Depot. Procurement of new stock items and replenishment procurement are performed in this office. In procuring shelf life items the economic order quantity (EOQ) was revised in order that the months of supply procured plus the on hand was for a shorter period than the shelf life of the item procured.

## WALTER REED ARMY MEDICAL CENTER

1. Contact was made with Lieutenant Colonel LaManchi, Lieutenant Colonel Raal, and Captain Logan.

2. The Center's procedure for stockage control testing and redistribution of short shelf life items was reviewed and found to be very good.

3. The prime control on shelf life items is a monthly review of all dated items. This control, however, is in effect to insure the quality of items for consumption rather than to control waste, but the purpose of eliminating waste is served nevertheless.

4. The Center, by virtue of the monthly review is able to flag items of potential waste in sufficient time for redistribution among the customers served by the Center.

5. In the last 9 months the Center has suffered only \$750 loss due to expiration of medical items. This is in comparison to a medical budget of approximately \$5 million.

## REPORT OF VISIT TO ATLANTA ARMY DEPOT

## Persons contacted:

Colonel Alexander, commanding officer.

Colonel Larsen, chief, supply and transportation division.

Major McDonald, chief, aircraft maintenance division.

Major Goolsbee, chief, medical equipment maintenance division.

W. D. Taylor, chief, storage division.

1. The prime control of short shelf life items at this depot is the selection of oldest stocks first for shipment.

2. Age data has been placed in the computer and the computer makes this selection.

3. The depot conducts a training program to educate stock pickers on the selection of oldest stock (FIFO) to eliminate overaging of material.

4. The depot surveillance program gives priority to items having age control criteria.

5. A quality history file is maintained manually. It is from these data that the condition codes in the computer are updated and cyclic surveillance is conducted as the material in store ages.

6. This depot stores most all of the general supply items but does not store weaponry ammunition. There are 102,000 lines in 142,000 locations.

7. The medical maintenance shop at Atlanta was also visited; however, no problem of shelf life material exists in this area.

## SUMMARY OF VISIT TO BETHESDA NAVAL HOSPITAL

1. The DOD-GSA short shelf life study group visited the U.S. Naval Hospital, Bethesda, Md., on December 1, 1964, to obtain information on their methods of handling short shelf life items.

2. Lt. C. A. DeCesaris, USN, the medical supply officer, gave the committee a brief summary of the requisitioning, storage and issue procedures used for dated materiel. The study group was informed that the station stockage objective for medical materiel was approximately \$280,000 per quarter and that stock losses due to expiration of potency was almost nil.

3. In answer to our questioning the medical supply officer stated that he would be very responsive to circularizations of available short dated materiel provided his acceptance of such materiel did not jeopardize his stock fund limitation. Lieutenant DeCesaris explained that while he could accept such materiel at a nominal or no-cost basis, he was obliged to carry this materiel at full stock fund value in his inventory. Because of this he would not accept short dated materiel since he could expend, stock fundwise, the same money for full dated materiel.

4. Lieutenant DeCesaris further informed the study group that the average requisitioning cycle is 3.5 months for all items including short shelf life materiel, and, wherever possible, obtained this materiel through centrally managed stocks as opposed to local procurement methods. A continuous surveillance cycle is conducted to insure that short dated materiel in stock is issued first to minimize losses due to expiration of shelf life time. When such stocks cannot be utilized, the medical supply officer contacts the retail activities in the area to ascertain whether or not they could use the materiel prior to its expiration. When this is unsuccessful and the quantity involved warrants such assistance the cognizant defense supply center is contacted to assist in the redistribution of this materiel.

## SUMMARY OF VISIT TO THE U.S. NAVAL SUPPLY CENTER, NORFOLK

1. Six members of the DOD/GSA shelf life study group visited the U.S. Naval Supply Center, Norfolk, Va., on December 15, 1964, to obtain information on their handling of shelf life items.

2. Captain Everett, the executive officer, met the members of the study group and referred them to the materiel department.

3. Study group vice chairman, George Tracy, briefed Captain Brosseau, Mr. Martin and Mr. Collins of the materiel department on the charge given the study group and stated that the purpose of the trip is to gather information and recommendations which will assist the study group.

4. Captain Brosseau explained to us the steps in the processing of receipts and issues of both nondeteriorative and deteriorative (shelf life) items. He emphasized that warehouse workmen are longtime employees most of whom were hired in the early forties. They have a minimum of education and practically no interest in further training. Therefore, if further sophistication in the management of deteriorative materials is required, it should depend upon mechanization processes (automatic data systems, etc.) to the extent possible. However, the center's data processing system had been programmed to handle the shelf life items by exception only. In the processing of requisitions, it processed a record containing location data to be used by the stock picker in the warehouse for nondeteriorative items, while for shelf life items it printed all zeros in lieu of location, signifying exception processing required through a manually maintained locator deck wherein location is maintained by contract or batch number, or by condition codes where managers have initiated such control methods.

5. Mr. Collins further briefed us in specific management problems encountered with shelf life items. These occur mainly in Defense Supply Agency managed items. Specifically, small shelf life items formerly managed by the Navy and packaged for issue by the unit each now are managed by the DSA under multiple packaged-for-issue units. When the package is broken and one or more is used, the unused items lose the shelf life protection which is not marked on the items. These unit-of-issue changes often require repackaging of stocks for issue at considerable cost. Specific examples were cited and are attached hereto.

6. Mr. Collins conducted us on a warehouse tour which demonstrated the locator file and the storage and issue procedures for shelf life items. This demonstrated the following:

(a) As noted in Mr. Collins' briefing the issue pack sometimes lacked the expiration date (end of shelf life) which is marked only upon the outer package. This places a marking workload on storage personnel if the end user is to have access to this information.

(b) Conversely to the above, some items are marked with an expiration date, but there is no documentation by the item manager to indicate to storage personnel that the item has a shelf life.

7. Mr. Collins replied to questions from study group members in the following sense:

(a) Considerable material is surveyed each month due to shelf life expiration.

(b) NSC, Norfolk, does query customers in an attempt to move shelf life items with short remaining life to preclude expiration and survey losses. Another means of preventing such loss is by rotation of such short-life stocks to the ready-issue stores (Servmart, etc.).

8. Several of us subsequently visited the self-service retail store (Servmart) on the waterfront and were invited to observe freely and to question storekeepers. Stock turnover approximates 60 days. Nonetheless, we observed that there were some outdated medical items removed from the shelves and retained for survey. When queried as to why these items had not been returned to the center for redistribution prior to expiration, we were advised that there is no procedure by which they could return it just because of the dating on the material. From stock turnover rate, it would appear that items with short remaining life are being distributed to such customer outlets. From this, it appears that return credit policy may contribute to such expiration loss. The Servmart manager in reply to a question, stated the Navy stock fund policy prohibits free delivery to a customer to preclude an items' expiration on the shelf.

#### SUMMARY OF VISIT TO NAVAL AIR STATION, NORFOLK, VA.

1. Four members of the Department of Defense-General Services Administration Shelf Life Study Group visited the U.S. Naval Air Station, Norfolk, Va., on December 15, 1964, to obtain information on methods and procedures utilized in handling limited shelf life items.

2. Lt. A. E. Swartz, SC, USN, Mr. C. A. DeJoseph and Mr. C. R. Niscon explained the procedures pertaining to shelf life items.

3. There are approximately 265,000 items in storage at this activity; 12,000 to 16,000 items are subjected to shelf life control. Six months stock is maintained on hand. Most of the stock is received from DSA centers.

4. Seven months shelf life must remain on items before shipment in Conus unless the items will be used immediately, overseas 9 months and depots 12 months.

5. The material is requisitioned, examined and tested, maintained in storage, issued and disposed of in accordance with the applicable Navy directives, which consists of adequate surveillance, accounting by expiration dates on mechanized cards, issuing first in—first out principles and disposal at base level.

#### VISIT TO ANDREWS AIR FORCE BASE

1. Contact was made with Colonel Berg, Director of Materiel and Lieutenant Colonel Oehme, Director of Supply.

2. The procedures pertaining to shelf life items were reviewed by the Shelf-Life Study Group with operating personnel.

3. There are approximately 53,000 items stored at this activity, 1,000 each pertain to shelf life control.

4. The materiel is requisitioned, inspected, maintained in storage, issued and disposed of in accordance with applicable Air Force directives, which consists of adequate inspection, accounting by expiration dates on mechanized cards, issuing first in—first out principle, disposal at base level on line item value of less than \$9.99 and reporting to applicable inventory manager on line item value exceeding \$9.99 for testing, updating or disposal. Certain items are tested by the base after coordination with the appropriate inventory manager.

5. The procedures as explained in the Shelf Life Study Group are considered adequate for the control of shelf life items.

## VISIT TO DEFENSE GENERAL SUPPLY CENTER, RICHMOND, VA.

## Persons contacted :

Colonel Motes, Directorate of Supply Operations.

Colonel Trauger, Directorate of Depot Operations.

1. The initial contact was supply operations personnel with whom a meeting was held relative to management controls on shelf life items.

2. The Shelf-Life Study Group was advised that the only items recognized and treated as to shelf life were photographic supplies (film, paper, and chemicals) and as such were identified, coded, and controlled in the computer.

3. The method of control on photographic supplies was stated to be effective in minimizing deterioration of stocks on the shelf. As reviewed by the study group, the method of control, if conscientiously applied, should minimize loss.

4. In addition to the management procedures an effective testing program was apparent. Much of the film that would ordinarily expire was having its life extended, recut and spooled, and being channeled into less critical applications.

5. In meeting with the depot operations personnel, the storage and stock selection methods were reviewed. Employees interviewed were well versed in the procedure for selection of proper age photographic supplies for the customer involved and were aware that they had a responsibility in advising management of items approaching their expiration dates.

6. The fiscal year 1965 annual sales of film is estimated at \$23 million.

NOTE.—It was noted that selected customers, such as Air Force reconnaissance units because of mission assignments, are issued the newest photographic film without regard to the age of other assets.

<b>DO NOT ISSUE</b> <small>(DSAM 4140.2)</small>				
FEDERAL STOCK NUMBER				
UNIT OF ISSUE	CONDITION	INSPECTION REPORT NUMBER	STOCK DIVISION / REPORT NUMBER	DATE WHEN RECEIVED
ITEM IDENTIFICATION				
REMARKS				
<b>NOTICE:</b> This card will not be removed without the approval of the Area Supervisor. Whenever removal is authorized, this card will be forwarded to the Storage Division Control Office.			SIGNATURE	DATE

D G S C Form 2276

**RUSH  
PERISHABLE BIOLOGICALS**

DELIVER BEFORE \_\_\_\_\_ (Date)  
OR REPACK WITH DRY ICE SO THAT CONTAINER, WITH  
ADDED DRY ICE, IS \_\_\_\_\_ LBS. FOR EACH 96 HOURS IN  
TRANSIT. REMOVED FROM DEPOT REFRIGERATION:

1. \_\_\_\_\_ (Date & Time)
- (1) REPACKED WITH DRY ICE \_\_\_\_\_ (Date)
- (2) REPACKED WITH DRY ICE \_\_\_\_\_ (Date)
- (3) REPACKED WITH DRY ICE \_\_\_\_\_ (Date)

**GLASS—HANDLE WITH CARE**

340 NSC 504 (Rev. 4-64)

**RUSH  
PERISHABLE BIOLOGICALS  
REMOVED FROM REFRIGERATION**

- 1.
2. **RETURNED TO REFRIGERATION**

1.  
2.  
TO BE DELIVERED & RETURNED TO REFRIGERATION AS  
SOON AS POSSIBLE. MAY BE UNREFRIGERATED FOR A  
PERIOD OF ACTUAL TRANSIT TO RECEIVING ACTIVITY  
PROVIDED THIS CAN BE ACCOMPLISHED WITHIN THREE  
OR FOUR DAYS, IF DELAYED IN ROUTE, RETURN TO  
REFRIGERATION DURING DELAY.

**Do not freeze or allow to be subjected  
to temperature above 95°F at any time.**

340 NSC 504 (Rev. 7-56)

THIS CARD IS TO BE ATTACHED TO THE SHIPMENT. IT IS NOT TO BE REPRODUCED OR COPIED. IT IS THE PROPERTY OF THE GOVERNMENT AND IS LOANED TO YOU. IT IS TO BE RETURNED TO THE ISSUING OFFICE.

TECHNICAL ORDER COMPLIANCE TAG			
ITEM REQUISITION (Item No. and Part No.)		PLANT	
STANDARD NO.	QUANTITY	UNIT OF ISSUE	REQUISITION NUMBER
ASSEMBLY OR KIT NO.	NAME OF ACTIVITY OR NUMBER OF POINT		
DATE	CHARACTER OF DEFECTS		

FORM 1000 (Rev. 5-54) REPLACES NSC 504 FORM 1000, 5-47 WHICH IS OBSOLETE.

**SHELF LIFE ITEM**

FIRST INSPECTION DATE \_\_\_\_\_  
SECOND INSPECTION DATE \_\_\_\_\_  
DISPOSAL DATE \_\_\_\_\_  
DO NOT ISSUE TO SHIP OR TO FILL  
SHIPMENT ORDER AFTER  
340 NSC-1267 (Rev. 8-60)

CUREDATE EXTENSION	
(2-1) — 26-17715A	
CURE DATE AGE LIMIT EXTENDED	
TO _____	QUARTERS
AUTH ENGR CURE DATE NO	
AFLC Form 187 FEB 63	

REJECTED		
REASON	REJECTED	REWORKED
DATE TO BE RE-INSPECTED	DATE	
30-1267-10		

## APPENDIX E

## ANALYSIS OF CURRENT SHELF-LIFE ITEMS

1. Summary of shelf life items.
2. Examples of items managed by two or more services with varying shelf life time periods.
3. FSC classes containing shelf life items.
4. Commodities assigned shelf life time periods.

## Summary of shelf-life items as reported by ICP's, Nov. 15 to Dec. 30, 1964

Shelf life (months)	USAF		USA		USN		USMC		DSA		GSA	
	Line items	Dollar value in thousands	Line items <sup>1</sup>	Dollar value in thousands <sup>1</sup>								
0 to 6.....	2	7	21	886	14	42	19	51	138	8		
7 to 12.....	94	4,265	172	1,727	86	252	103	1,534	460	14,826		
13 to 18.....	33	4,579	63	1,115	439	745	109	194	623	6,175		
19 to 24.....	119	12,397	64	39	651	3,644	40	368	1,157	21,830		
25 to 30.....	418	764	60	1,258	728	17,444			25	6,676		
31 to 36.....	517	96,213	1,058	6,029	6,923	63,091			171	46,834		
37 to 42.....	13	36							5	1,587		
43 to 48.....	1,722	30,390	111	21	6,068	39,511			2,582	11,622		
49 to 60.....	1,666	16,900	971	200,124	4,032	7,836			1,830	6,008		
61 to 72.....	189	40	1	2	281	2,582			1	1		
73 to 84.....			1	4,187	65	620						
85 to 96.....				1	1	2,450						
97 to 120.....	54	1,137	2,044	8,717					1	8,057		
Total.....												
Grand total, line items.....	4,827	166,728	4,566	224,105	19,288	138,217	271	2,137	7,353	123,624	5,424	48,682
Dollar value in thousands.....	41,729	703,493										

<sup>1</sup> Shelf-life breakdown not furnished.

*Examples of items managed by 2 or more services with varying shelf-life time periods, as reported by inventory managers*

FSN	Noun	Managers	Shelf life in months
2620-269-7643.....	Aircraft tire.....	Air Force-Navy.....	72-60.
2620-269-7708.....	Aircraft tube.....	do.....	66-60.
4720-049-4776.....	Hose assembly.....	Air Force-Navy-DSA.....	30-60-54.
4720-289-9197.....	Hose, rubber.....	do.....	48-60-54.
5330-550-6747.....	Packing preformed.....	Army-Navy-DSA.....	24-48-48.
5330-291-6968.....	do.....	Air Force-Navy.....	60-48.
5330-599-0367.....	do.....	Air Force-DSA.....	60-48.
6135-120-1025.....	Battery.....	Army-Navy.....	29-35.
6135-120-1028.....	do.....	do.....	17-26.

NOTE.—Of the 580 items reported with varying shelf-life time periods, 92 percent were in the above 4 classes (FSC 2620, 9.9 percent; FSC 4720, 45.6 percent; FSC 5330, 27.8 percent; FSC 6135, 8.6 percent). The remaining 8 percent of the items with varying shelf-life time periods are in the following FSC's: 1610, 1650, 1660, 1670, 1680, 2915, 2953, 2995, 4220, 5610, 6115, 6750, and 6850.

## FSC

*Index of classes*

- 1005 Guns, through 30 millimeter.
- 1010 Guns, over 30 millimeter up to 75 millimeter.
- 1015 Guns, 75 millimeter through 125 millimeter.
- 1020 Guns, over 125 millimeter through 150 millimeter.
- 1025 Guns, over 150 millimeter through 200 millimeter.
- 1030 Guns, over 200 millimeter through 300 millimeter.
- 1035 Guns, over 300 millimeter.
- 1040 Chemical weapons and equipment.
- 1045 Launchers, torpedo and depth charge.
- 1055 Launchers, rocket and pyrotechnic.
- 1075 Degaussing and minesweeping equipment.
- 1080 Camouflage and deception equipment.
- 1090 Assemblies interchangeable between weapons in two or more classes.
- 1095 Miscellaneous weapons.
- 1210 Fire control directors.
- 1220 Fire control computing sights and devices.
- 1230 Fire control systems, complete.
- 1240 Optical sighting and ranging equipment.
- 1250 Fire control stabilizing mechanisms.
- 1260 Fire control designating and indicating equipment.
- 1265 Fire control transmitting and receiving equipment, except airborne.
- 1270 Aircraft gunnery fire control components.
- 1280 Aircraft bombing fire control components.
- 1285 Fire control radar equipment, except airborne.
- 1290 Miscellaneous fire control equipment.
- 1336 Guided missile warheads and explosive components.
- 1340 Rockets and rocket ammunition.
- 1350 Underwater mine inert components.
- 1355 Torpedo inert components.
- 1360 Depth charge inert components.
- 1375 Explosive, solid propellants, and explosive devices.
- 1385 Explosive ordnance disposal tools, surface.
- 1386 Explosive ordnance disposal tools, underwater.
- 1420 Guided missile components.
- 1430 Guided missile remote control systems.
- 1440 Launchers, guided missile.
- 1450 Guided missile handling and servicing equipment.
- 1560 Airframe structural components.
- 1610 Aircraft propellers.
- 1620 Aircraft landing gear components.
- 1630 Aircraft wheel and brake systems.
- 1650 Aircraft hydraulic, vacuum, and deicing systems components.
- 1660 Aircraft air conditioning, heating, and pressurizing equipment.
- 1670 Parachutes and aerial pickup, delivery, and cargo tiedown equipment.
- 1680 Miscellaneous aircraft accessories and components.
- 1730 Aircraft ground servicing equipment.
- 1740 Airfield specialized trucks and trailers.

- 1850 Space vehicle handling and servicing equipment.
- 2010 Ship and boat propulsion components.
- 2030 Deck machinery.
- 2040 Marine hardware and hull items.
- 2090 Miscellaneous ship and marine equipment.
- 2320 Trucks and truck tractors.
- 2520 Vehicular power transmission components.
- 2530 Vehicular brake, steering, axle, wheel, and track components.
- 2540 Vehicular furniture and accessories.
- 2610 Tires and tubes, pneumatic, except aircraft.
- 2620 Tires and tubes, pneumatic, aircraft.
- 2630 Tires, solid and cushion.
- 2640 Tires, rebuilding and tires and tube repair materials.
- 2805 Gasoline reciprocating engines, except aircraft ; and components.
- 2810 Gasoline reciprocating engines, aircraft ; and components.
- 2815 Diesel engines and components.
- 2825 Steam turbines and components.
- 2835 Gas turbines and jet engines, except aircraft ; and components.
- 2840 Gas turbines and jet engines, aircraft ; and components.
- 2845 Rocket engines and components.
- 2910 Engine fuel system components, nonaircraft.
- 2915 Engine fuel system components, aircraft.
- 2920 Engine electrical system components, nonaircraft.
- 2925 Engine electrical system components, aircraft.
- 2930 Engine cooling system components, nonaircraft.
- 2935 Engine cooling system components, aircraft.
- 2940 Engine air and oil filters, strainers, and cleaners, nonaircraft.
- 2945 Engine air and oil filters, strainers, and cleaners, aircraft.
- 2950 Turbosuperchargers.
- 2990 Miscellaneous engine accessories, nonaircraft.
- 2995 Miscellaneous engine accessories aircraft.
- 3010 Torque convertors and speech changers.
- 3030 Belting, drive belts, fan belts, and accessories.
- 3110 Bearings, antifriction, unmounted.
- 3439 Miscellaneous welding, soldering, and brazing supplies, and accessories.
- 3455 Cutting tools for machine tools.
- 3460 Machine tool accessories.
- 3610 Printing, duplicating, and bookbinding equipment.
- 3655 Gas generating equipment.
- 3805 Earthmoving and excavating equipment.
- 3825 Road clearing and cleaning equipment.
- 3895 Miscellaneous constructing equipment.
- 3930 Warehouse trucks and tractors, self-propelled.
- 4020 Fiber rope, cordage, and twine.
- 4030 Fittings for rope, cable, and chain.
- 4130 Refrigeration and air-condition plants and components.
- 4210 Firefighting equipment.
- 4220 Marine lifesaving and diving equipment.
- 4240 Safety and rescue equipment.
- 4310 Compressors and vacuum pumps.
- 4320 Power and hand pumps.
- 4330 Centrifugals, separators, and pressure and vacuum filters.
- 4420 Heat exchangers and steam condensers.
- 4440 Driers, dehydrators, and anhydrators.
- 4470 Nuclear reactors.
- 4520 Space heating equipment and domestic water heaters.
- 4610 Water purification equipment.
- 4720 Hose and tubing, flexible.
- 4730 Fittings and specialties, hose, pipe and tube.
- 4810 Valves, powered.
- 4820 Valves, nonpowered.
- 4910 Motor vehicle maintenance and repair shop specialized equipment.
- 4920 Aircraft maintenance and repair shop specialized equipment.
- 4925 Ammunition maintenance and repair shop specialized equipment.
- 4930 Lubrication and fuel dispensing equipment.
- 4931 Fire control maintenance and repair shop specialized equipment.

- 4933 Weapons maintenance and repair shop specialized equipment.
- 4935 Guided missile maintenance repair, and checkout specialized equipment.
- 4940 Miscellaneous maintenance and repair shop specialized equipment.
- 5120 Hand tools, nonedged, nonpowered.
- 5305 Screws.
- 5310 Nuts and washers.
- 5315 Nails, keys, and pins.
- 5320 Rivets.
- 5325 Fastening devices.
- 5330 Packing and gasket materials.
- 5340 Miscellaneous hardware.
- 5350 Abrasive materials.
- 5420 Bridges, fixed and floating.
- 5430 Storage tanks.
- 5445 Prefabricated tower structures.
- 5610 Mineral construction materials, bulk.
- 5640 Wallboard, building paper, and thermal insulation materials.
- 5650 Roofing and siding materials.
- 5805 Telephone and telegraph equipment.
- 5820 Radio and television communication equipment, except airborne.
- 5821 Radio and television communication equipment, airborne.
- 5826 Radio navigation equipment, airborne.
- 5835 Sound recording and reproducing equipment.
- 5840 Radar equipment, except airborne.
- 5841 Radar equipment, airborne.
- 5845 Underwater sound equipment.
- 5895 Miscellaneous communication equipment.
- 5905 Resistors.
- 5910 Capacitors.
- 5915 Filters and networks.
- 5920 Fuses and lightning arresters.
- 5925 Circuit breakers.
- 5930 Switches.
- 5935 Connectors, electrical.
- 5940 Lugs, terminals, and terminal strips.
- 5945 Relays, contacts, and solenoids.
- 5950 Coils and transformers.
- 5955 Piezoelectric crystals.
- 5960 Electron tubes, transistors, and rectifying crystals.
- 5970 Electrical insulators and insulating materials.
- 5975 Electrical hardware and supplies.
- 5985 Antennas, waveguides, and related equipment.
- 5990 Synchros and resolvers.
- 5995 Cable, cord, and wire assemblies, communication equipment.
- 6105 Motors, electrical.
- 6110 Electrical control equipment.
- 6115 Generators and generator sets, electrical.
- 6125 Converters, electrical.
- 6130 Rectifying equipment, electrical.
- 6135 Batteries, primary.
- 6140 Batteries, secondary.
- 6145 Wire and cable electrical.
- 6150 Miscellaneous electric power and distribution equipment.
- 6210 Indoor and outdoor electric lighting fixtures.
- 6220 Electric vehicular lights and fixtures.
- 6230 Electric portable and hand lighting equipment.
- 6340 Aircraft alarm and signal systems.
- 6350 Miscellaneous alarm and signal systems.
- 6505 Drugs, biologicals, and official reagents.
- 6510 Surgical dressing materials.
- 6515 Medical and surgical instruments, equipment and supplies.
- 6525 X-ray equipment and supplies, medical, dental, and veterinary.
- 6530 Hospital, furniture, equipment, utensils, and supplies.
- 6545 Medical sets, kits, and outfits.
- 6605 Navigational instruments.
- 6610 Flight instruments.

- 6615 Automatic pilot mechanisms and airborne gyro components.
- 6620 Engine instruments.
- 6625 Electrical and electronic properties measuring and testing instruments.
- 6630 Chemical analysis instruments.
- 6635 Physical properties testing equipment.
- 6640 Laboratory equipment and supplies.
- 6645 Time measuring instruments.
- 6650 Optical instruments.
- 6660 Meteorological instruments and apparatus.
- 6665 Hazard detecting instruments and apparatus.
- 6670 Scales and balances.
- 6675 Drafting, surveying, and mapping instruments.
- 6680 Liquid and gas flow, liquid level, and mechanical motion measuring instruments.
- 6685 Pressure, temperature, and humidity measuring and controlling instruments.
- 6710 Cameras, motion picture.
- 6720 Cameras, still picture.
- 6740 Photographic developing and finishing equipment.
- 6750 Photographic supplies.
- 6760 Photographic equipment and accessories.
- 6810 Chemicals.
- 6820 Dyes.
- 6830 Gases, compressed and liquefied.
- 6840 Pest control agents and disinfectants.
- 6850 Miscellaneous chemical specialties.
- 6910 Training aids.
- 6920 Armament training devices.
- 6930 Operational training devices.
- 7510 Office supplies.
- 7520 Office devices and accessories.
- 7530 Stationery and record forms.
- 7610 Books and pamphlets.
- 7690 Miscellaneous printed matter.
- 7920 Brooms, brushes, mops, and sponges.
- 7930 Cleaning and polishing compounds and preparations.
- 8010 Paints, dopes, varnishes, and related products.
- 8030 Preservative and sealing compounds.
- 8040 Adhesives.
- 8105 Bags and sacks.
- 8110 Drums and cans.
- 8115 Boxes, cartons, and crates.
- 8120 Commerce and industrial gas cylinders.
- 8135 Packaging and packing bulk materials.
- 8140 Ammunition boxes, packages, and special containers.
- 8305 Textile fabrics.
- 8310 Yarn and thread.
- 8315 Notions and apparel findings.
- 8415 Clothing special purpose.
- 8475 Specialized flight clothing and accessories.
- 8520 Toilet soap, shaving preparations, and dentifrices.
- 8540 Toiletry paper products.
- 8905 Meat, poultry, and fish.
- 8910 Dairy foods and eggs.
- 8915 Fruits and vegetables.
- 8920 Bakery and cereal products.
- 8925 Sugar, confectionery, and nuts.
- 8930 Jams, jellies, and preserves.
- 8935 Soups and bouillons.
- 8940 Special dietary foods and food specialty preparations.
- 8945 Food oils and fats.
- 8950 Condiments and related products.
- 8955 Coffee, tea, and cocoa.
- 8960 Beverages, nonalcoholic.
- 8970 Composite food packages.
- 9150 Oils and greases, cutting, lubricating and hydraulic.

9160 Miscellaneous waxes, oils, and fats.  
 9310 Paper and paperboard.  
 9320 Rubber fabricated materials.  
 9330 Plastics fabricated materials.  
 9340 Glass fabricated materials.  
 9620 Minerals, natural and synthetic.

## NOUNS

Absorbers	Decal
Accumulator	Decoder
Actuator	Demodulator
Adaptor	Dessicant
Adhesive	Dessicator
Aerofuse	Detector
Aircraft tires	Diaphragm
Aircraft tubes	Diode
Air bag	Disk rubber
Air drive	Disk valve
Alternator	Distributor
Amplifier	Divers dress
Antenna	Dome cover
Atomizer	Drain valve
Aximuth	Drive assembly
Bag, barrier	Dump valve
Bag, burlap	Ejector
Bag cellophane	Ejector assembly
Bag paper	Elbow rubber
Bag plastic	Enamel
Ballon	Envelope
Barograph	Equalizer
Barometer	Escape apparatus
Battery	Exchanger
Bearing	Eye guard
Bellows	Film, photo, radioactive pack-copy
Belt	Film, X-ray
Biologicals	Filter
Bit, mouthpiece	Filter assembly
Bladder	Filter element
Boot, dust	Flapper assembly
Brake, assembly	Flash unit
Breather	Flask
Buffer bumper	Float assembly
Bulkhead	Foam liquid
Cable assembly	Frequency converter
Camera	Fuel assembly
Canopy	Fuel cell
Cap	Fuel container
Case	Fuel injector
Cell oil	Heater
Cement, insulating	Regulator
Chemicals	Fuel tank
Clutch	Fuse
Coating	Fuse assembly
Cock	Gasket set-gasket-gasket assembly
Comparater	Gear assembly
Computer	Gear pump
Connector	Gimbal assembly
Control hydraulic	Gland assembly
Converter	Governor
Cork	Greases
Cover	Grommet
Cup	Guttapercha
Cushion	Gyro assembly
Damper assembly	Motor
Damping fluid	Computer
Dashpot assembly	

Gyro, gyroscope	Main gear
Hardener	Main transmission
Harness	Manifold
Harness assembly	Mask, mask diver
Heat exchanger	Matting
Heater assembly	Memory
Helmet assembly	Meter assembly
Hoist assembly	Mirror
Hood assembly	Missile
Hose	Modification kit
Hose air duct	Modulator
Hose assembly	Motor, air
Hose reel	Motor, assembly
Hub assembly	Motor, hydraulic
Hydraulic equipment	Motor, pneumatic
Hydraulic fluid	Motor power
Ignition assembly	Mount
Indicator	Mount and shock
Inking pad	Mount assembly
Inks	Mounting
Insulator set	Mouthpiece
Insulating, insulation	Network
Insulating oil	Nozzle
Insulator	Nozzle assembly
Intergrator	Nylon cover
Intensifier	O ring
Isolator	Oil cooler
Jack	Oil metering
Jack assembly	Oil pump assembly
Joint assembly, joint	Oil slick
Junction	Oleo assembly
Kit	Optic assembly
Kit, change	Oscillator
Kit, first aid	Oxygen cylinder
Kit, hydraulic	Oxygen unit
Kit, lube	Packing, packing assembly
Kit, overhaul	Pad, cushion
Kit, parts	Panel assembly
Kit, pump, repair	Paper, photo, paper, packing paper, paper carbon
Kit, repair	Parachute
Kit, snake	Pararaft
Kit, valve	Parts kit
Knob, control	Pharmaceuticals
Knob, switch	Pin assembly
Label	Piston
Lacquer	Pitchlock
Latch	Plaster, gypsum
Latch assembly	Plastic
Launcher assembly	Plug, plug rubber
Lead assembly	Poppet assembly
Lead electrical	Poppet, cylinder
Leather	Power booster
Lens assembly, lens	Power supply
Level	Probe assembly
Lifeboat	Propeller assembly, propeller
Life preserver	Printer
Lifteraft	Pulley
Light cord	Pump assembly
Limiter	Pump booster
Liner	Pump timer
Link assembly	Pylon assembly
Lock assembly	Quick change
Lube oil	Quill assembly
Magneto	Radio set GP
Magneto assembly	

Radio transmitter	Strut assembly
Raft, liferaft 20-man	Subsistence
Reader	Support, support assembly
Recharger	Switch, switch assembly
Regulator	Synchronizer
Relay, relay assembly	Tail gear
Relay motor	Tail rotor
Reservoir	Tank, tank assembly
Resistor	Tape; tape, pressure sensitive
Resin, epoxy	Tensioner
Rest	Terminal
Restrictor	Thermostat
Retainer	Thong
Ring; ring, stop; ring segment; ring seal	Timer
Roller	Transducer
Rotor assembly	Transformer
Rubber	Transistor
Rudder	Tread
Screw jack	Tube assembly
Seal, seal assembly	Tube flexible, tube rubber, tube assembly
Seat assembly	Turbine
Semiconductor	U ring
Sensor	Valve, assembly
Separator	Valve, check
Servo unit, servo assembly	Valve, manual
Servopositioner	Valve, power
Shield	Valve, regulator valve, safety valve, needle
Shock absorber	Visor, binocular
Simulator	Voltage regulator
Sleeve	Washer
Snubber	Water injector
Solenoid	Webbing
Spacer	Wheel, wheel assembly, wheel, land
Speed control	Winch, winch assembly
Stabilizer	Window
Starter generator	Wiper
Steam valve	Wire harness
Strainer, strainer assembly	Wiring
Stock cock	Yoke assembly
Strap	

## APPENDIX F

*Shelf-life codes*

Code	Shelf-life period	Code	Shelf-life period	Code	Shelf-life period
O	Nondeteriorative.	L	11 months.	V	30 months.
A	1 month.	1	12 months.	W	33 months.
B	2 months.	M	13 months.	3	36 months.
C	3 months.	N	14 months.	X	42 months.
D	4 months.	P	15 months.	4	48 months.
E	5 months.	Q	16 months.	5	60 months.
F	6 months.	R	17 months.	6	72 months.
G	7 months.	S	18 months.	7	84 months.
H	8 months.	T	21 months.	8	96 months.
J	9 months.	2	24 months.	9	108 months.
K	10 months.	U	27 months.	Z	120 months.

## APPENDIX G

Table for application of condition code changes for shelf-life items

Assigned shelf-life time period	Change A to B		Change B to C	
	Months expired	Months remaining	Months expired	Months remaining
6 months.....	3	3	4	2
9 months.....	5	4	7	2
12 months.....	7	5	10	2
15 months.....	9	6	12	3
18 months.....	12	6	15	3
More than 18 months.....	-----	9	-----	3

## APPENDIX H

## DEPARTMENT OF DEFENSE INSTRUCTION

Subject: Identification, control, and utilization of shelf life items.

References: (a) DOD Manual 4140.22-M, "Military Standard Reporting and Accounting Procedures (Milstrap)."

(b) DOD Standardization Directory SD-1, "Standardization Directory, Planning Schedule and Points of Contact (FSC Class and Area Assignments)."

(c) Defense Supply Agency Regulation DSAR 3200.1 "Engineering Support for Defense Supply Agency."

(d) Defense Supply Agency Manual DSAM 4140.1/AFM 67-11/AR 1-38/MCO P7020.5A, "Defense Utilization Manual."

## I. PURPOSE

This instruction establishes policies and responsibilities for management of shelf life items to obtain their optimum utilization.

## II. APPLICABILITY AND SCOPE

This instruction applies to all military departments and defense agencies performing management functions for items defined herein as shelf life items.

## III. POLICIES

The management criteria prescribed herein for shelf life items shall be uniformly applied.

## IV. DEFINITIONS

A. *Shelf life item.*—Any item of supply possessing deteriorative or unstable characteristics to the degree that a storage time period must be assigned to assure the issuance of materiel that will perform satisfactorily in service. There are two types of shelf life items:

1. Type I—Nonextendable dated item: An item of supply having a definite storage time period that cannot be extended. This item is disposed of when the established date has expired.

2. Type II—Extendable dated item: An item of supply which has an assigned storage time period, but may have the time period extended after prescribed inspection or restorative action.

B. *Shelf life code.*—A code assigned to a shelf life item to indicate its storage time period.

## V. PROCEDURES AND RESPONSIBILITIES

## A. Identification of shelf life items

1. Shelf life codes shall be applied, as appropriate, to current shelf life items and entered into and disseminated through the Federal catalog system. These codes shall be applied to new shelf life item entries when cataloged. Continuing

reviews of shelf life items shall be performed to determine the necessity for and adequacy of the assignment of shelf life time periods.

2. Stocks shall be appropriately marked to facilitate the identification and control of shelf life items down to the least unit of issue. Contract or purchase documents shall specify, as a minimum, that the item, package or container will be marked:

Type I shelf life item  
Date (manufacture/cure/assembly) \_\_\_\_\_  
or

Expiration date \_\_\_\_\_  
Type II shelf like item

Date (manufacture/cure/assembly) \_\_\_\_\_

3. Condition codes, reference (a), shall be applied in accordance with enclosure (2). Records shall be maintained to identify and regulate cyclic surveillance of shelf life items in storage. Condition changes to shelf life materiel in storage will be promptly reflected in inventory records.

B. *Standardization of shelf life codes.*—When variations in shelf life time periods for any Federal stock number (FSN) are encountered, Defense Logistics Services Center (DLSC) shall request resolution of the differences by the registered managers. If such differences are not resolved within the time frame normally permitted, the standardization assignee, reference (b), will be requested by DLSC to resolve the differences.

#### C. *Interservicing and technical support*

1. DSA shall be the military coordinator for the interservicing of DOD/Federal civil agencies' shelf life assets.

2. DSA shall be responsible for monitoring and evaluating the effectiveness of DOD shelf life utilization program.

3. Military departments shall provide the technical support required for DSA shelf life items, reference (c).

#### D. *Procurement and storage objectives*

DSA and the military departments, to preclude loss in storage, will prescribe formulas which will permit variable procurement and stockage objectives tailored to the shelf life time period of an item, and the ability of the manager to rotate stock within the shelf life period. For items with a shelf life of less than 6 months, consideration will be given to procurement methods such as open end call type contracts with order to be placed by the using post, camp, or station; or as an alternative, to central procurements specifying scheduled deliveries to listed activities.

#### E. *Determination of potential excess shelf life assets*

1. Inventory managers shall conduct continuing reviews of shelf life items to assure that condition A assets are within the anticipated system requirements expected to be generated within the shelf life time period. Quantities above the anticipated system requirements will be reported to DLSC, reference (d).

2. Inventory managers will review system requirements when condition codes of shelf life assets are changed from A to B to determine system capability to utilize condition B assets within the remaining shelf life time period. Factors reviewed will include the probability of shelf life time extension for type II items. Quantities of condition B materiel exceeding the system requirements will be reported to DLSC, reference (d).

3. Inventory managers shall make every effort to utilize condition C materiel within their systems prior to the expiration of the shelf life time period. Condition C items may be offered at reduced prices.

4. The following are not to be reported to DLSC in accordance with the provisions of this instruction:

(a) Items with less than 6 months' remaining shelf life time.

(b) Assets with an extended dollar value per line item of less than \$50.

(c) Drugs and biologicals requiring refrigeration or deep freeze.

#### F. *Utilization of potential excess shelf life assets*

1. The screening time for assets reported in accordance with paragraph E above will be the shelf-life time period remaining as reported by the inventory manager. Inventory managers will advise DLSC whenever a significant change to the reported assets occur.

2. DLSC will make timely distribution of listings of potential excess shelf life assets to the military services and GSA for concurrent screening. These listings will contain only shelf life items. DLSC will provide GSA regional offices a sufficient number of copies of the listings for screening.

3. Inventory managers shall report requirements for shelf life items with 6 months and longer shelf life time period and a monetary value of \$15 and above, reference (d).

#### VI. REPORTS

A. DSA shall report to the Office of the Assistant Secretary of Defense (Installations and Logistics) (ASD (I. & L.)) at the end of each fiscal year the dollar value of shelf life items reported for utilization, dollar value of shelf life items interserviced and dollar value of shelf life items disposed of.

B. The military departments shall provide DSA with individual service reports containing the above information. These data will be included in the "Report of Utilization Transfers of Supply Systems Stocks," DD Form 1461, reference (d).

#### VII. IMPLEMENTATION

A. *Reporting and utilization.*—The reporting and utilization provisions of this instruction shall be incorporated into reference (d).

B. *Shelf life controls.*—The military departments and Defense agencies shall submit two copies of their implementing procedures for the application of shelf life controls to ASD (I. & L.) within 120 days of the date of this instruction.

#### VIII. EFFECTIVE DATE

This instruction is effective upon receipt.

#### APPENDIX I

##### PROPOSED AGREEMENT BETWEEN GSA AND DOD GOVERNING CROSS-SERVICING OF SHELF-LIFE ASSETS

This agreement is entered into between the Department of Defense and the General Services Administration to provide a means of identifying items having a limited shelf life, standardizing the shelf-life time periods to the maximum extent possible, and maximum Government-wide utilization of such items prior to disposal as surplus action.

It is agreed that—

1. The Department of Defense will accumulate, through an intra-Department of Defense reporting system, listings of shelf-life items which the stocking activity anticipates will expire on the shelf before issue to use is made. These listings will be circulated, as appropriate, within the Department of Defense and through the General Services Administration to appropriate civil agencies for Government-wide utilization.

2. The General Services Administration will accumulate listings from Federal civil agencies of items which the agencies anticipate will expire on the shelf before issue to use is made. These listings will be circulated to other civil agencies and to the Department of Defense for Government-wide utilization.

3. Shelf-life items at user points approaching expiration date which are centrally stored and issued by DSA or GSA will be redistributed through established "Return for Credit" or "Buy-Back" procedures. Such items as may be centrally stored and issued by GSA and a military manager will be subjected to the same interservice procedures as now exist between military managers of the same item.

4. Items on civil agency reports which are other than GSA managed will be procured through existing excess channels, modified as necessary for this program. Such items will be offered without reimbursement. Likewise, items from DOD stocks offered to civil agencies will be without reimbursement.

5. Internal procedures will be developed in DOD and in GSA to accomplish necessary cross-servicing and such internal procedures will be coordinated as between DOD and GSA to insure compatibility.

6. Standardization of shelf-life periods will be accomplished and coordinated between using agencies.

COMPTROLLER GENERAL OF THE UNITED STATES,  
*Washington, D.C., June 24, 1965.*

B-115869.

DEAR SENATOR DOUGLAS: At the recent hearings of the Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, the Bureau of the Budget was requested to furnish a statement of Bureau of the Budget-General Accounting Office differences with respect to Federal Government procurement and management of automatic data processing equipment. Such a statement was prepared by the Bureau of the Budget and furnished by the Bureau to your subcommittee on June 14, 1965. We have since been requested to submit our views to the subcommittee regarding these points of difference.

At the present time, our Office is in the process of analyzing the February 1965 report of the Bureau of the Budget to the President on the management of automatic data processing in the Federal Government. A report to the Congress is being prepared which will contain a comprehensive analysis of the conclusions of the Bureau of the Budget in relation to our views regarding the procurement and management of automatic data processing by Government agencies and their contractors. Copies of this report will be transmitted to your subcommittee when it is completed.

In the meantime, the following information is provided for the information of the subcommittee since the Bureau's statement of the position of the Comptroller General, as set forth in its June 14, 1965, letter, does not adequately summarize our views.

Our basic position is stated in our report dated March 6, 1963, on our study of the financial advantages of purchasing over leasing of electronic data processing equipment in the Federal Government and in our report dated April 30, 1964, on review of problems relating to management and administration of electronic data processing systems in the Federal Government. In these reports and in others, based on reviews made in specific agencies and at Government contractor locations, we recommended that the President of the United States establish a central management office in his organization 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 least cost to the Government.

This recommendation was based on our observations and conclusions that the present decentralized arrangement for making decisions on the procurement and use of automatic data processing equipment results in excessive and unnecessary costs of millions of dollars each year. Our recommendation was not based on premises or assumptions of a theoretical nature. On the contrary, our examinations have produced information which clearly demonstrates to us the need for a stronger form of centralized management and control over this high cost area of operations if the Government is to make the most effective use of computer techniques in the most economical manner.

The principal difference between our Office and the Bureau of the Budget on this subject, therefore, involves the matter of organization and management for automatic data processing resources. We have recommended that a centralized form of management be established over the procurement and use of this equipment as a means of avoiding significant unnecessary costs and promoting more complete and effective use of the Government's computer resources. The Bureau maintains that the present form of decentralized management is more appropriate since it avoids diluting individual agency management responsibility.

Another basic difference involves the procurement and utilization of automatic data processing equipment used by Government contractors. We believe that the Government, in order to realize substantial amounts of savings in procurement costs, should establish a program of furnishing automatic data processing equipment to its contractors where determined to be economical to do so. The Bureau, on the other hand, maintains that such equipment should generally not be furnished in this manner because it interferes unnecessarily with Government agency-contractor relationships. We also understand that it believes that a proposed change in the armed services procurement regulation to limit rental costs incurred by contractors to the equivalent of ownership costs (to them) will accomplish the same results we seek. We do not believe that this latter course will be nearly as effective. We believe that a program of Government ownership and the interplay of such equipment between Government contractors and Government agencies, where economical to do so, will provide savings of millions of

dollars annually to the Government which will not be achieved under the present or proposed policies of the Bureau of the Budget or the Department of Defense.

A third basic difference concerns the degree of risk taking involved in the system we recommend. The Bureau believes that our proposals for making automatic data processing equipment procurement decisions on a Government-as-a-whole basis involves substantial risks of financial losses. On the other hand, we see the prospect of continuing substantial losses under the existing system. As to the degree of risk involved in making purchase decisions under the system we recommend, it should be noted that, in many cases, the present system results in the use of general-purpose automatic data processing equipment on a rental basis for periods of 2 to 3 years by Government agencies or Government contractors with rental costs amounting to 60 to 90 percent, or more, of the purchase price of the equipment, depending on the extent of its use. The risk to be taken in these cases, by purchasing initially, is measured by the difference between the total rentals paid and the purchase costs. Consequently, the degree of risk to be taken by purchasing in these cases is very small in relation to the total costs involved. Where serious uncertainties of use exist, purchase option rental arrangements could provide a means of protecting the Government's interest.

During the past 2 years, we have sent 40 reports to the Congress in which we have referred to the need for stronger centralized management. These reports identified actual or potential unnecessary costs in the procurement and operation of automatic data processing facilities of about \$225 million. We believe that the basic cause for these unnecessary costs is directly related to the present decentralized management system under which individual agencies and contractors make their own decisions on the procurement and use of data processing equipment without regard for the needs of the Government as a whole.

It is our conviction that, unless some form of centralized management is established, the Federal Government will continue to spend unnecessarily substantial sums each year to obtain and use needed data processing equipment in its operations.

In this connection, there is now before the Congress legislation designed to increase the authority and responsibility of the Administrator of General Services to coordinate and otherwise provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment by Federal departments and agencies and Government contractors. We are in agreement with the objectives of this legislation and we favor its enactment.

Sincerely yours,

FRANK H. WEITZEL,  
*Assistant Comptroller General of the United States.*

