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JOINT COMMITTEE PRINT

BACKGROUND MATERIAL ON ECONOMIC  
IMPACT OF FEDERAL PROCUREMENT—1965

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MATERIALS PREPARED

FOR THE

SUBCOMMITTEE ON FEDERAL PROCUREMENT  
AND REGULATION

OF THE

JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES



APRIL 1965

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## LETTERS OF TRANSMITTAL

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APRIL 19, 1965:

*To the Members of the Joint Economic Committee:*

Transmitted herewith for the use of the Joint Economic Committee, and other Members of the Congress, are background materials on the economic impact of Federal procurement as of April 1965; these materials update a similar report of April 1964. The materials provide a useful background for the hearings on the economic impact of Federal procurement which the Subcommittee on Federal Procurement and Regulation is holding late in April.

Sincerely,

WRIGHT PATMAN,  
*Chairman, Joint Economic Committee.*

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APRIL 15, 1965.

HON. WRIGHT PATMAN,  
*Chairman, Joint Economic Committee,  
U.S. Congress, Washington, D.C.*

DEAR MR. CHAIRMAN: Submitted herewith for the use of the members of the Subcommittee on Federal Procurement and Regulation and the other members of the Joint Economic Committee and the Congress, is a report presenting "Background Material on Economic Impact of Federal Procurement—1965," which updates a similar report of the committee in April 1964.

This study was prepared by temporary staff consultant Ray Ward in connection with the Subcommittee on Federal Procurement and Regulation hearings on "The Economic Impact of Federal Procurement," to be held April 27, 28, and 29, 1965.

The materials contained in this report provide a useful background on the scope and complexities of Federal procurement and related activities, particularly the military, and their impact on the economy.

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

Faithfully yours,

PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Federal Procurement and Regulation.*

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# BACKGROUND MATERIAL ON ECONOMIC IMPACT OF FEDERAL PROCUREMENT—1965

## INTRODUCTION

The Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee has for the past 5 years held hearings and issued reports containing recommendations aimed at the elimination of waste and improving management in Federal procurement and related property management areas. These are areas requiring great obligations of Government funds, e.g.: "Contractual Services and Supplies" for fiscal 1965, \$48,959 million; "Acquisition of Capital Assets," \$29,457 million (table 1).

Experience has shown that one of the greatest potentials for improved efficiency and the reduction of waste lies in these areas.

Not only are current expenditures for these objects very great but they annually augment existing real and personal property inventories that amounted to \$323,881 million as of June 30, 1964 (table 2).

Chairman Douglas has repeatedly stated that the subcommittee is not interested in strictly military matters—strategy, size of forces, kinds of weapons, etc.—but has a real concern with the economic aspects of procurement and related supply management matters and particularly with economic waste.

The subcommittee has constantly urged responsible agencies to take steps to reduce the frightening waste caused by overbuying, failure to utilize available stocks, deterioration of short-shelf-life items (app. 5, p. 225), lack of standardization, inadequate engineering drawings, etc., and is pleased that progress is being achieved.

Secretary McNamara and his assistants have made great strides in eliminating and reducing these and other sources of economic waste (app. 1 and 2) through a cost-reduction program which now saves \$4.1 billion annually and is projected to save \$4.8 billion by fiscal 1968 and annually thereafter.

Of greater importance, the President instituted a Government-wide cost-reduction program on October 31, 1964, and has declared an unrelenting "War on Waste."<sup>1</sup>

<sup>1</sup> See "'War On Waste' Cost Reduction Through Better Management," prepared by the Bureau of the Budget, Executive Office of the President. (For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 20402.)

## TOTAL GOVERNMENT OBLIGATIONS AND OBJECTS

Reliable statistics on total Federal expenditures by objects are not available but Bureau of the Budget figures on obligations by objects show the magnitude of Government-wide procurement and related activities. (Fiscal year 1966 figures not available.)

TABLE 1.—U.S. Government obligations by objects for the fiscal years 1963, 1964, and 1965

GRAND TOTAL—ADMINISTRATIVE BUDGET

[In millions of dollars]

Description	1963 actual			1964 estimated			1965 estimated		
	General and special and intra-governmental funds	Public enterprise funds	Total	General and special and intra-governmental funds	Public enterprise funds	Total	General and special and intra-governmental funds	Public enterprise funds	Total
10 Personal services and benefits.....	(24, 542)	(3, 973)	(28, 515)	(26, 254)	(4, 226)	(30, 480)	(27, 314)	(4, 346)	(31, 660)
11 Personnel compensation:									
Permanent positions.....	10, 653	2, 769	13, 422	11, 239	2, 936	14, 175	11, 600	3, 028	14, 628
Military personnel.....	8, 141	(1)	8, 141	8, 787	(1)	8, 787	9, 226	(1)	9, 226
Positions other than permanent.....	259	750	1, 039	296	793	1, 089	288	820	1, 108
Other personnel compensation.....	702	159	861	758	184	942	734	175	909
12 Personnel benefits.....	3, 553	292	3, 845	3, 812	312	4, 124	3, 994	321	4, 215
13 Benefits for former personnel.....	1, 203	2	1, 205	1, 361	2	1, 363	1, 570	2	1, 572
20 Contractual services and supplies.....	(40, 007)	(6, 043)	(46, 050)	(43, 232)	(6, 627)	(49, 859)	(42, 985)	(5, 974)	(48, 959)
21 Travel and transportation of persons.....	1, 170	39	1, 209	1, 173	43	1, 216	1, 218	44	1, 262
22 Transportation of things.....	1, 921	1, 069	2, 990	1, 878	1, 136	3, 014	1, 912	1, 077	2, 989
23 Rent, communications, and utilities.....	1, 687	128	1, 815	2, 033	142	2, 175	2, 097	161	2, 258
24 Printing and reproduction.....	255	7	262	254	7	261	259	7	266
25 Other services.....	17, 537	693	18, 230	19, 841	633	20, 474	19, 868	573	20, 441
Services of other agencies.....	711	5	716	780	6	786	789	7	846
26 Supplies and materials.....	16, 726	4, 102	20, 828	17, 273	4, 659	21, 932	16, 792	4, 104	20, 896
30 Acquisition of capital assets.....	(19, 732)	(8, 997)	(28, 729)	(20, 636)	(9, 863)	(30, 499)	(19, 614)	(9, 843)	(29, 457)
31 Equipment.....	15, 058	79	15, 137	15, 845	133	15, 978	14, 840	131	14, 971
32 Lands and structures.....	3, 615	697	4, 212	3, 979	764	4, 733	3, 915	650	4, 574
33 Investments and loans.....	1, 059	8, 321	9, 380	812	8, 976	9, 788	859	9, 053	9, 912

TABLE 1.—U.S. Government obligations by objects for the fiscal years 1963, 1964, and 1965—Continued

## GRAND TOTAL—ADMINISTRATIVE BUDGET

[In millions of dollars]

Description	1963 actual			1964 estimated			1965 estimated		
	General and special and intra-governmental funds	Public enterprise funds	Total	General and special and intra-governmental funds	Public enterprise funds	Total	General and special and intra-governmental funds	Public enterprise funds	Total
40 Grants and fixed charges.....	(24,058)	(2,498)	(26,556)	(25,128)	(2,809)	(27,937)	(27,192)	(2,517)	(29,709)
41 Grants, subsidies, and contributions.....	9,938	1,548	11,486	10,227	2,030	12,257	11,866	1,721	13,587
42 Insurance claims and indemnities.....	4,040	111	4,151	4,100	142	4,242	4,127	161	4,288
43 Interest and dividends.....	10,076	818	10,894	10,798	616	11,414	11,198	613	11,811
44 Refunds.....	4	21	25	3	21	24	( <sup>1</sup> )	23	23
Unvouchered.....	108	768	876	217	1,044	1,261	268	573	841
Change in selected resources.....	339	243	582	363	-123	240	3	497	500
Proposed for separate transmittal.....				1,275	1	1,276	1,684	200	1,884
Not distributed otherwise.....	-15	265	253	-203	170	-33	443	177	620
Allowances undistributed.....				300		300	1,544		1,544
Total obligations incurred.....	108,770	22,789	131,559	117,202	24,618	141,820	121,048	24,125	145,173
Less obligations financed from other sources.....	19,526	17,328	36,854	20,035	18,503	38,538	20,178	19,734	39,912
Net obligations incurred.....	89,244	5,461	94,705	97,167	6,115	103,282	100,870	4,391	105,261

<sup>1</sup> Less than \$500,000.

Source: Budget Bureau.

NOTE.—Because of rounding, detail may not add to totals shown.



The U.S. Government's reported property holdings increased by \$9 billion from June 30, 1963, to June 30, 1964.

TABLE 2.—Grand recapitulation of the personalty and realty assets of the U.S. Government agencies, offices, and establishments of the Government, including the Department of Defense, as of June 30, 1964, 1963, and 1962

[In millions of dollars]

Classification	June 30, 1964	June 30, 1963	June 30, 1962
<b>PERSONAL PROPERTY</b>			
Cash:			
With Treasurer of the United States .....	\$11,036	\$12,116	\$10,480
On hand and in banks outside the Treasury .....	689	738	814
Investments (other than public debt) .....	5,946	5,843	5,694
Accounts and notes receivable .....	5,179	5,269	4,487
Commodities for sale .....	4,673	4,942	4,670
Work in process .....	812	811	660
Materials and supplies .....	9,098	9,167	9,216
Loans receivable .....	30,347	28,361	26,899
Machinery and equipment .....	13,494	13,042	12,164
Other assets .....	13,660	11,815	10,344
Department of Defense (equipment, supplies, stock inventories, etc.) .....	134,912	132,577	127,706
Corps of Engineers (equipment, etc.) .....	258	244	232
<b>Total personal property .....</b>	<b>230,104</b>	<b>224,923</b>	<b>213,316</b>
<b>REAL PROPERTY</b>			
Departments and agencies (other than Department of Defense) .....	20,206	18,640	17,707
Department of Defense (including Corps of Engineers, civil functions) .....	43,599	43,043	41,473
Architect of the Capitol <sup>1</sup> .....	471	459	440
Other (including construction in progress, etc.) .....	10,166	9,849	8,476
Realty donated or otherwise acquired at no cost <sup>1</sup> .....	290	295	292
Public domain acreage and mineral resources <sup>1</sup> .....	19,024	18,026	17,740
<b>Total, real property .....</b>	<b>93,777</b>	<b>90,312</b>	<b>86,128</b>
<b>Total, all property .....</b>	<b>323,881</b>	<b>315,235</b>	<b>299,444</b>

<sup>1</sup> Computed at estimated present-day evaluation.

NOTE.—All properties reported are shown in gross amounts without deductions for allowances for losses and depreciation. Only wholly Government-owned corporation assets and other wholly owned assets are included. Assets held under trust arrangements and interagency assets, including public debt securities owned, are excluded. The properties have been valued at acquisition cost or estimated cost when the actual costs were not known. Public domain, donated property and properties under supervision of the Architect of the Capitol are shown at estimated present-day values. Properties acquired as gifts or without cost to the Government are shown at estimated present-day values.

Source: Report of Committee on Government Operations, House of Representatives, on real and personal property inventory of the U.S. Government as of June 30, 1964.

# MAGNITUDE OF DOD PROPERTY MANAGEMENT ACTIVITIES

## PROPERTY HOLDINGS

The total of DOD's real and personal property holdings has risen annually from \$129 billion in fiscal year 1955 to \$173 billion at the end of fiscal year 1964 despite concurrent disposal actions of great magnitude. Real property holdings increased from \$21 to \$37 billion and personal property holdings from \$107 to \$137 billion during the decade.

However, "supply systems" inventories have been reduced through improved management by \$12 billion during this period and "stock funds" by \$2.4 billion.

TABLE 3.—DOD property holdings as of June 30, fiscal years 1955-64<sup>1</sup>

[In millions of dollars]

Total and type of property	1955	1956	1957	1958	1959	1960	1961	9162	1963	1964
Total.....	128,694	134,082	146,021	149,465	150,660	154,617	158,508	164,835	171,364	173,455
Real.....	21,343	22,918	24,892	26,891	29,689	31,997	34,038	35,378	36,565	36,734
Personal.....	107,351	111,164	121,129	112,574	120,971	122,620	124,470	129,457	134,799	136,721
Supply systems.....	50,780	50,974	53,799	47,652	44,467	42,002	40,837	40,652	40,096	38,795
Stock funds.....	8,153	9,772	10,970	8,913	8,162	7,312	6,413	6,154	6,527	5,749
Appropriated funds.....	42,627	41,202	42,829	38,739	36,305	34,690	34,424	34,498	33,569	33,046

<sup>1</sup> Source: Report of Committee on Government Operations, House of Representatives, on real and personal property inventory of the U.S. Government.

Expenditures for DOD military functions as a percentage of the gross national product declined slightly for the second successive year.

TABLE 4.—Expenditures for DOD military functions as percentage of gross national product, fiscal years 1939-64

[In billions of dollars]

Fiscal year	Gross national product	DOD military function		Fiscal year	Gross national product	DOD military function	
		Expenditures	Percent of GNP			Expenditures	Percent of GNP
1939.....	88.2	1.1	1.2	1952.....	338.8	38.9	11.5
1940.....	95.7	1.5	1.6	1953.....	359.7	43.6	12.1
1941.....	110.5	6.0	5.4	1954.....	362.0	40.3	11.1
1942.....	140.5	23.6	16.8	1955.....	377.0	35.5	9.4
1943.....	178.4	62.7	35.1	1956.....	408.5	35.8	8.8
1944.....	202.8	75.8	37.4	1957.....	433.0	38.4	8.9
1945.....	218.3	80.0	36.7	1958.....	440.2	39.1	8.9
1946.....	202.8	42.0	20.7	1959.....	466.7	41.2	8.8
1947.....	223.3	13.8	6.2	1960.....	494.8	41.2	8.3
1948.....	246.6	10.9	4.4	1961.....	506.6	43.2	8.5
1949.....	261.6	11.6	4.4	1962.....	539.4	46.8	8.7
1950.....	263.8	11.9	4.5	1963.....	568.7	48.3	8.5
1951.....	310.8	19.8	6.4	1964.....	603.4	49.8	8.2

Source: OASD Comptroller FAD-119 (fiscal year 1966).

Tables 5 and 6 show an increase of 1,419 military personnel at a cost of \$1,061,627,000 between June 30, 1963, and June 30, 1964 while civilian personnel decreased by 14,373 with a payroll increase of \$194,760,000.

TABLE 5.—Number of DOD military and civilian personnel stationed in the United States (including Alaska and Hawaii) and annual payrolls, by State of duty location, as of June 30, 1963.

	Active duty military personnel		Civilian employees	
	Number, June 30, 1963 <sup>1</sup>	Estimated annual pay and allowances <sup>2</sup>	Number, June 30, 1963	Estimated annual payroll <sup>2</sup>
United States, total.....	1,688,121	\$6,698,101,000	951,231	\$6,111,344,000
Alabama.....	23,716	94,655,000	33,966	216,308,000
Alaska.....	31,778	129,484,000	5,882	46,226,000
Arizona.....	20,169	84,286,000	7,144	45,565,000
Arkansas.....	14,361	59,970,000	4,523	28,716,000
California.....	221,934	846,675,000	140,121	899,291,000
Colorado.....	36,856	150,669,000	14,470	92,207,000
Connecticut.....	5,631	21,315,000	2,825	18,169,000
Delaware.....	8,092	36,055,000	1,278	8,173,000
District of Columbia.....	<sup>3</sup> 18,636	72,279,000	29,348	188,075,000
Florida.....	66,602	276,718,000	24,145	155,018,000
Georgia.....	93,043	355,677,000	33,976	216,830,000
Hawaii.....	41,018	152,207,000	18,396	135,559,000
Idaho.....	6,267	27,412,000	486	3,104,000
Illinois.....	45,473	179,806,000	28,986	184,880,000
Indiana.....	8,705	36,451,000	11,927	76,253,000
Iowa.....	1,482	6,316,000	542	3,445,000
Kansas.....	36,824	148,134,000	5,091	32,385,000
Kentucky.....	48,655	179,705,000	11,565	73,511,000
Louisiana.....	32,452	128,471,000	7,234	46,097,000
Maine.....	14,216	62,293,000	1,652	10,594,000
Maryland.....	<sup>3</sup> 48,214	187,136,000	38,425	245,384,000
Massachusetts.....	32,355	133,691,000	26,109	166,842,000
Michigan.....	22,638	98,978,000	11,791	75,134,000
Minnesota.....	5,392	22,537,000	1,958	12,474,000
Mississippi.....	25,017	110,789,000	5,888	37,557,000
Missouri.....	28,596	111,111,000	15,330	97,515,000
Montana.....	10,484	46,846,000	1,071	6,840,000
Nebraska.....	19,224	85,141,000	4,519	28,782,000
Nevada.....	8,142	35,309,000	2,670	17,140,000
New Hampshire.....	8,576	37,004,000	9,970	64,173,000
New Jersey.....	42,485	165,726,000	25,685	163,451,000
New Mexico.....	21,833	93,078,000	10,966	70,039,000
New York.....	39,167	160,584,000	51,676	330,675,000
North Carolina.....	88,366	313,289,000	10,044	64,330,000
North Dakota.....	11,000	49,222,000	1,180	7,528,000
Ohio.....	19,153	83,121,000	38,642	247,837,000
Oklahoma.....	37,291	147,753,000	25,061	160,145,000
Oregon.....	5,201	22,890,000	3,613	22,952,000
Pennsylvania.....	15,225	57,684,000	69,046	442,378,000
Rhode Island.....	6,229	23,354,000	8,285	53,340,000
South Carolina.....	41,086	159,178,000	14,570	93,532,000
South Dakota.....	6,674	29,802,000	1,668	10,613,000
Tennessee.....	17,675	68,368,000	6,264	39,922,000
Texas.....	178,281	736,551,000	58,856	375,479,000
Utah.....	5,529	19,102,000	19,333	123,278,000
Vermont.....	475	2,053,000	64	408,000
Virginia.....	<sup>3</sup> 88,059	331,643,000	79,029	506,928,000
Washington.....	48,561	194,194,000	21,963	140,780,000
West Virginia.....	596	2,384,000	958	6,075,000
Wisconsin.....	4,575	19,484,000	2,171	13,859,000
Wyoming.....	4,062	18,159,000	869	5,548,000
Undistributed.....	23,050	83,352,000	-----	-----
Washington, D. C., metropolitan area.....	<sup>3</sup> 62,094	242,706,000	76,490	489,914,000
District of Columbia.....	<sup>3</sup> 18,636	72,279,000	29,348	188,075,000
Maryland.....	<sup>3</sup> 11,802	50,287,000	14,257	91,377,000
Virginia.....	<sup>3</sup> 31,656	120,140,000	32,885	210,462,000

<sup>1</sup> Excludes naval personnel assigned to fleet units and to other afloat and mobile activities.

<sup>2</sup> For number of personnel indicated in preceding column.

<sup>3</sup> Partly estimated.

Source: Directorate for Statistical Services, Office of Secretary of Defense, Sept. 16, 1963.

TABLE 6.—Number of DOD military and civilian personnel stationed in the United States (including Alaska and Hawaii) and annual payrolls, by State of duty location, as of June 30, 1963.

	Active duty military personnel		Civilian employees	
	Number, June 30, 1964 <sup>1</sup>	Estimated annual pay and allowances <sup>2</sup>	Number, June 30, 1964	Estimated annual payroll <sup>3</sup>
United States, total.....	1,689,540	\$7,759,728,000	936,858	\$6,306,104,000
Alabama.....	21,940	118,945,000	33,159	222,376,000
Alaska.....	32,645	144,300,000	6,105	40,969,000
Arizona.....	19,588	85,860,000	7,071	47,433,000
Arkansas.....	15,881	68,763,000	4,543	30,435,000
California.....	219,719	972,714,000	135,936	916,756,000
Colorado.....	39,443	190,314,000	14,526	97,447,000
Connecticut.....	5,311	23,083,000	3,003	20,278,000
Delaware.....	9,426	44,837,000	1,296	8,705,000
District of Columbia.....	* 19,978	140,750,000	28,709	193,557,000
Florida.....	70,695	335,377,000	24,378	164,382,000
Georgia.....	98,507	387,760,000	32,766	220,020,000
Hawaii.....	45,714	191,534,000	18,597	125,321,000
Idaho.....	6,030	30,787,000	467	3,136,000
Illinois.....	47,670	208,202,000	28,754	193,227,000
Indiana.....	8,071	38,206,000	11,932	80,312,000
Iowa.....	1,556	7,550,000	610	24,088,000
Kansas.....	37,709	164,966,000	4,959	33,253,000
Kentucky.....	49,528	185,574,000	11,753	78,832,000
Louisiana.....	31,441	138,747,000	6,832	45,880,000
Maine.....	13,166	64,021,000	1,675	11,280,000
Maryland.....	* 48,250	221,177,000	39,301	264,297,000
Massachusetts.....	31,682	151,228,000	24,602	165,463,000
Michigan.....	21,205	105,408,000	11,689	78,434,000
Minnesota.....	5,304	23,888,000	2,047	13,734,000
Mississippi.....	20,869	115,226,000	6,047	40,589,000
Missouri.....	28,807	113,746,000	15,869	106,409,000
Montana.....	9,913	46,471,000	914	6,137,000
Nebraska.....	18,808	104,527,000	4,332	29,070,000
Nevada.....	7,770	37,771,000	2,623	17,681,000
New Hampshire.....	8,146	41,529,000	9,261	62,594,000
New Jersey.....	42,231	184,887,000	24,640	165,352,000
New Mexico.....	21,440	111,311,000	10,873	73,125,000
New York.....	37,048	178,474,000	49,966	336,405,000
North Carolina.....	87,352	340,886,000	10,116	68,153,000
North Dakota.....	10,558	62,437,000	1,263	8,475,000
Ohio.....	19,233	109,186,000	37,054	249,999,000
Oklahoma.....	36,246	153,982,000	24,537	164,802,000
Oregon.....	5,233	24,687,000	3,531	23,667,000
Pennsylvania.....	14,765	71,100,000	66,940	451,348,000
Rhode Island.....	6,853	34,048,000	8,368	56,680,000
South Carolina.....	43,436	184,692,000	14,694	88,521,000
South Dakota.....	6,814	33,133,000	1,370	9,185,000
Tennessee.....	19,289	78,768,000	6,592	44,600,000
Texas.....	167,056	774,359,000	58,939	395,616,000
Utah.....	4,247	21,778,000	19,039	128,018,000
Vermont.....	291	1,320,000	73	489,000
Virginia.....	* 88,928	452,529,000	79,114	533,887,000
Washington.....	50,283	204,483,000	21,883	147,535,000
West Virginia.....	523	2,502,000	1,041	6,972,000
Wisconsin.....	4,494	22,449,000	2,297	15,442,000
Wyoming.....	5,323	25,313,000	862	5,788,000
Undistributed.....	23,125	194,106,000		
Washington, D.C., metropolitan area.....	61,730	347,263,000	77,475	522,254,000
District of Columbia.....	* 19,978	140,750,000	28,709	193,557,000
Maryland.....	* 11,785	54,011,000	14,550	98,036,000
Virginia.....	* 29,967	152,502,000	34,216	230,661,000

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

Source: Directorate for Statistical Services, Office of Secretary of Defense, Sept. 15, 1964.

## SUPPLY SYSTEMS INVENTORIES

The total of "supply systems" inventories from the end of fiscal year 1958 through fiscal year 1964, as has been stated, declined to about \$39 billion. The stratification of such stocks, or breakdown

into purpose for which they are held, reflects a distinct change during fiscal year 1964. In prior years, the strata were peacetime operating stocks, mobilization reserve stock, economic and contingency retention stocks, and excess stock. These are shown in table 7 and are explained in footnotes 2 through 6.

Stratification of supply systems inventories as of June 30, 1964, is in accordance with improved logistics guidance which calls for application of assets first against requirements to support (1) Approved Forces, i.e., Active and high-priority Reserve Forces of the 5-year force structure and financial program, and (2) General Forces. Acquisition of materiel is authorized to support Approved Forces; it is not authorized to support General Forces. Both have retention limits. The data for these strata are not comparable with that in prior years, except in a very general way, and therefore have not been shown separately in the table (see footnotes) but are included in subtotal and total.

The criteria for the establishment of economic retention and contingency retention strata have not been drastically revised, although the exigencies of world situations may result in somewhat different levels being established under them. The excess strata now represents those stocks that are beyond limits of a particular service and for which screening for utilization by other elements of the Department of Defense is underway, but for which final DOD disposal action has not been initiated. They are not significantly different in value from those reported in prior years.

TABLE 7.—DOD supply systems inventories by inventory stratas as of June 30,<sup>1</sup> fiscal years 1958-64.

[In millions of dollars]

Total and inventory strata	1958	1959	1960	1961	1962	1963	1964
Total.....	46,585	44,203	41,727	40,537	40,299	39,684	38,383
Unstratified.....	2,440	3,056	2,083	1,819	1,837	1,425	2,582
Total stratified.....	44,145	41,147	39,644	38,717	38,462	38,259	35,801
Peacetime operating <sup>2</sup> .....	14,538	15,306	15,657	14,722	15,601	15,379	(?)
Mobilization reserve <sup>3</sup> .....	12,134	11,530	10,893	11,030	10,725	10,921	(?)
Economic retention <sup>4</sup> .....	5,593	4,703	6,618	6,343	5,454	5,912	3,596
Contingency retention <sup>5</sup> .....	1,050	1,611	1,361	1,246	1,040	636	1,248
Excess stocks <sup>6</sup> .....	10,418	7,146	5,115	5,377	5,643	5,411	5,528

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

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

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

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

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

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

<sup>7</sup> These strata are not available for 1964. The sum of these 2 is \$25,429,000,000 which is divided in 1964 into Approved Force stocks (\$23,190,000,000) and General Force stocks (\$2,239,000,000).

#### SCOPE OF PROCUREMENT ACTIVITIES

The net value of military procurement actions amounted to \$27.5 billion in fiscal year 1964, a decrease of \$600 million from fiscal year 1963.

TABLE 8.—*Net value of military procurement actions in the United States and possessions, fiscal years 1951-64*

(In billions of dollars)

Fiscal year	Net value of military procurement actions	Fiscal year	Net value of military procurement actions	Fiscal year	Net value of military procurement actions
1951	31.9	1956	18.2	1961	24.3
1952	42.2	1957	19.9	1962	27.8
1953	28.4	1958	22.8	1963	28.1
1954	11.9	1959	23.9	1964	27.5
1955	15.5	1960	22.5		

Source: "Military Prime Contract Awards and Subcontract Payments, July 1963-June 1964," Office of the Secretary of Defense.

## NET VALUE OF PROCUREMENT ACTIONS BY STATES, FISCAL YEARS 1962-64 (SEE TABLE 9)

The percentage breakdown of military procurement actions by States and the District of Columbia shows for fiscal year 1964:

Percent of total:	Number of States	Percent of total—Con.	Number of States
Over 20	1	3 to 4	3
10 to 15	1	2 to 3	5
5 to 10	2	1 to 2	5
4 to 5	4	0 to 1	30

TABLE 9.—*Net value of military procurement actions, by States and fiscal year<sup>1</sup>, fiscal years 1962, 1963, and 1964*

(Amounts in thousands)

	Fiscal year 1962		Fiscal year 1963		Fiscal year 1964	
	Amount	Percent	Amount	Percent	Amount	Percent
Total, United States <sup>2</sup>	\$27,800,407	-----	\$28,107,882	-----	\$27,470,379	-----
Not distributed by State <sup>3</sup>	2,761,717	-----	2,874,642	-----	3,053,272	-----
State totals <sup>4</sup>	25,038,690	100.0	25,233,240	100.0	24,417,107	100.0
Alabama	154,419	.6	194,990	.8	190,681	.8
Alaska	63,320	.3	103,476	.4	101,545	.4
Arizona	152,951	.6	285,751	1.1	173,825	.7
Arkansas	84,798	.3	39,114	.2	29,731	.1
California	5,993,244	23.9	25,835,670	23.1	5,100,650	21.0
Colorado	565,279	2.3	444,196	1.8	389,511	1.6
Connecticut	1,213,067	4.8	1,048,449	4.2	1,126,054	4.6
Delaware	47,197	.2	67,035	.3	30,424	.1
District of Columbia	181,954	.7	238,120	.9	222,947	.9
Florida	645,478	2.6	583,237	2.3	782,591	3.2
Georgia	337,478	1.4	423,290	1.7	520,169	2.1
Hawaii	31,875	.1	45,296	.2	52,112	.2
Idaho	26,121	.1	8,834	( <sup>5</sup> )	7,804	( <sup>5</sup> )
Illinois	531,008	2.1	498,067	1.9	429,201	1.8
Indiana	571,184	2.3	486,759	1.9	537,940	2.2
Iowa	179,153	.7	130,406	.5	103,392	.4
Kansas	393,507	1.6	331,687	1.3	289,045	1.2
Kentucky	43,510	.2	55,725	.2	40,476	.2
Louisiana	244,036	1.0	195,341	.8	181,427	.7
Maine	79,585	.3	68,409	.3	31,531	.1
Maryland	469,491	1.9	606,365	2.4	547,836	2.3
Massachusetts	1,310,055	5.2	1,060,165	4.2	1,032,062	4.2
Michigan	677,786	2.7	633,047	2.5	591,290	2.4
Minnesota	297,306	1.2	273,757	1.1	217,941	.9
Mississippi	100,220	.4	186,039	.7	155,811	.6
Missouri	545,553	2.2	686,111	2.7	1,349,071	5.5
Montana	31,264	.1	79,349	.3	16,422	.1
Nebraska	53,172	.2	33,559	.1	33,921	.1
Nevada	8,246	( <sup>5</sup> )	13,143	.1	6,361	( <sup>5</sup> )
New Hampshire	58,926	.2	51,174	.2	64,857	.3
New Jersey	1,063,096	4.3	1,251,608	5.0	917,561	3.8

See footnotes at end of table, p. 11.

TABLE 9.—Net value of military procurement actions, by States and fiscal year,<sup>1</sup> fiscal year 1962, 1963, and 1964—Continued

[Amounts in thousands]

	Fiscal year 1962		Fiscal year 1963		Fiscal year 1964	
	Amount	Percent	Amount	Percent	Amount	Percent
State totals <sup>4</sup> —Continued						
New Mexico.....	\$60,729	0.2	\$61,642	0.2	\$71,486	0.3
New York.....	2,668,744	10.7	2,600,146	9.9	2,496,438	10.2
North Carolina.....	268,990	1.1	258,987	1.0	273,516	1.1
North Dakota.....	99,627	.4	64,855	.3	192,025	.8
Ohio.....	1,129,017	4.5	1,945,686	5.3	1,028,946	4.2
Oklahoma.....	135,825	.5	111,204	.5	122,489	.5
Oregon.....	46,129	.2	41,777	.2	29,104	.1
Pennsylvania.....	952,058	3.8	887,452	3.5	883,065	3.6
Rhode Island.....	57,966	.2	46,970	.2	38,173	.2
South Carolina.....	65,212	.3	57,747	.2	51,621	.2
South Dakota.....	112,682	.5	80,630	.3	23,308	.1
Tennessee.....	183,794	.7	183,478	.7	193,564	.8
Texas.....	1,006,253	4.0	1,203,123	4.8	1,294,431	5.3
Utah.....	298,596	1.2	408,127	1.6	340,040	1.4
Vermont.....	16,421	.1	12,258	.1	14,012	.1
Virginia.....	446,183	1.8	484,989	1.9	690,852	2.8
Washington.....	921,115	3.7	1,041,581	4.1	1,085,696	4.5
West Virginia.....	133,782	.5	162,201	.7	87,327	.4
Wisconsin.....	258,735	1.0	219,427	.9	177,217	.7
Wyoming.....	22,551	.1	125,081	.5	49,408	.2

<sup>1</sup> See "Notes on Coverage"<sup>2</sup> Includes all contracts awarded for work performance in the United States. The United States includes the 50 States, the District of Columbia, U.S. possessions, the Canal Zone, the Commonwealth of Puerto Rico, and other areas subject to the complete sovereignty of the United States, but does not include occupied Japanese islands or trust territories.<sup>3</sup> Includes contracts of less than \$10,000, all contracts awarded for work performance in the Commonwealth of Puerto Rico, U.S. possessions, and other areas subject to the complete sovereignty of the United States, contracts which are in a classified location, and any intragovernmental contracts entered into overseas.<sup>4</sup> Net value of contracts of \$10,000 or more for work in each State and the District of Columbia.<sup>5</sup> Less than 0.05 percent.

Civil functions data are shown separately, and are not included in military functions tabulations.

## NOTES ON COVERAGE

It is emphasized that data on prime contracts by State do not provide any direct indication as to the State in which actual production work is done. For the majority of contracts with manufacturers, the data reflect the location of the plant where the product will be finally processed and assembled. If processing or assembly is to be performed in more than one plant of a prime contractor the location shown is the plant where the largest dollar amount of work will take place. Construction contracts are shown for the State where the construction is to be performed. For purchases from wholesale or other distribution firms, the location is the address of the contractor's place of business. For service contracts, the location is generally the place where the service is performed, but for transportation and communications services the home office address is frequently used.

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

The report includes definitive contracts, and funded portions of letter contracts and letters of intent, job orders, task orders, and purchase orders on industrial firms, and also includes interdepartmental purchases, made from or through other governmental agencies, such as those made through the General Services Administration. The State data include upward or downward revisions and adjustments of \$10,000 or more, such as cancellations, price changes, supplemental agreements, amendments, etc.

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

Source: Office of the Secretary of Defense.

ONE HUNDRED COMPANIES AND THEIR SUBSIDIARY CORPORATIONS LISTED  
ACCORDING TO NET VALUE OF MILITARY PRIME CONTRACT AWARDS,  
FISCAL YEAR 1964 (JULY 1963 TO JUNE 1964)

The 100 companies and their subsidiaries which received the largest dollar volume of military prime contracts of \$10,000 or more in fiscal year 1964 accounted for 73.4 percent of the U.S. total. This is a

decrease of 0.5 percentage points from the 73.9 percent during fiscal year 1963. The table below shows that the 73.4 percent of prime contracts awarded to the top 100 corporate groups during fiscal year 1964 was somewhat lower than the average over the last 7 years. The first 10 companies had 1.7 percent more of the total than in fiscal year 1963, while the remaining companies had an overall decrease of 2.2 percent. It should be noted that about one-half of the military work of the large concerns is subcontracted with approximately 40 percent of the amount subcontracted going to small business concerns.

*Percent of U.S. total*

Companies	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
1st.....	9.8	7.2	6.0	6.5	5.6	5.9	5.8
2d.....	6.4	5.2	5.1	5.2	4.7	5.2	5.4
3d.....	3.6	4.5	4.8	5.2	4.4	4.1	4.6
4th.....	3.5	4.1	4.6	4.1	4.0	4.0	4.1
5th.....	3.0	4.0	4.3	3.8	3.8	4.0	3.9
1st to 5th.....	26.3	25.0	24.8	24.8	22.5	23.2	23.8
6th to 10th.....	12.4	12.0	11.3	11.8	11.1	10.9	12.0
11th to 25th.....	19.1	17.6	17.4	18.2	17.2	17.8	17.1
1st to 25th.....	57.8	54.6	53.5	54.8	50.8	51.9	52.9
26th to 50th.....	9.1	10.7	11.3	11.0	12.6	13.7	12.9
51st to 75th.....	4.8	5.5	5.4	5.5	6.0	5.5	5.1
76th to 100th.....	2.5	3.0	3.2	2.9	2.9	2.8	2.5
1st to 100th.....	74.2	73.8	73.4	74.2	72.3	73.9	73.4

The list for fiscal year 1964 contains 19 companies which did not appear on the fiscal year 1963 list. Of the new names, 11 appear between the 76th and 100th positions. One of the new names on the list, Morrison-Utah-Perini-Leavell, a joint venture with contracts totaling \$121.5 million, is in 40th position.

Major corporate changes affecting the list during fiscal year 1964 were as follows: Gilfillan Corp. and Garrett Corp., both of which appeared on the fiscal year 1963 and fiscal year 1962 lists, became subsidiaries of International Telephone & Telegraph Corp. and Signal Oil & Gas Co., respectively. Hiller Aircraft Co., acquired by Fairchild Stratos Corp. became a subsidiary in the new Fairchild-Hiller Corp. Minneapolis-Honeywell Regulator Co. changed its name to Honeywell, Inc.

Over half of the companies were engaged in missile-space, aircraft and electronics work in fiscal year 1964. The contract work of many of the companies involved more than one major commodity category. Based on the category representing the largest dollar volume of contracts awarded to each company, there were 24 missile-space, 19 aircraft, and 14 electronics firms. The remaining 43 companies fell into the following categories: Petroleum, 12; services, 7; construction, 7; tank-automotive, 6; ammunition, 5; ships, 4; weapons, 1; and photo-



graphic equipment and supplies, 1. It is noteworthy that there were only two construction companies in fiscal year 1963.

The six nonprofit contractors (see index) include one new institution, Stanford Research Institute, which was not on the fiscal year 1963 list. These nonprofit contractors are generally providing research, development, and training services in the missile-space and electronics programs.

Four companies received prime contract awards of more than \$1 billion each in fiscal year 1964 compared to five companies in fiscal year 1963. These companies and a brief description of their more important contract work are as follows:

Lockheed Aircraft Corp. leads the list for the third consecutive year receiving \$1,455.4 million, or 5.8 percent of the total. The aircraft contracts include the C-141A Starlifter jet cargo transport, C-130E Hercules turboprop jet transport, and the P3A Electra jet patrol bomber. It is a principal prime contractor for the Polaris missile, is an important contractor for military space vehicles, and performs research in conjunction with the satellite control network. The company and its subsidiaries also receive contracts for shipbuilding and electronics.

Boeing Co. in second place with contract awards of \$1,365.2 million (5.4 percent), occupies the same position as in fiscal year 1963. Its contract work was almost entirely in aircraft and missiles. The principal missile project is the Minuteman ICBM missile. Aircraft projects include KC-135 troop and cargo transports, CH-47A Chinook troop transport, CH-46A Sea Knight assault transport helicopters, and modification of B-52 Strato Fortress bombers.

McDonnell Aircraft Corp., whose contracts totaled \$1,157.4 million (4.6 percent), ranks third. This compares with a contract value of \$497 million and ninth position in fiscal year 1963. The prime contract work of the company is predominantly for the production of the F-4 series of Phantom II fighter-bomber and reconnaissance aircraft for Navy and Air Force.

North American Aviation, Inc., received \$1,019.5 million (4.1 percent) in awards, dropping from third place in fiscal year 1963 to fourth place in fiscal year 1964. Its major projects include research and development of the B-70 aircraft, the production of the A-5 Vigilante and T-39 Sabreliner aircraft, missile propulsion equipment, and a wide variety of electronic equipment, including guidance and control for the Minuteman missile and for ship navigational systems.

*Index of 100 parent companies which with their subsidiaries receive the largest dollar volume of military prime contract awards in fiscal year 1964*

Rank	Parent company	Rank	Parent company
45	Aerospace Corp. (N).	68	Kaman Aircraft Corp.
87	American Bosch Arma Corp.	95	Kiewit (Peter) Sons' Co.
61	American Machine & Foundry Co.	56	Lear-Siegler, Inc.
88	American Ship Building Co.	100	Leavell-Kiewit (JV).
7	American Telephone & Telegraph Co.	22	Ling-Temco-Vought, Inc.
64	Asiatic Petroleum Corp.	28	Litton Industries, Inc.
69	Atlantic Research Corp.	1	Lockheed Aircraft Corp.
16	Avco Corp.	48	Mangovox Co.
17	Bendix Corp.	9	Martin-Marietta Corp.
85	Bethlehem Steel Corp.	43	Massachusetts Institute of Technology (N).
2	Boeing Co.	3	McDonnell Aircraft Corp.
53	Burroughs Corp.	77	Mitre Corp. (N).
30	Chrysler Corp.	54	Morrison-Perini-Hardeman (JV).
75	Cities Service Co.	40	Morrison-Utah-Perini-Leavell (JV).
37	Collins Radio Co.	10	Newport News Shipbuilding & Dry Dock Co.
47	Continental Motors Corp.	4	North American Aviation, Inc.
72	Continental Oil Co.	31	Northrop Corp.
71	Control Data Corp.	52	Olin Mathieson Chemical Corp.
60	Curtiss-Wright Corp.	32	Pan American World Airways, Inc.
66	Cutler-Hammer, Inc.	24	Radio Corp. of America.
62	Day & Zimmerman, Inc.	21	Raytheon Co.
29	Douglas Aircraft Co.	51	Republic Aviation Corp.
49	du Pont (E. I.) de Nemours & Co.	82	Richfield Oil Corp.
97	Dynalectron Corp.	96	Ryan Aeronautical Co.
70	Eastman Kodak Co.	98	Sanders Associates, Inc.
86	Electronic Communications, Inc.	67	Shell Caribbean Petroleum Co.
35	F. M. C. Corp.	63	Signal Oil & Gas Co.
93	Fairchild-Hiller Corp.	94	Sinclair Oil Corp.
89	Firestone Tire & Rubber Co.	44	Socoy Mobil Oil Co.
27	Ford Motor Co.	12	Sperry Rand Corp.
5	General Dynamics Corp.	39	Standard Oil Co. (California).
6	General Electric Co.	83	Standard Oil Co. (Indiana).
19	General Motors Corp.	33	Standard Oil Co. (New Jersey).
38	General Precision Equipment Corp.	91	Stanford Research Institute (N).
25	General Telephone & Electronics Corp.	65	Sverdrup & Parcel, Inc.
13	General Tire & Rubber Co.	59	System Development Corp. (N)
50	Goodyear Tire & Rubber Co.	42	Texaco, Inc.
11	Grumman Aircraft Engineering Corp.	80	Texas Instruments, Inc.
90	Gyrodyne Co. of America, Inc.	26	Textron, Inc.
74	Hardeman-Monier-Hutcherson (JV).	20	Thiokol Chemical Corp.
92	Hardeman-Morrison-Knudsen (JV).	46	Thompson-Ramo-Wooldridge, Inc.
73	Hayes International Corp.	84	Union Oil Co. of California.
76	Hazeltine Corp.	8	United Aircraft Corp.
36	Hercules Powder Co.	79	United States Steel Corp.
41	Honeywell, Inc.	99	Universal American Corp.
15	Hughes Aircraft Co.	81	Vitro Corp. of America.
14	International Business Machines Corp.	55	Western Union Telegraph Co.
57	International Harvester Co.	78	Westinghouse Air Brake Co.
18	International Telephone & Telegraph Corp.	23	Westinghouse Electric Corp.
58	Johns Hopkins University (N).		
34	Kaiser Industries Corp.		

(N)—Nonprofit contractors.

(JV)—Joint venture.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1964 (July 1, 1963, to June 30, 1964)

Rank	Companies	Amount (millions)	Percent of U.S. total	Cumulative percent of U.S. total
	U.S. total <sup>1</sup> .....	\$25,163.7	100.0	100.0
	Total, 100 companies and their subsidiaries <sup>2</sup> .....	18,484.8	73.4	73.4
1	Lockheed Aircraft Corp.....	1,357.0	5.4	
	Lockheed Air Terminal, Inc.....	— .3		
	Puget Sound Bridge & Dry Dock Co.....	98.7	.4	
	Total.....	1,455.4	5.8	5.8
2	Boeing Co.....	1,365.2	5.4	11.2
3	McDonnell Aircraft Corp.....	1,155.5	4.6	
	Hycon Manufacturing Co.....	1.9	( <sup>3</sup> )	
	Total.....	1,157.4	4.6	15.8
4	North American Aviation, Inc.....	1,019.5	4.1	19.9
5	General Dynamics Corp.....	986.7	3.9	23.8
6	General Electric Co.....	892.6	3.5	27.3
7	American Telephone & Telegraph Co.....	155.3	.6	
	Chesapeake & Potomac Telephone Co.....	2.2	( <sup>3</sup> )	
	Mountain States Telephone & Telegraph Co.....	1.6	( <sup>3</sup> )	
	New England Telephone & Telegraph Co.....	.3	( <sup>3</sup> )	
	New Jersey Bell Telephone Co.....	.4	( <sup>3</sup> )	
	New York Telephone Co.....	.1	( <sup>3</sup> )	
	Northwestern Bell Telephone Co.....	.4	( <sup>3</sup> )	
	Pacific Northwest Bell Telephone Co.....	.1	( <sup>3</sup> )	
	Pacific Telephone & Telegraph Co.....	.6	( <sup>3</sup> )	
	Southern Bell Telephone & Telegraph Co.....	1.6	( <sup>3</sup> )	
	Southwestern Bell Telephone Co.....	1.2	( <sup>3</sup> )	
	Teletype Corp.....	19.4	.1	
	Western Electric Co.....	452.4	1.8	
	Total.....	635.6	2.5	29.8
8	United Aircraft Corp.....	625.0	2.5	
	Vector Manufacturing Co.....	.4	( <sup>3</sup> )	
	Total.....	615.4	2.5	32.3
9	Martin-Marietta Corp.....	474.7	1.9	
	Bunker-Ramo Corp.....	1.5	( <sup>3</sup> )	
	Total.....	476.2	1.9	34.2
10	Newport News Shipbuilding & Dry Dock Co.....	400.2	1.6	35.8
11	Grumman Aircraft Engineering Corp.....	395.6	1.6	37.4
12	Sperry Rand Corp.....	373.9	1.5	38.9
13	General Tire & Rubber Co.....	4.3	( <sup>3</sup> )	
	Aerojet-Delft Corp.....	.5	( <sup>3</sup> )	
	Aerojet-General Corp.....	345.1	1.4	
	Aerojet-General Shipyards, Inc.....	.9	( <sup>3</sup> )	
	Space Electronics Corp.....	.5	( <sup>3</sup> )	
	Space General Corp.....	13.1	.1	
	Total.....	364.4	1.5	40.4
14	International Business Machines Corp.....	332.0	1.3	
	Science Research Associates.....	.1	( <sup>3</sup> )	
	Service Bureau Corp.....	.3	( <sup>3</sup> )	
	Total.....	332.4	1.3	41.7
15	Hughes Aircraft Co.....	288.7	1.2	42.9
16	Avco Corp.....	278.7	1.1	44.0
17	Bendix Corp.....	248.5	1.0	
	Bendix Field Engineering Corp.....	8.2	( <sup>3</sup> )	
	Bendix-Westinghouse Automotive Air Brake Co.....	.2	( <sup>3</sup> )	
	Cleveland Instrument Co.....	( <sup>4</sup> )	( <sup>3</sup> )	
	Sheffield Corp.....	.5	( <sup>3</sup> )	
	Total.....	257.4	1.0	45.0

See footnotes at end of table, p. 20.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1964 (July 1, 1963, to June 30, 1964)—Continued

Rank	Companies	Amount (millions)	Percent of U.S. total	Cumulative percent of U.S. total
18	International Telephone & Telegraph Corp.....	\$106.8	0.4	
	Airmatic Systems Corp.....	(4)	(3)	
	American Cable & Radio Corp.....	3.2	(3)	
	Colorado Research Corp.....	.1	(3)	
	Federal Electric Corp.....	60.7	.3	
	International Electric Corp.....	57.3	.2	
	ITT Bell & Gossett, Inc.....	(4)	(3)	
	ITT Cannon Electric, Inc.....	.7	(3)	
	ITT General Controls, Inc.....	.7	(3)	
	ITT Gilfillan, Inc.....	25.0	.1	
	ITT Intelcom, Inc.....	(4)	(3)	
	ITT Semi-Conductors, Inc.....	.3	(3)	
	Jennings Radio Manufacturing Corp.....	.2	(3)	
	Kuthe Laboratories, Inc.....	.6	(3)	
	Mackay Radio & Telegraph Co.....	.2	(3)	
	Puerto Rico Telephone Co.....	(4)	(3)	
	Suprenant Manufacturing Co.....	.3	(3)	
	Total.....	256.1	1.0	46.0
19	General Motors Corp.....	255.8	1.0	47.0
20	Thiokol Chemical Corp.....	251.2	1.0	
	Shawnee Industries, Inc.....	2.4	(3)	
Total.....	253.6	1.0	48.0	
21	Raytheon Co.....	248.8	1.0	
	Machlett Laboratories, Inc.....	4.2	(3)	
Total.....	253.0	1.0	49.0	
22	Ling-Temco-Vought, Inc.....	231.3	1.0	
	Altec Lansing Corp.....	.1	(3)	
	Altec Service Corp.....	(4)	(3)	
	Continental Electronics Manufacturing Co.....	9.6	(3)	
	Continental Electronics Systems, Inc.....	1.8	(3)	
	F. F. & M. Electronics, Inc.....	.2	(3)	
	Kentron Corp.....	.1	(3)	
	Temco Electronics & Missiles Co.....	3.7	(3)	
	Temco Electronics Display Systems.....	.7	(3)	
	Total.....	247.5	1.0	50.0
23	Westinghouse Electric Corp.....	235.9	1.0	
	Bryant Electric Co.....	.5	(3)	
	Thermo King Corp.....	.5	(3)	
Total.....	236.9	1.0	51.0	
24	Radio Corp. of America.....	233.5	1.0	
	RCA Defense Electronics Corp.....	.1	(3)	
Total.....	233.6	1.0	52.0	
25	General Telephone & Electronics Corp.....	0	0	
	Automatic Electric Sales Corp.....	19.1	.1	
	General Telephone & Electronics Laboratories, Inc.....	.7	(3)	
	General Telephone Co. of the Southwest.....	(4)	(3)	
	Lenkurt Electric Co., Inc.....	6.6	(3)	
	Sylvania Electric Products, Inc.....	202.3	.8	
Total.....	228.7	.9	52.9	
26	Textron, Inc.....	.9	(3)	
	Accessory Products Corp.....	.1	(3)	
	Allegany Instrument Co.....	(4)	(3)	
	Bell Aerospace Corp.....	210.2	.9	
	Dalmo Victor Co.....	.9	(3)	
	Jones & Lamson Machine Co.....	.6	(3)	
	Nuclear Metals, Inc.....	.2	(3)	
	Pittsburgh Steel Foundry Corp.....	.1	(3)	
	Speidel Corp.....	(4)	(3)	
	Textron Electronics, Inc.....	2.3	(3)	
	Textron Oregon, Inc.....	1.0	(3)	
Townsend Co.....	(4)	(3)		
Total.....	216.3	.9	53.8	

See footnotes at end of table, p. 20.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1964 (July 1, 1963, to June 30, 1964)—Continued

Rank	Companies	Amount (millions)	Percent of U.S. total	Cumulative percent of U.S. total
27	Ford Motor Co.....	\$66.4	0.3	-----
	Philco Corp.....	144.8	.5	-----
	Total.....	211.2	.8	54.6
28	Litton Industries, Inc.....	4.1	(*)	-----
	Adler Electronics, Inc.....	13.2	.1	-----
	Aero Service Corp.....	5	(*)	-----
	Airtron, Inc.....	2	(*)	-----
	Clifton Precision Products Co., Inc.....	2	(*)	-----
	Emertron, Inc.....	8	(*)	-----
	Ingalls Shipbuilding Corp.....	57.3	.2	-----
	Litton Electron Tube Corp.....	1	(*)	-----
	Litton Precision Products, Inc.....	1.0	(*)	-----
	Litton Systems, Inc.....	131.6	.5	-----
	McKiernan-Terry Corp.....	4	(*)	-----
	Monroe Calculating Machine Co., Inc.....	2	(*)	-----
	Westrex Corp.....	4	(*)	-----
	Winchester Electronics, Inc.....	(4)	(*)	-----
Total.....	210.0	.8	55.4	
29	Douglas Aircraft Co.....	203.2	.8	56.2
30	Chrysler Corp.....	170.2	.7	56.9
31	Northrop Corp.....	136.6	.6	-----
	Astro Technology Corp.....	1	(*)	-----
	Page Communications Engineers, Inc.....	28.2	.1	-----
Total.....	164.9	.7	57.6	
32	Pan American World Airways, Inc.....	164.4	.7	58.3
33	Standard Oil Co. (New Jersey).....	0	0	-----
	Esso International, Inc.....	99.3	.4	-----
	Esso Research & Engineering Co.....	3.7	(*)	-----
	Esso Standard Eastern, Inc.....	.2	(*)	-----
	Gilbert & Barker Manufacturing Co.....	(4)	(*)	-----
	Humble Oil & Refining Co.....	57.9	.2	-----
	Jersey Production Research Co.....	.1	(*)	-----
Total.....	161.2	.6	58.9	
34	Kaiser Industries Corp.....	.1	(*)	-----
	Kaiser Aerospace & Electronics Corp.....	1.3	(*)	-----
	Kaiser (Henry J.) Co.....	1.0	(*)	-----
	Kaiser Jeep Corp. <sup>1</sup> .....	128.9	.5	-----
	National Steel & Shipbuilding Co.....	19.6	.1	-----
Total.....	151.7	.6	59.5	
35	F.M.C. Corp.....	130.7	.5	-----
	Northern Ordnance, Inc.....	10.7	(*)	-----
Total.....	141.4	.5	60.0	
36	Hercules Powder Co.....	136.9	.5	60.5
37	Collins Radio Co.....	129.0	.5	61.0
38	General Precision Equipment Corp.....	0	0	-----
	General Precision, Inc.....	124.4	.5	-----
	Graflex, Inc.....	.8	(*)	-----
	Strong Electric Corp.....	(4)	(*)	-----
Total.....	125.2	.5	61.5	
39	Standard Oil Co. (California).....	67.4	.3	-----
	American Bitumuls & Asphalt Co.....	(4)	(*)	-----
	Cal-Ky Oil Co.....	8.5	(*)	-----
	California Chemical Co.....	1	(*)	-----
	California Oil Co.....	3.7	(*)	-----
	California Research Corp.....	1	(*)	-----
	Caltex Oil Products Co. <sup>6</sup> .....	37.5	.2	-----
	Caltex Philippines, Inc. <sup>6</sup> .....	1	(*)	-----
	Community Oil Co.....	4	(*)	-----
	Standard Oil Co. of Texas.....	4.6	(*)	-----
Total.....	122.4	.5	62.0	
40	Morrison-Knudsen Co., Inc.; Utah Construction & Mining Co.; Perini Corp; and C. H. Leavell & Co.....	121.5	.5	62.5
41	Honeywell, Inc.....	107.5	.4	62.9

See footnotes at end of table, p. 20.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1964 (July 1, 1963, to June 30, 1964)—Continued

Rank	Companies	Amount (millions)	Percent of U.S. total	Cumulative percent of U.S. total
42	Texaco, Inc.	\$22.2	0.1	-----
	Caltex Oil Products Co <sup>6</sup>	37.5	.2	-----
	Caltex Philippines, Inc <sup>6</sup>	.1	( <sup>3</sup> )	-----
	Paragon Oil Co.	3.4	( <sup>3</sup> )	-----
	Texaco Experiment, Inc.	2.1	( <sup>3</sup> )	-----
	Texaco Export, Inc.	37.0	.2	-----
	Texaco Puerto Rico, Inc.	1.6	( <sup>3</sup> )	-----
	Texaco Trinidad, Inc.	.2	( <sup>3</sup> )	-----
	White Fuel Co., Inc.	1.6	( <sup>3</sup> )	-----
	Total	105.7	.4	63.3
43	Massachusetts Institute of Technology	98.2	.4	63.7
44	Socony Mobil Oil Co.	79.4	.3	64.0
45	Aerospace Corp.	76.2	.3	64.3
46	Thompson Ramo Wooldridge, Inc.	13.3	.1	-----
	Good-All Electric Manufacturing Co.	( <sup>4</sup> )	( <sup>3</sup> )	-----
	Magna Corp.	.1	( <sup>3</sup> )	-----
	Marlin-Rockwell Corp.	.8	( <sup>3</sup> )	-----
	Pacific Semiconductors	.1	( <sup>3</sup> )	-----
	Radio Condenser Co.	.1	( <sup>3</sup> )	-----
	Radio Industries, Inc.	.3	( <sup>3</sup> )	-----
	Ross Gear & Tool Co. Inc.	.3	( <sup>3</sup> )	-----
	Space Technology Laboratories, Inc.	59.3	.2	-----
	Total	74.3	.3	64.6
47	Continental Motors Corp.	52.4	.2	-----
	Continental Aviation & Engineering Corp.	17.6	.1	-----
	Gray Marine Motor Co.	.1	( <sup>3</sup> )	-----
	Wisconsin Motors Corp.	.5	( <sup>3</sup> )	-----
	Total	70.6	.3	64.9
48	Magnavox Co.	69.4	.3	65.2
49	Du Pont (E. I.) de Nemours & Co.	9.9	( <sup>3</sup> )	-----
	Remington Arms Co., Inc.	59.2	.3	-----
	Total	69.1	.3	65.5
50	Goodyear Tire & Rubber Co.	27.6	.1	-----
	Goodyear Aerospace Corp.	39.9	.2	-----
	Kelly-Springfield Tire Co.	( <sup>4</sup> )	( <sup>3</sup> )	-----
	Motor Wheel Corp.	.9	( <sup>3</sup> )	-----
	Total	68.4	.3	65.8
51	Republic Aviation Corp.	66.9	.3	66.1
52	Olin Mathieson Chemical Corp.	66.2	.3	66.4
53	Burroughs Corp.	65.0	.3	-----
	Burroughs Control Corp.	.4	( <sup>3</sup> )	-----
	Total	65.4	.3	66.7
54	Morrison-Knudsen Co., Inc.; Perini Corp.; and Hardeman (Paul), Inc.	64.9	.3	67.0
55	Western Union Telegraph Co.	59.0	.2	67.2
56	Lear-Siegler, Inc.	57.2	.2	-----
	Hallamore Electronics Co.	( <sup>4</sup> )	( <sup>3</sup> )	-----
	Lear-Siegler Services, Inc.	( <sup>4</sup> )	( <sup>3</sup> )	-----
	Rett Electronics, Inc.	1.7	( <sup>3</sup> )	-----
	Total	58.9	.2	67.4
57	International Harvester Co.	46.1	.2	-----
	Hough (Frank G.) Co.	8.8	( <sup>3</sup> )	-----
	MacLeod & Co.	.9	( <sup>3</sup> )	-----
	Total	55.8	.2	67.6
58	Johns Hopkins University	54.9	.2	67.8
59	System Development Corp.	53.6	.2	68.0
60	Curtiss-Wright Corp.	51.2	.2	68.2
61	American Machine & Foundry Co.	50.4	.2	-----
	AMF International Co.	( )	( <sup>3</sup> )	-----
	Cuno Engineering Corp.	.2	( <sup>3</sup> )	-----
	Total	50.6	.2	68.4
62	Day & Zimmerman, Inc.	48.6	.2	68.6

See footnotes at end of table, p. 20.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1964 (July 1, 1963, to June 30, 1964)—Continued

Rank	Companies	Amount (millions)	Percent of U.S. total	Cumulative percent of U.S. total
63	Signal Oil & Gas Co.....	\$6.1	( <sup>3</sup> )	-----
	Garrett Corp.....	41.4	0.2	-----
	Petroleum Heat & Power, Inc.....	( <sup>4</sup> )	( <sup>3</sup> )	-----
	Southland Oil Corp.....	.1	( <sup>3</sup> )	-----
	T.K.M. Electric Corp.....	.1	( <sup>3</sup> )	-----
	Total.....	47.7	.2	68.8
64	Asiatic Petroleum Corp.....	45.3	.2	69.0
65	Sverdrup & Parcel, Inc.....	.9	( <sup>3</sup> )	-----
	ARO, Inc.....	44.0	.2	-----
	Total.....	44.9	.2	69.2
66	Cutler-Hammer, Inc.....	43.0	.2	69.4
67	Shell Caribbean Petroleum Co.....	24.4	.1	-----
	International Lubricant Corp.....	.7	( <sup>3</sup> )	-----
	Shell Oil Co.....	17.2	.1	-----
	Total.....	42.3	.2	69.6
68	Kaman Aircraft Corp.....	42.1	.2	69.8
69	Atlantic Research Corp.....	40.9	.2	-----
	Flight Sciences Laboratory, Inc.....	.1	( <sup>3</sup> )	-----
	Northeastern Engineering, Inc.....	.5	( <sup>3</sup> )	-----
	Total.....	41.5	.2	70.0
70	Eastman Kodak Co.....	39.2	.2	-----
	Eastman Chemical Products, Inc.....	( <sup>4</sup> )	( <sup>3</sup> )	-----
	Eastman Kodak Stores, Inc.....	1.7	( <sup>3</sup> )	-----
	Recordak Corp.....	.5	( <sup>3</sup> )	-----
	Total.....	41.4	.2	70.2
71	Control Data Corp.....	40.4	.2	-----
	Control Corp.....	.1	( <sup>3</sup> )	-----
	Rainbow Electronics, Inc.....	.7	( <sup>3</sup> )	-----
	Total.....	41.2	.2	70.4
72	Continental Oil Co.....	34.2	.2	-----
	Douglas Oil Co. of California.....	2.6	( <sup>3</sup> )	-----
	Malco Refineries, Inc.....	1.6	( <sup>3</sup> )	-----
	Western Oil & Fuel Co.....	1.3	( <sup>3</sup> )	-----
	Total.....	39.7	.2	70.6
73	Hayes International Corp.....	35.8	.1	70.7
74	Hardeman (Paul), Inc.; Concrete Industries (Monier) Ltd.; and Hutcherson Bros. Pty., Ltd.....	35.0	.1	70.8
75	Cities Service Co.....	0	0	-----
	Cities Service Gas Co.....	.5	( <sup>3</sup> )	-----
	Cities Service Oil Co.....	34.2	.1	-----
	Total.....	34.7	.1	70.9
76	Hazeltine Corp.....	34.6	.1	71.0
77	Mitre Corp.....	34.5	.1	71.1
78	Westinghouse Air Brake Co.....	.8	( <sup>3</sup> )	-----
	George E. Failing Co.....	.3	( <sup>3</sup> )	-----
	Le Tourneau-Westinghouse Co.....	3.5	( <sup>3</sup> )	-----
	Melpar, Inc.....	29.7	.1	-----
	Microwave Physics Corp.....	.1	( <sup>3</sup> )	-----
	Total.....	34.4	.1	71.2
79	United States Steel Corp.....	34.0	.1	71.3
80	Texas Instruments, Inc.....	32.7	.1	-----
	Metals & Controls, Inc.....	.3	( <sup>3</sup> )	-----
	Total.....	33.0	.1	71.4
81	Vitro Corp. of America.....	32.9	.1	71.5
82	Richfield Oil Corp.....	31.8	.1	71.6
83	Standard Oil Co. (Indiana).....	0	0	-----
	American Oil Co.....	34.6	.1	-----
	Amoco Chemicals Corp.....	-3.3	-----	-----
	Total.....	31.3	.1	71.7

See footnotes at end of table, p. 20.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1964 (July 1, 1963, to June 30, 1964)—Continued

Rank	Companies	Amount (millions)	Percent of U.S. total	Cumulative percent of U.S. total
84	Union Oil Co. of California.....	\$31.3	0.1	
	Collier Carbon & Chemical Corp.....	( <sup>1</sup> )	( <sup>2</sup> )	
	Total.....	31.3	.1	71.8
85	Bethlehem Steel Corp.....	0	0	
	Bethlehem Steel Co.....	30.0	.1	
	Bethlehem Steel Export Corp.....	.7	( <sup>3</sup> )	
	Total.....	30.7	.1	71.9
86	Electronic Communications, Inc.....	26.1	.1	
	Benson Mfg. Co.....	( <sup>4</sup> )	( <sup>5</sup> )	
	Standard Precision, Inc.....	4.5	( <sup>6</sup> )	
	Total.....	30.6	.1	72.0
87	American Bosch Arma Corp.....	30.0	1.	72.1
88	American Ship Building Co.....	29.7	.1	72.2
89	Firestone Tire & Rubber Co.....	29.3	.1	
	Dayton Tire & Rubber Co.....	.3	( <sup>7</sup> )	
	Total.....	29.6	.1	72.3
90	Gyrodyne Co. of America, Inc.....	29.2	.1	72.4
91	Stanford Research Institute.....	28.7	.1	72.5
92	Hardeman (Paul), Inc. and Morrison-Knudsen Co., Inc.....	27.4	.1	72.6
93	Fairchild-Hiller Corp.....	15.1	.1	
	Hiller Aircraft Co.....	12.2	( <sup>8</sup> )	
	Total.....	27.3	.1	72.7
94	Sinclair Oil Corp.....	0	0	
	Sinclair Refining Co.....	26.6	.1	
	Sinclair Petrochemicals, Inc.....	( <sup>9</sup> )	( <sup>10</sup> )	
	Total.....	26.6	.1	72.8
95	Kiewit (Peter) Sons' Co.....	25.9	.1	72.9
96	Ryan Aeronautical Co.....	25.0	.1	73.0
97	Dynalectron Corp.....	25.0	.1	73.1
98	Sanders Associates, Inc.....	24.5	.1	73.2
99	Universal American Corp.....	.1	( <sup>11</sup> )	
	Amron Corp.....	16.4	.1	
	Hardeman (Paul), Inc.....	8.0	( <sup>12</sup> )	
	Total.....	24.5	.1	73.3
100	Leavell, C. H., Co. and Kiewit (Peter) Sons' Co.....	22.9	.1	73.4

<sup>1</sup> Net value of new procurement actions minus cancellations, terminations, and other credit transactions. The data include debit and credit procurement actions of \$10,000 or more, under military supply, service, and construction contracts for work in the United States; plus awards to listed companies and other identifiable U.S. companies for work overseas.

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

<sup>2</sup> The assignment of subsidiaries to parent companies is based on stockownership of 50 percent or more by the parent company, as indicated by data published in standard industrial reference sources. The company totals do not include contracts made by other U.S. Government agencies and financed with Department of Defense funds, or contracts awarded in foreign nations through their respective governments. The company names and corporate structures are those in effect as of June 30, 1964. Only those subsidiaries are shown for which procurement actions have been reported.

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

<sup>4</sup> Less than \$50,000.

<sup>5</sup> Includes \$41,300,000 in prime contracts awarded to Studebaker Corp. for 5-ton trucks prior to the acquisition by Kaiser-Jeep Corp., in February 1964, of Studebaker production facilities in South Bend, Ind.

<sup>6</sup> Stockownership is equally divided between Standard Oil Co. of California and Texaco, Inc.; half of the total of military awards is shown under each of the parent companies.

Source: Office of the Secretary of Defense.



## NEGOTIATED AND ADVERTISED PROCUREMENT ACTIONS

Negotiated procurements for fiscal year 1964 were 85 percent of total awards with business firms in the United States, down about 2 percent from the previous year. Significantly, the DOD states that when items can be procured competitively the savings are about 25 percent.<sup>1</sup>

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	3,059	11.1	24,763	88.9
1954.....	11,448	1,789	15.6	9,659	84.4
1955.....	14,930	2,356	16.0	12,574	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	3,059	13.6	19,685	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.

Three types of negotiation authority account for three-fifths of all procurement. The results for fiscal years 1963 and 1964 follow:

## CONTRACT AWARDS BY STATUTORY AUTHORITY (EXCERPT FROM TABLE 11)

	Percent	
	1963	1964
Impracticable to secure competition by formal advertising.....	15.5	14.5
Experimental, developmental, test, or research.....	19.2	17.8
Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	27.8	28.4
Total.....	62.5	60.7

<sup>1</sup> About 29 percent of all negotiated procurement is obtained by price competition.

TABLE 11.—Awards by statutory authority (July 1962–June 1963) <sup>1</sup>

[Dollar amounts in thousands]

Statutory authority (10 U.S.C. 2304(a))	July 1962–June 1963						
	Total		Army	Navy	Air Force	Defense Supply Agency	Other Defense agencies
	Amount	Percent					
Total.....	\$29,378,720		\$6,364,736	\$8,235,200	\$11,918,441	\$2,670,344	\$189,999
Intragovernmental.....	346,516		77,631	102,309	144,999	16,626	4,951
Total, except intragovernmental.....	29,032,204	100.0	6,287,105	8,132,891	11,773,442	2,653,718	185,048
Formally advertised.....	3,677,879	12.7	1,295,709	885,561	400,668	1,095,684	257
Other authority (subtotal).....	25,354,325	87.3	4,991,396	7,247,330	11,372,774	1,558,034	184,791
(1) National emergency (subtotal).....	301,547	1.0	124,487	55,498	49,275	72,287	0
(a) Labor surplus area and industry set-aside.....	185,988	.6	67,248	35,150	24,609	58,981	0
(b) Small business set-aside (unilateral).....	101,128	.4	50,455	20,549	21,335	8,789	0
(c) Modifications authorized by existing contract negotiated prior to Jan. 1, 1956.....	4,738	(?)	2,092	-201	2,746	101	0
(d) Balance-of-payments program.....	9,693	(?)	4,692	0	585	4,416	0
(2) Public exigency.....	562,430	1.9	151,677	106,752	263,267	40,734	0
(3) Purchases not more than \$2,500.....	1,280,338	4.4	382,161	417,242	299,427	181,508	0
(4) Personal or professional services.....	93,062	.3	40,176	29,400	22,145	0	1,341
(5) Services of educational institutions.....	445,775	1.5	57,623	155,555	215,530	246	16,821
(6) Purchases outside United States.....	962,448	3.3	428,309	102,968	181,896	249,275	0
(7) Medicines or medical supplies.....	44,639	.2	1,009	361	2,209	41,060	0
(8) Supplies purchased for authorized resale.....	280,304	1.0	62,263	34,000	125,304	58,737	0
(9) Perishable or non-perishable subsistence.....	535,647	1.9	20,745	15,356	17,764	481,792	0
(10) Impractical to secure competition by formal advertising.....	4,487,119	15.5	791,384	1,084,307	2,374,547	96,980	139,901
(11) Experimental developmental test or research.....	5,585,284	19.2	781,976	1,001,303	3,797,240	325	24,440
(12) Classified purchases.....	420,463	1.4	261,418	154,568	3,527	0	950
(13) Technical equipment requiring standardization and interchangeability of parts.....	27,622	.1	14,429	10,696	33	2,464	0
(14) Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	8,069,222	27.8	1,346,023	3,234,474	3,488,601	124	0
(15) Negotiation after advertising.....	1,102	(?)	6	668	359	69	0
(16) Purchases to keep facilities available in the interest of national defense or industrial mobilization.....	819,150	2.8	69,627	527,225	217,480	4,818	0
(17) Otherwise authorized by law (subtotal).....	1,438,173	5.0	478,083	316,957	314,180	327,615	1,338
(a) Joint small business set-asides.....	1,065,046	3.8	344,655	228,423	209,398	312,259	311
(b) Other.....	343,127	1.2	133,428	88,534	104,782	15,356	1,027

See footnotes at end of table, p. 23.

TABLE 11a.—Awards by statutory authority (July 1963–June 1964)<sup>1</sup>

(Dollar amounts in thousands)

Statutory authority (10 U.S.C. 2304(a))	July 1963–June 1964						
	Total		Army	Navy	Air Force	Defense Supply Agency	Other Defense agencies
	Amount	Percent					
Total.....	\$28,796,284		\$6,240,373	\$8,904,557	\$10,546,444	\$2,701,243	\$313,667
Intragovernmental.....	561,746		151,179	166,452	211,440	23,703	8,972
Total, except intragovernmental.....	28,234,538	100.0	6,089,194	8,828,105	10,335,004	2,677,540	304,695
Formally advertised.....	4,071,587	14.4	1,516,883	1,192,990	349,264	1,012,298	152
Other authority (subtotal).....	24,162,951	85.6	4,572,311	7,635,115	9,985,740	1,665,242	304,543
(1) National emergency (subtotal).....	321,793	1.1	113,453	51,879	56,265	100,196	0
(a) Labor surplus area and industry set-aside.....	254,145	.9	76,895	35,171	47,391	94,688	0
(b) Small business set-aside (unilateral).....	62,342	.2	32,838	16,673	7,868	4,963	0
(c) Modifications authorized by existing contract negotiated prior to Jan. 1, 1956.....	0	0	0	0	0	0	0
(d) Balance-of-payments program.....	5,306	( <sup>2</sup> )	3,720	35	1,006	545	0
(2) Public exigency.....	585,523	2.1	154,777	167,168	236,140	27,438	0
(3) Purchases not more than \$2,500.....	1,337,665	4.7	366,551	448,930	308,386	213,798	0
(4) Personal or professional services.....	113,752	.4	37,421	61,638	12,996	0	1,697
(5) Services of educational institutions.....	412,438	1.5	76,040	153,506	146,980	149	35,763
(6) Purchases outside United States.....	957,504	3.4	474,206	84,688	146,506	250,280	1,824
(7) Medicines or medical supplies.....	54,865	.2	738	687	2,048	51,392	0
(8) Supplies purchased for authorized resale.....	157,589	.5	53,096	14,576	73,032	16,885	0
(9) Perishable or nonperishable subsistence.....	684,747	2.4	50,053	17,367	121,627	495,695	0
(10) Impractical to secure competition by formal advertising.....	4,089,688	14.5	697,668	1,362,048	1,682,635	122,354	224,983
(11) Experimental, developmental test or research.....	5,016,641	17.8	881,620	879,451	3,218,473	0	37,097
(12) Classified purchases.....	217,184	.8	134,902	70,426	11,856	0	0
(13) Technical equipment requiring standardization and interchangeability of parts.....	38,281	.1	16,749	20,875	168	489	0
(14) Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	8,015,753	28.4	830,577	3,838,561	3,346,615	0	0
(15) Negotiation after advertising.....	1,409	( <sup>2</sup> )	0	242	1,167	0	0
(16) Purchases to keep facilities available in the interest of national defense or industrial mobilization.....	328,092	1.2	54,282	95,990	177,804	16	0
(17) Otherwise authorized by law (subtotal).....	1,830,027	6.5	630,173	367,083	443,042	386,550	3,179
(a) Joint small business set-asides.....	1,222,070	4.3	418,602	220,198	224,203	358,934	133
(b) Other.....	607,957	2.2	211,571	146,885	218,839	27,616	3,046

<sup>1</sup> For definitions and coverage, see "Notes on Coverage."

<sup>2</sup> Less than 0.05 percent.

## NOTES ON COVERAGE AND GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

**Intragovernmental purchase.**—An order written by a military department or Defense agency purchasing office requesting a nondefense Federal agency to furnish supplies or services from its stocks, from its in-house manufacturing facilities or from contracts to be

executed by the other Federal agency. Prior to fiscal year 1963, the term "intragovernmental" also included orders written against indefinite quantity contracts executed by the General Services Administration (GSA schedules), or awarded by another purchasing office of the Department of Defense. Effective in fiscal year 1964, contracts made for foreign governments under military assistance sales arrangements are included in intragovernmental.

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

**Military departments.**—The Department of the Army, Navy, and Air Force.

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

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

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

**Small business concern.**—A firm as defined by the Small Business Administration in the Federal Register (title 13, ch. I, pt. 121). The definition also is published in the Armed Services Procurement Regulation (1-701). Generally, a small business concern is one that is independently owned and operated, is not dominant in its field of operations, and with its affiliates does not employ more than a specified number of employees (usually not more than 500, 750, or 1,000) depending on the type of product called for by the contract. For construction and some service industries, the criterion is a specified annual dollar volume of sales or receipts instead of employment.

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

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

The breakdown of awards by States and the District of Columbia for experimental, developmental, test, and research work shows (see table 12):

Percent of total:	Number of States
30 to 40.....	1
10 to 15.....	0
5 to 10.....	3
4 to 5.....	2
3 to 4.....	4
2 to 3.....	1
1 to 2.....	7
0 to 1.....	33

TABLE 12.—Net value of military prime contract awards for experimental, developmental, test, and research work, fiscal year 1964<sup>1</sup>

(Dollar amounts 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 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	.1
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
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	19,779	.4
Michigan.....	83,353	1.5	17,946	4.1	31	( <sup>3</sup> )	65,381	1.3
Wisconsin.....	41,109	.7	2,060	.6	209	.1	38,840	.8
West North Central.....	162,573	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.....	30,538	.5	0	0	0	0	30,538	.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.....	665,548	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.....	17,983	.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> )	58	( <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.....	45,634	.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

See footnotes at end of table, p. 26.

TABLE 12.—*Net value of military prime contract awards for experimental, developmental, test, and research work, fiscal year 1964*<sup>1</sup>—Continued

[Dollar amounts in thousands]

	Total		Schools and their affiliates		Other nonprofit institutions <sup>2</sup>		Business firms	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
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	0.7
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	0.3
Arizona.....	44,438	.8	786	.2	530	.3	43,122	0.8
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> )	1,798	.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.

## FIXED-PRICE VERSUS COST REIMBURSEMENT CONTRACTS

Notable progress was made during the past fiscal year in the use of fixed-price contracts with an increase of 6.3 percent.

TABLE 13.—*Net value of military procurement actions, by type of contract pricing provision,<sup>1</sup> fiscal years 1952-64*

[Dollar amounts in millions]

Fiscal year	Total net value of actions	Type of contract			
		Fixed price		Cost reimbursement	
		Dollars	Percent of total	Dollars	Percent of total
1952.....	\$34,028	\$27,954	82.1	\$6,074	17.9
1953.....	29,285	23,358	79.8	5,927	20.2
1954.....	10,942	7,708	70.4	3,234	29.6
1955.....	13,661	10,366	75.9	3,295	24.1
1956.....	16,102	11,221	69.7	4,881	30.3
1957.....	17,997	11,995	66.6	6,002	33.4
1958.....	22,162	13,389	60.4	8,773	39.6
1959.....	22,873	13,520	59.1	9,353	40.9
1960.....	21,182	12,160	57.4	9,022	42.6
1961.....	22,857	13,243	57.9	9,614	42.1
1962.....	25,780	15,667	60.8	10,113	39.2
1963.....	26,225	17,013	64.9	9,212	35.1
1964.....	25,328	18,029	71.2	7,299	28.8

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

Source: "Military Prime Contract Awards and Subcontract Payments. July 1963-June 1964," Office of the Secretary of Defense.

## UTILIZATION OF MILITARY STOCKS

Substantial progress was continued in the utilization of existing inventories thus obviating the need for additional procurements. From fiscal year 1958 through fiscal year 1964 the amount of utilization has steadily risen from \$213 to \$1,325 million and still greater improvement is expected in this activity in the future.

TABLE 14.—Utilization of DOD assets, fiscal years 1958-64

(In millions)

Utilization of DOD assets	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
DOD interservice supply support program (wholesale).....	\$32	\$119	\$141	\$228	\$353	\$420	\$396
Intraservice utilization of military service declared excess property.....	117	232	408	616	637	626	769
Interservice utilization of military service declared excess property.....	64	134	117	131	122	111	160
Total.....	213	485	666	975	1,112	1,157	1,325

Source: Office of Secretary of Defense.

## DISPOSITION OF DOD SURPLUS STOCKS

The volume of disposal of surplus DOD personal property has declined about 10 percent from fiscal year 1958 to fiscal year 1964 (table 15) while the percent of total gross proceeds to the total acquisition cost has declined from 3.38 percent to 2.14 percent and the percent of proceeds to acquisition cost (other than scrap and salvage) has increased about 1 percent (table 16). Meanwhile the costs of disposal sales have more than trebled as a percent of gross proceeds from fiscal year 1958 to fiscal year 1964 (table 17).

TABLE 15.—Total dispositions (at acquisition cost) of surplus personal property, fiscal years 1958-64

(In millions)

	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
Utilized by other Government agencies and MAP.....	\$168	\$361	\$141	\$349	\$271	\$188	\$194
Abandoned or destroyed.....	62	99	118	44	50	74	117
Authorized donations.....	221	314	347	275	258	233	273
Sales (other than scrap and salvage).....	2,465.8	2,789.2	2,356.4	1,771.3	1,236.2	891.6	980
Expended to scrap.....	2,993.7	4,576.8	3,626.7	4,331.8	2,233.1	2,537.8	3,818
Total dispositions.....	5,911	8,141	6,589	6,791	4,061	3,941	5,399

TABLE 16.—*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

TABLE 17.—*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	51.8	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



# APPENDIXES

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## APPENDIX 1

### THE DEFENSE SUPPLY AGENCY—UPDATED PROGRESS REPORT, MARCH 1965

The Defense Supply Agency has been in operation for over 3 years. Its performance has fully justified the establishment of the Agency. DSA has absorbed the missions and organizations assigned. Today, as a major segment of the Defense Logistics Establishment, the Agency provides responsive and efficient service to its customers at less cost.

#### PRE-DSA ORGANIZATION

Prior to the establishment of the Defense Supply Agency, the Secretaries of the military departments were designated single managers of selected supply and service activities for all components of the Department of Defense (fig. 1). Their responsibilities were carried out by separately organized operating agencies within their respective military departments. These agencies achieved an enviable record of effective support of the military services with significant reductions in operating costs and inventories. Their experience demonstrated the merits of a single agency, furnishing common supplies and services to all military departments.

Prior to the time DSA was organized, three commodity managers were assigned to the Navy, of which one, industrial, was still in the process of assuming management of assigned commodity classes. Five commodity managers and one service manager were assigned to the Army. Two of these commodity managers, automotive and construction, were still in the early phases of activation. Electronics management is shown under the Secretary of the Air Force because this commodity had already been studied and recommended for integrated management; and the present DSA Electronics Center developed from the Air Force Control Center for Electronics Materiel, which was turned over to DSA at the time of DSA's establishment. The Armed Forces Supply Support Center administered the Defense-wide cataloging, standardization, and materiel utilization programs and conducted integrated management studies. Not shown are the property disposal offices, distributed among the military departments, which were also transferred to the Defense Supply Agency. Omitted also, are the Military Air and Military Sea Transport Services, which, though single-manager agencies, have remained in the Departments of the Air Force and Navy.

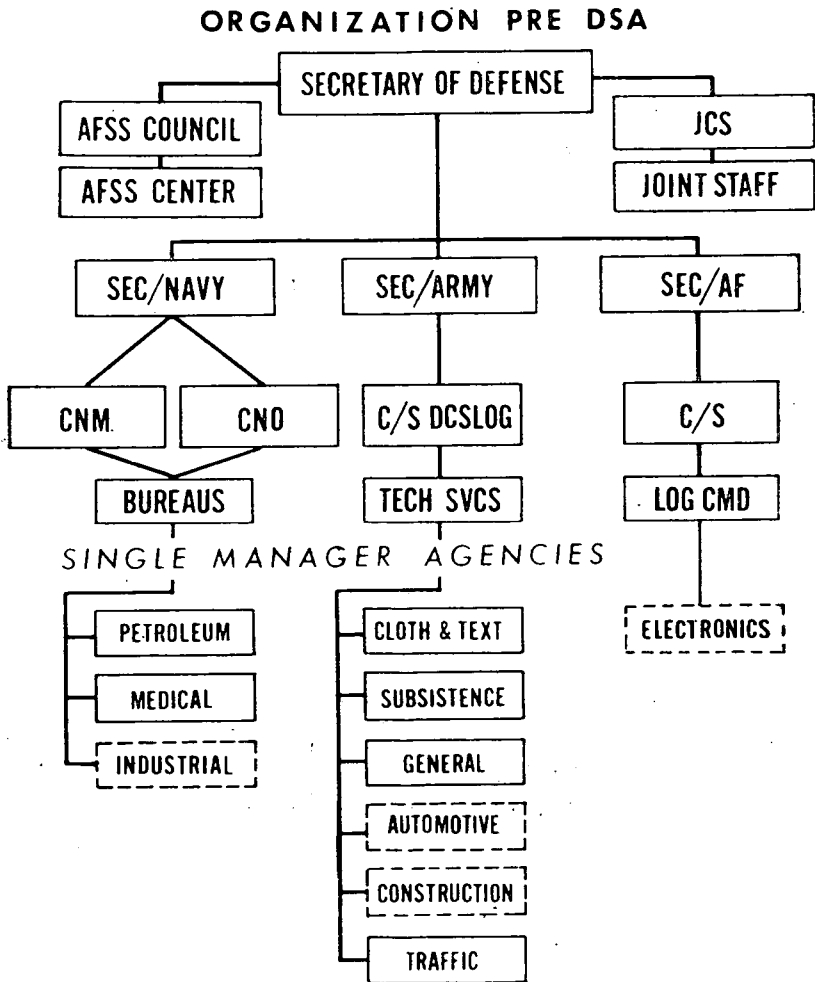
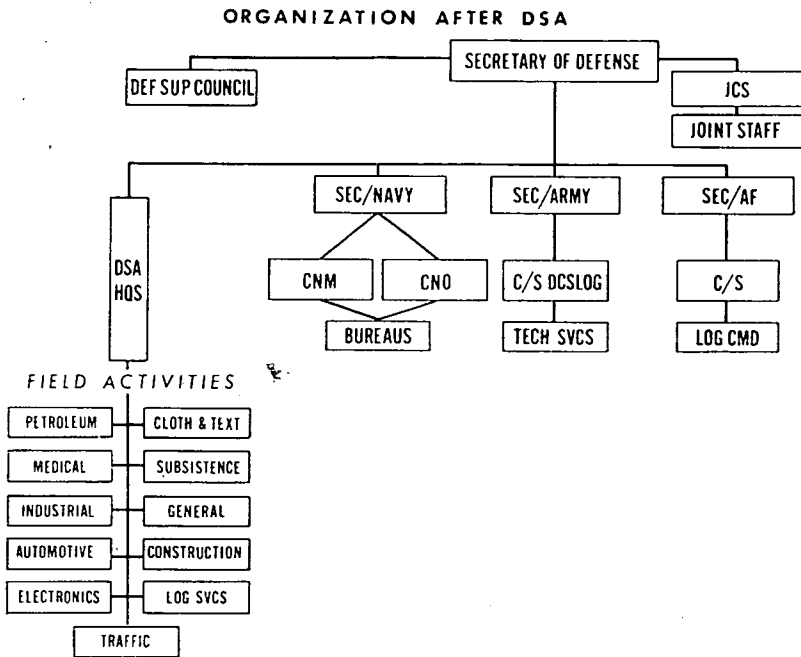


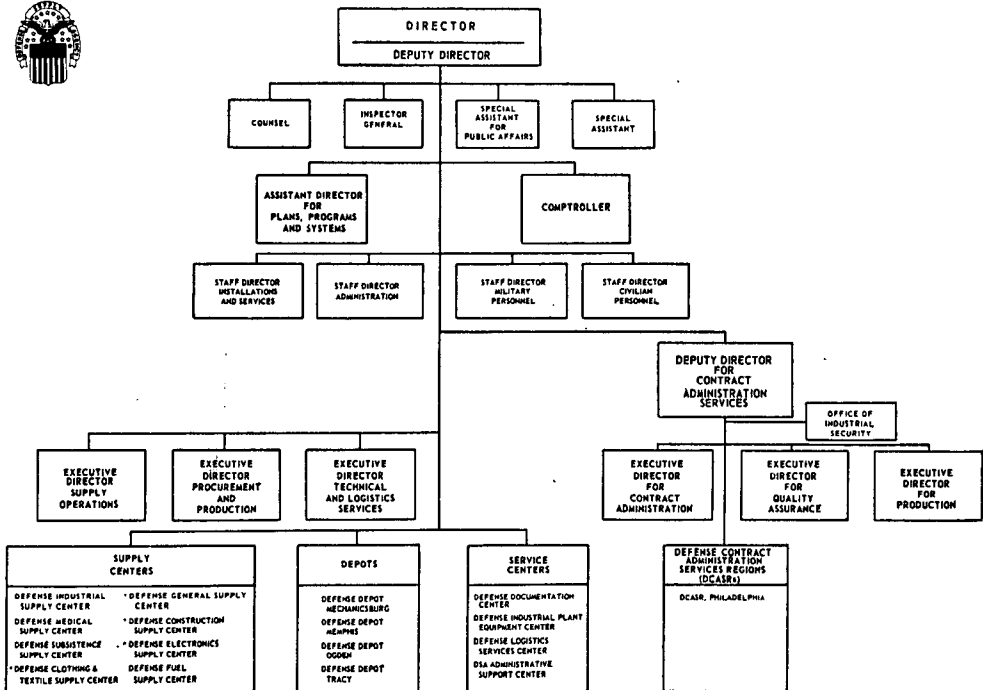
FIGURE 1



**FIGURE 2**



# DEFENSE SUPPLY AGENCY



\* Centers with Depot Operations

APPROVED:

*J. M. Lyle*  
 J. M. LYLE  
 Vice Admiral SC USN  
 Director  
 15 March 1965

FIGURE 3

## DSA ORGANIZATION

Figure 2 depicts the organization of the supply and service activities shown in figure 1, after the establishment of DSA. Conversion of the departmental single managers to field activities of the Defense Supply Agency encountered no major problems. They were taken over in place with assigned personnel, funds, equipment, and facilities. Their operations continued without interruption under a new and shortened chain of command. This was also true of the operational elements of the former Armed Forces Supply Support Center and the military property disposal activities, which were assigned to the Defense Logistics Services Center. Figure 3 depicts the DSA organization today.

Only in the case of headquarters was it necessary to create an entirely new organization. During the first 3 months of the Agency's existence, the headquarters staff consisted of a planning group, most of whom were on loan from the military departments and the Office of the Secretary of Defense. Selection and assembly of a permanent staff began after the initial organization and staffing plan was approved in December 1962. The present headquarters' staff, as depicted in figure 4, assists the Director in the direction and control of the Agency and is concerned with broad planning and direction of the total DSA mission and the establishment of long- and short-range objectives and standards of performance. Its key personnel exemplify the joint military staffing principle and illustrate the broad and varied experience upon which we are able to draw. Each of the military departments is represented at the Directorate or immediately subordinate level. The Assistant Director, Plans, Programs, and Systems is principal staff adviser and assistant to the Director for development and application of policies, plans, programs and systems affecting multiple DSA functional activities. The Comptroller assists the Director as principal financial management and manpower staff adviser. The Executive Directors for Supply Operations, Procurement and Production, and Technical and Logistics Services are principal staff advisers and assistants to the Director in the development and application of policies, plans, programs, and systems for their respective functional areas. The Deputy Director for Contract Administration Services acts for and in the name of the Director, DSA, in exercising management and operating control over CAS missions, operating programs and related field activities. The four staff directors and the Counsel, Inspector General, and Special Assistants perform the normal staff functions of a major headquarters.

The field establishment is comprised of 18 major activities, identified in figure 5 by name and activity head. The military command positions are staffed on the basis of balanced military representation and are rotated among the services. The geographical locations of the 18 major DSA field activities are depicted in figure 6.

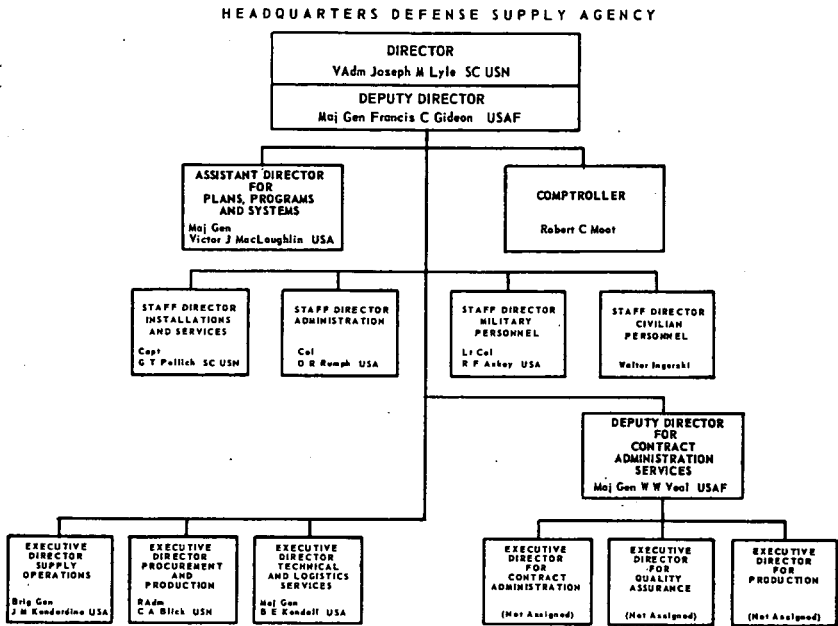


FIGURE 4

FIGURE 5

*Major field activities*

<i>Activity</i>	<i>Activity head</i>
Defense Clothing and Textile Supply Center.	Maj. Gen. O. C. Harvey, USA.
Defense Construction Supply Center.....	Brig. Gen. R. H. Herman, USAF.
Defense Electronics Supply Center.....	Rear Adm. R. H. Northwood, USN.
Defense General Supply Center.....	Rear Adm. J. S. Dietz, USN.
Defense Industrial Supply Center.....	Maj. Gen. D. L. Hardy, USAF.
Defense Logistics Services Center.....	Col. F. Mercer, USAF.
Defense Medical Supply Center.....	Brig. Gen. C. H. Gingles, USA.
Defense Fuel Supply Center.....	Lt. Gen. W. O. Senter, USAF.
Defense Subsistence Supply Center.....	Maj. Gen. R. J. Laux, USA.
Defense Documentation Center.....	Dr. R. B. Stegmaier, Jr.
Defense Depot, Mechanicsburg.....	Capt. A. M. McCrone, USN.
Defense Depot, Tracy.....	Col. W. L. Tate, USA.
Defense Depot, Memphis.....	Col. S. L. Gillette, USA.
Defense Depot, Ogden.....	Col. O. S. Dews, USA.
Defense Industrial Plant Equipment Center.	Col. S. F. Langley, USAF.
DSA Administrative Support Center.....	Col. O. R. Rumph, USA.
Defense Contract Administration Services Region, Philadelphia.	Col. W. S. Collison, USAF.
Defense Contract Administrative Services Region, Detroit (effective Apr. 1, 1965).	Col. W. E. Besse, USA.

PROGRESS AND PROSPECTS

DSA has made rapid progress in the assumption of assigned functions (fig. 7). In January 1962, DSA took over wholesale management of 87,000 items with an inventory value of \$1.5 billion. The number of items centrally managed exceeded 1.3 million, with a value of \$2.2 billion, at the end of fiscal year 1964 and will approximate 1.4 million items by the end of fiscal year 1965. At that time, the inventory value is expected to drop to 1.9 billion, and the annual rate of procurement will increase to \$3 billion. The transfer of personnel, both headquarters and field, has proceeded in phase with the assumption of management tasks. As of the end of January 1962, over 9,500 military and civilian personnel had been transferred to DSA. At the end of fiscal year 1964, DSA personnel numbered 31,141; by the end of fiscal year 1965, this will increase to 33,281. By the end of fiscal year 1964, DSA had taken over management of all assigned commodities and services, except for contract administration.

DSA MAJOR FIELD ACTIVITIES

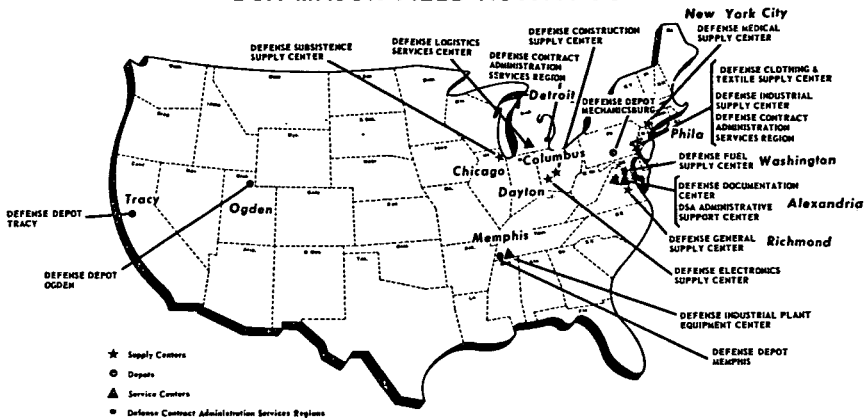


FIGURE 6

FIGURE 7

DSA assumption of responsibilities (end of month)

	January 1962, actual	January 1963, actual	End fiscal year 1963, actual	End fiscal year 1964, actual	End fiscal year 1965 plan
Items managed (thousands).....	87	472	1,029	1,328	1,425
Inventory (millions of dollars).....	1,588	2,004	2,412	2,232	1,914
Procurement (millions of dollars).....	.....	1,839	2,670	2,701	3,090
Personnel.....	9,500	24,459	25,970	31,141	33,281

DSA OBJECTIVES

When Secretary McNamara established the Defense Supply Agency, he also established two primary objectives:

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

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

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

DSA ACHIEVEMENTS

The Defense Supply Agency has continued support to the military services without interruption or impairment during major organizational change. This has involved the extension of central control over a group of heterogeneous agencies and the development of uniform policy, standards, and procedures.

The President's budget for fiscal year 1963 was based upon the expectation that the functions transferred to DSA would be performed for \$27.7 million less than the budgeted cost of performing the same functions within the military departments. The Congress assessed an additional reduction of \$2.7 million, making a total budget cut of \$30.4 million, related principally to a reduction of 3,329 civilian personnel spaces. Consolidation of the Army and Marine Corps clothing factories has produced a saving of 146 additional personnel spaces. During fiscal year 1964, DSA operating expense savings reached \$39.6 million (fig. 8). Operating expense savings are expected to total \$57.1 million by the end of fiscal year 1965. The stock fund financial plan provided for a \$233 million drawdown in long supply stocks during fiscal year 1963. The actual achievement for fiscal year 1963 was \$261.6 million. For fiscal year 1964 an inventory drawdown of \$161.2 million was achieved, with an additional \$110.6 million planned for fiscal year 1965.

FIGURE 8

<i>DSA operating expense savings</i>		<i>Millions</i>
<b>Fiscal year 1964:</b>		
Carryover from fiscal year 1963.....		\$31.3
Distribution system.....		2.5
Improved use of ADPE.....		2.3
DASC/DCSC consolidation.....		2.0
DSSO closures.....		1.5
<b>Total.....</b>		<b>39.6</b>
<b>Fiscal year 1965 plan:</b>		
Carryover from fiscal year 1964.....		39.6
Additional distribution system savings.....		9.4
DASC/DCSC consolidation—Additional.....		4.1
Productivity increase.....		3.7
Transfer of management of FSG 62.....		.1
DSSO closures—Additional.....		.2
<b>Total.....</b>		<b>57.1</b>

### PROCUREMENT

In the procurement area, we have made significant progress in increasing competition, value engineering, participation of small business, and improving the procurement process. Through these measures, cost reductions, reflected in the DOD cost reduction program, and totaling \$13 million should accrue during fiscal year 1965. These reductions are anticipated in the following areas:

#### *Increased competition*

Improvement appears feasible notwithstanding the relatively high percentage of competitive awards for the commodities DSA now procures. Our goal is to raise the fiscal year 1964 rate of 91.5 percent competitive awards to 91.6 percent in fiscal year 1965 by reducing sole-source awards wherever possible. Improvement of the fiscal year 1965 rate should result in cost reductions totalling \$3 million; during the first half of this fiscal year, savings totaled \$1.45 million in the shift from sole source procurement.

#### *Value engineering*

Elimination of "gold plating" in specifications, despite limited technical resources, which will be expanded as the situation warrants, has made substantial progress. Cost reductions aggregating \$5.3 million were achieved in fiscal year 1964, and a \$10 million goal has been established for fiscal year 1965. Additional opportunities will be presented as new commodities are assigned. To reap the benefit of desirable changes normally requires some adjustment in item specifications. This adjustment is the responsibility of the military departments, since it is so closely related to qualitative requirements over which they have exclusive jurisdiction. Accordingly, we must rely upon the departments for prompt action where desirable changes can be made without impairing performance. During the first half of fiscal year 1965 savings in this program totaled \$6.6 million. During the current fiscal year a revision to ASPR provided for contractor sharing of savings resulting from value engineering efforts. In addition to savings under the immediate contract, contractors may share savings in future acquisitions and collateral savings in operation and logistic support.



In another program, an additional \$3 million is anticipated in the form of cost avoidance as a result of continuing efforts to refine our industrial mobilization plans and to increase the industrial base, thereby releasing mobilization reserve stocks for current consumption.

#### *Small business*

The DSA small business program encourages maximum possible participation of small business firms in our procurement program.

An aggressive program of business counseling is conducted through participation in industrial assistance events, in various geographical areas; in the inauguration of a series of commodity-oriented meetings at which DSA business opportunities, in well-defined product areas, are presented to potential suppliers. During the 31 months from April 1, 1962, to December 31, 1964, DSA participated in 89 industrial assistance events in 31 States. As a result of our efforts, small business firms received 40.3 percent of the total awards to U.S. firms, during the first 6 months of fiscal year 1965, totaling \$598 million.

#### *Labor surplus areas*

In fiscal year 1964, awards of \$10,000 or more to labor surplus areas totaled \$478 million or 26 percent of the awards made within the United States and possessions. During the first half of fiscal year 1965, \$276 million was awarded to labor surplus area firms despite a decline in the number of major labor surplus areas.

#### *Purchase workload*

Purchase workload continues to increase; in fiscal year 1964, 2.16 million purchase requests were processed compared to 2.21 million projected for this fiscal year. Part of this increase was generated by DSA's assuming responsibility for overseas procurement support for Army for DSA managed and generically associated items. Further increases in procurement workload may be projected for fiscal year 1966 when overseas procurement support for Air Force (less Pacific and Alaska) for DSA managed and generically associated items, Air Force decentralized and nonstandard items is assumed. In addition, in fiscal year 1966 we will furnish supply support for the overseas dependent school system.

### PROCUREMENT OBJECTIVES

#### *Improvement of procurement process*

Efforts to improve the procurement process were intensified during the past year. Management reviews conducted at a large number of DSA activities have accentuated for management's attention those areas susceptible to improvement. Action was taken throughout DSA to increase competition, to place continuing emphasis on the small business and labor surplus area programs, and to provide more timely and effective supply support. Progress was made in standardizing and simplifying the administrative tasks related to the procurement process thereby reducing administrative and procurement leadtime and inventory costs, reducing cost in such areas as small purchases, preaward surveys, and bid solicitation. Results were reduced number of copies of invitations for bids forwarded to and returned to bidders; standardization of contract clauses; the development of a procedure for small purchases designed to expedite payment; and application of automatic data processing techniques with specific emphasis on the small purchases area.

We also continued to stress and intensify the DSA program of placing responsibility for quality on our contractors, with the DSA's role limited to verification. This program utilizes the vendor's skills and knowledge of his product and eliminates duplication of effort in the quality and reliability fields with resulting economies in manpower and funds. Some indication of the increased effectiveness of inspection by the DSA procurement support offices may be gained from the following:

In fiscal year 1964 the cumulative cost per \$100 of supplies inspected (excluding lumber) was \$0.88. In the first 7 months of fiscal year 1965 the cost was \$0.75, a reduction of 15 percent. This was accomplished while at the same time quality of inspection improved.

To improve DSA responsiveness and assure customer satisfaction, DSA also initiated a program called Quality Check, designed to elicit comments and suggestions from the military services on the quality standards and acceptability of the supplies received from DSA. In the last quarter of fiscal year 1964, DSA assumed responsibility for inspection of lumber from the Army, and every effort is being made to reduce inspection costs in this area as well.

Significant steps were also taken to provide industry with early information concerning future plans for large dollar procurements. Closely related to this is our program for market analysis. This is a program for achieving more economical procurements by conducting studies of factors, such as seasonal patterns, economic changes, obsolescence, and cost to store, which influence the procurement cost of the item. All of our centers have identified commodity areas offering the greatest potential for savings. Emphasis is being placed on these areas to develop techniques that will obtain the greatest monetary return with no sacrifice in quality.

## CONTRACT ADMINISTRATION SERVICES

### BACKGROUND

Contract administration services is one of the responsibilities assigned to certain military offices located throughout the United States. The responsibility includes a variety of functions such as precontract award surveys of contractors' facilities; quality assurance; administration of the industrial security program for protection of classified information; payments to contractors, and other functions required in connection with industry performance on defense contracts. These services do not include procurement (contract execution) but rather are performed in support of contracts placed by the procurement offices/program managers of the military departments and the Defense Supply Agency. Military department offices currently performing contract administration services include the Army procurement districts, Air Force contract management districts, and inspectors of naval material. Collectively these offices number approximately 165.

In early 1962, the Secretary of Defense initiated a study to determine whether increased efficiency and economy in contract administration were possible. The study known as Project 60 was conducted under the policy guidance of high level Department of Defense military and civilian personnel with participation by military department and National Aeronautics and Space Administration representatives. As a result of recommendations made in the study report, the Secretary of Defense in October 1963 directed certain changes in procedures and the establishment of a pilot organization at Philadelphia, Pa., to test the feasibility of consolidating existing service contract administration activities. The objective of the pilot test was to confirm that a consolidated operation would provide the efficiencies and permit the improved operations envisioned in the Project 60 study. Subsequent evaluations provided the basis for decisions to plan for the nationwide consolidation of contract administration services offices under central management.

On June 4, 1964, the Secretary of Defense assigned the contract administration services (CAS) mission to DSA. As indicated previously, the assignment does not involve the procurement function. Also excluded are plant representatives of the Army, Navy, and Air Force who are situated at key plants producing major weapon systems; and such specialized groups as the Army Corps of Engineers, Navy Bureau of Yards and Docks, and Navy supervisors of shipbuilding. Concurrent with the June 4 assignment, a National Planning Group was established under the Director, DSA, to develop a detailed national implementation plan (NIP) for effecting the consolidation of field contract administration services offices of the military departments into a nationwide DSA organization. The consolidation is to be completed within 2 years. The NIP was approved by the Deputy Secretary of Defense on December 23, 1964. This plan is being used as the basic working document for implementation.

### FUNDING

During fiscal year 1965 the contract administration services operation will be financed through reimbursement to DSA from military department appropriations. During fiscal year 1966 financing will be accomplished through a transfer of funds from pertinent military department appropriations. It is anticipated that DSA will budget and be funded directly for the total operation in fiscal year 1967.

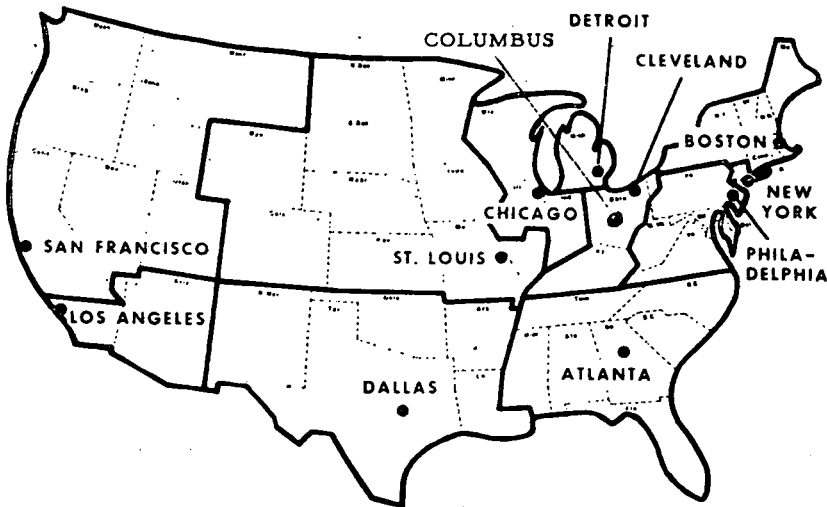
### SAVINGS

It is planned that in fiscal year 1969, annual recurring savings will reach a level of approximately \$19 million a year. The savings will result from a reduction in operating costs. The bulk of the savings will be realized from the reduction of approximately 10 percent from the present total of 20,000 employees now performing contract administration services nationwide. The reduction in personnel is expected to be achieved over a 3-year period through attrition, retirements, and other planned personnel actions with the least possible adverse impact upon the work force. It is believed that this can be accomplished with a minimum or no separation of employees.

## CURRENT STATUS

The National Planning Group was dissolved on January 31, 1965, and the permanent headquarters organization of the Deputy Director for CAS was established effective February 1, 1965. Initially the organization will be temporary in nature, but as the conversion effort progresses and additional personnel are assigned, the permanent organizational posture will be assumed. Personnel who manned the National Planning Group and who are currently manning the headquarters organization are on temporary detail from the military departments and DSA. Current strength is approximately 200. DOD has approved a table of distribution for the new organization which authorizes an end strength of 170 civilian and 37 military positions as of June 30, 1965. Current efforts are being concentrated on completing the identification of civilian personnel with functional transfer rights, making employment offers to these employees, and effecting other required personnel actions to accomplish permanent staffing of the organization. Concurrently, appropriate military personnel are being requisitioned from the military departments. Additional personnel, to bring the CAS headquarters to its full strength of 336, will be phased in during the last 6 months of 1965, subject to approval by DOD of a table of distribution covering these added positions. Similar actions are being accomplished to acquire the 87 augmentation personnel required for the DSA common staff. No slippage in the planned schedule is anticipated; however, temporary detail personnel will continue to be required until permanent staffing can be accomplished.

**PROPOSED GEOGRAPHICAL ALIGNMENT  
OF CONTRACT ADMINISTRATION SERVICES REGIONS**



Industrial Security Clearance Office, Columbus, Ohio

FIGURE 9

## NEW ORGANIZATION

The headquarters mission element of the new contract administration services organization will consist of approximately 336 people located at Cameron Station. Full utilization will be made of the existing DSA headquarters management/administrative base through augmentation of such common support elements as Comptroller, Personnel, Counsel, Administrative Support and others. Augmentation personnel will number approximately 87, for a total added DSA headquarters strength of 423.

The Deputy Director, CAS, will exercise management and operating control over the field organization of 11 regions covering the entire United States. The regions will be subdivided into district, plant, and area offices as required. After consolidation is completed the existing 165 offices will be reduced to approximately 100. In addition to these activities, an Industrial Security Clearance Office, responsible for central DOD processing of personnel clearances for contractor employees, is being established at the Defense Construction Supply Center, Columbus, Ohio.

Initial manning of the DSA CAS organization will be approximately 20,000 personnel, 97 percent of whom are civilian and the remainder military. Figure 9 shows the regional headquarters locations, the regional boundaries, and the location of the Industrial Security Clearance Office.

## CONVERSION

Establishment of the contract administration services headquarters and field organization will be phased over the next 10 months and is scheduled for completion approximately February 1, 1966. The planned regional activation schedule is shown below:

<i>Region</i>	<i>Conversion period</i>
Philadelphia.....	Operational as of September 1964.
Detroit.....	April 1-June 1, 1965.
Dallas.....	June 1-Aug. 1, 1965.
Boston.....	
New York.....	Aug. 1-Oct. 1, 1965.
Cleveland.....	
Chicago.....	
Atlanta.....	Oct. 1-Dec. 1, 1965.
St. Louis.....	
Los Angeles.....	Dec. 1, 1965-Feb. 1, 1966.
San Francisco.....	

The field conversion program is proceeding on schedule in accordance with the timetable outlined above. As indicated, the Philadelphia region is operational, and the required personnel authorizations have been transferred to DSA. Long leadtime actions such as location of facilities, obtaining and installing ADP equipment, etc., essential to conversion of remaining regions have been initiated. This has been accomplished jointly through the efforts of regional coordinating committees comprised of military department personnel currently assigned to field offices and the headquarters staff.

The total personnel strength for the CAS field establishment has been approved, and major efforts are now being devoted to developing individual tables of distribution for each region within the overall ceiling. This task involves essentially the same elements and sequence of events as described previously for the headquarters organization but on a much larger scale. Personnel placement must be accomplished on a nationwide basis by use of consolidated personnel registers in order that the job rights of affected personnel will be fully protected and overages or shortages of job skills by region may be matched and applied as appropriate to other regions, or to the headquarters.

## SUMMARY

The CAS national implementation plan provides the policy guidance and the roadmap by which implementation of the contract administration services mission will be accomplished. With the cooperation of DOD and the military departments, progress toward accomplishment of this task is satisfactory and on schedule. With their continued cooperation and working as a team, the Defense Supply Agency expects to encounter no major obstacles in achieving full operational status as planned. It is firmly believed that central management of contract administration services under uniform procedures will result in both operating expense

economies and the elimination of existing duplication and overlap, thus permitting defense contractors to deal more effectively and at less cost with the Department of Defense.

#### DISTRIBUTION SYSTEM

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

The DSA distribution system was implemented on January 1, 1963, with two major objectives in mind:

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

Centralization of all requisitioning procedures and stock control functions in the Defense supply centers, effective July 1, 1963.

The centers perform all supply management functions such as requisition processing, inventory accountability, financial accounting, reporting, billing, and collecting.

The DSA distribution system consists of seven principal depots and four specialized support depots (fig. 10).

#### PRINCIPAL DEPOTS

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

Defense Construction Supply Center, Columbus, Ohio.

Defense Depot, Mechanicsburg, Pa.

Defense Depot, Tracy, Calif.

Defense Depot, Ogden, Utah.

Defense Depot, Memphis, Tenn.

Defense General Supply Center, Richmond, Va.

Atlanta Army Depot, Forest Park, Ga.

#### DSA DISTRIBUTION SYSTEM

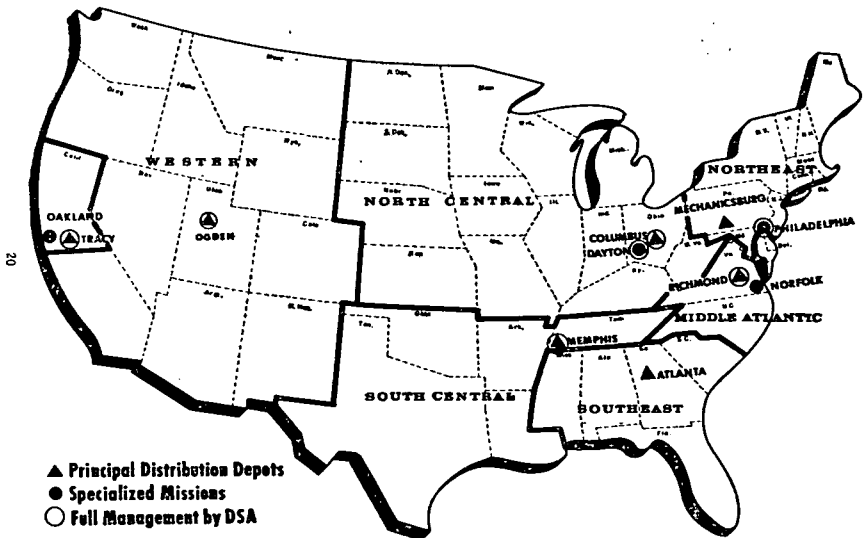


FIGURE 10

## SPECIALIZED DEPOTS

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

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

## DIRECT SUPPLY SUPPORT POINTS

The DSA distribution system also includes 18 direct supply support points (not included in fig. 10) which have been established in support of large-volume users, such as Navy shipyards and repair facilities. These points are under military service management. The supply mission for DSA commodities at these points is restricted to the stocking of a selected range of DSA-owned and centrally managed materiel for the support of onbase industrial and maintenance requirements, fleet units, assigned Navy oversea activities, CONUS Navy activities within a 25-mile radius, and such other Navy activities as may be assigned for accounting purposes.

## ATTRITION SITES

On January 1, 1962, items assigned to DSA or to be assigned to DSA were stored in 77 locations, of which 11 locations became permanent DSA distribution system activities and 18 became direct supply support points for support of the Navy. As of January 31, 1965, DSA material was stored at 23 temporary storage locations, or attrition sites. However, the number of attrition sites will fluctuate because of continuous capitalization of items as a result of item management coding and DSA assumption of new missions and item assignments. Until supply missions become stabilized, a target date for complete elimination of attrition sites cannot be projected. DSA policy for evacuation of stocks from attrition sites is disposition-in-place of excesses; redistribution of replenishment stocks from attrition sites into permanent depots in lieu of replenishment from procurement; attrition to satisfy customer demands; and bulk relocation into permanent depots when economically justified.

## INVENTORY CONTROL POINTS (ICP)

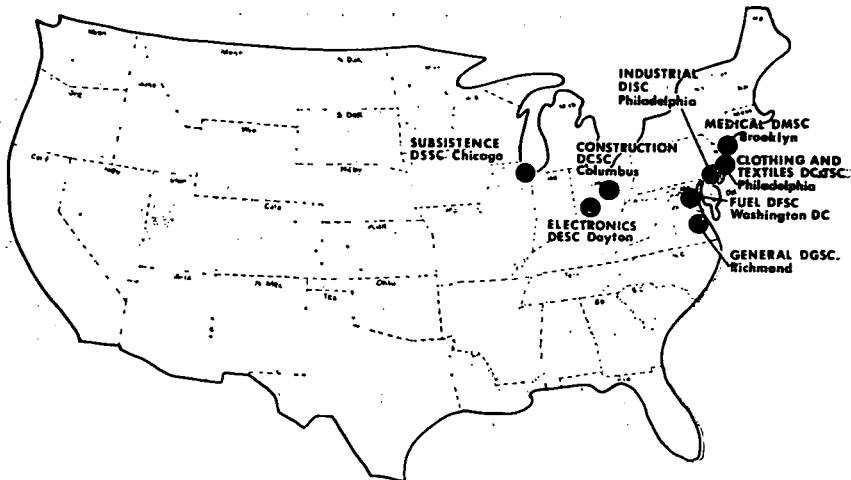


FIGURE 11

## INVENTORY CONTROL POINTS

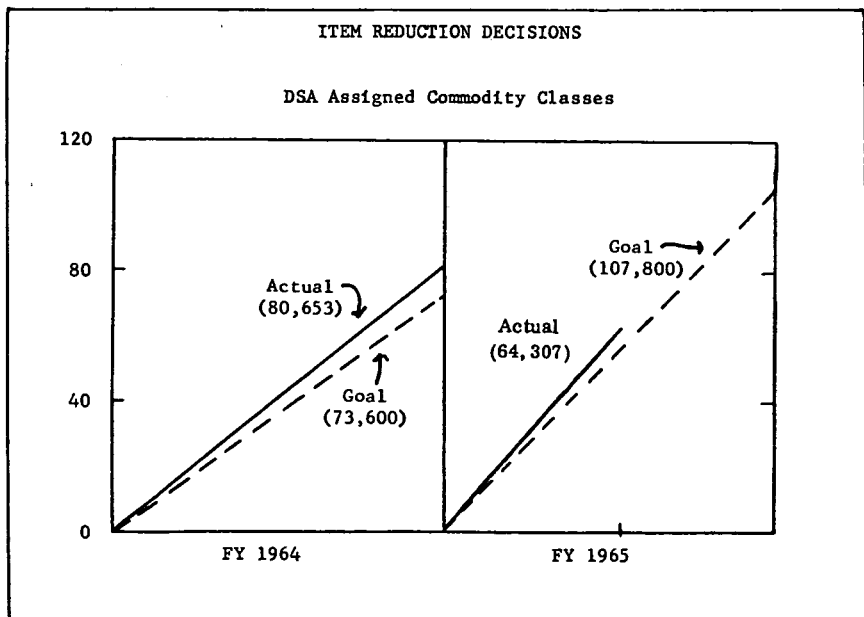
Control of DSA inventories is currently distributed among eight supply centers (fig. 11). The centers assumed inventory control functions for assigned commodities previously performed by the single managers. Their primary function is to compute replenishment requirements for assigned items; maintain complete:

records of inventory status and transactions; receive and edit requisitions; procure materiel; and direct shipment or procurement action, as appropriate. More than 6,000 personnel are employed in this activity at all centers. Other personnel at the typical center are engaged in such related activities as cataloging, standardization, procurement, and installation management. The commodities assigned to the several centers were determined in separate studies conducted over a 6-year period. Each study was addressed to the peculiar circumstances of a particular commodity area. Assignments to specific military installations were governed, in part, by the location of related departmental functions and, in part, by the availability of space and facilities. Only by accident could these piecemeal actions have produced an optimum system for all common supplies. There are wide variations in numbers of items managed as well as various mixtures of technical, personnel-related, and bulk materiel items. Customer service is expected to be improved and operating costs reduced through a redistribution of commodity assignments and some change in the number and location of control points. Changes will be made, however, only after careful study and consultation with all interested agencies. The most recent plan calls for consolidation during calendar year 1965 of the functions of the Medical Supply Center in Brooklyn, N. Y., and the Subsistence Supply Center in Chicago, Ill., with the Clothing and Textile Supply Center in Philadelphia. In addition, the functions of inventory management, except for procurement, of packaged petroleum, gas cylinders, and chemical supplies will be transferred to the General Supply Center at Richmond. Procurement responsibilities for packaged petroleum will remain with those of bulk petroleum at the Fuel Supply Center in Washington.

#### ITEM REDUCTION

DSA is continuing to give major attention to reduction in the number of items in assigned commodity classes. As a result of identification of duplicate or similar items and standardization actions, decisions were made and concurred in by the military departments to eliminate 80,653 items in the fiscal year 1964 (fig. 12). The decisions made during fiscal year 1964 consisted of 56,809 DSA-managed items and 23,844 service-managed items. These decisions were based on a review of 187,132 items during the 12-month period. The goal for fiscal year 1965 is a total of 107,800 decisions to be based on a review of approximately 320,000 items. By the end of the first half of fiscal year 1965, DSA had completed review of 155,246 items and received concurrence of military departments on the elimination of 64,307 items in the DSA-assigned classes.

FIGURE 12



## MATERIEL UTILIZATION

Major emphasis on the redistribution of materiel in long supply between the services is continuing. Redistribution of such materiel totaled \$396 million in fiscal year 1964.

Mechanized screening of long-supply assets and requirements which became fully operational during fiscal year 1964 is now an operating program at the Defense Logistics Services Center. Several test programs which are designed to capitalize on the available assets and requirement data and to expand the concept to additional appropriate areas are underway.

These include—

(a) A final asset screening of items identifiable to a Federal stock number and listed on surplus sales catalogs. This screening (termed Project FAST) is a final effort to effect utilization of available assets prior to disposition through sale.

(b) Processing contractor termination inventory through mechanical screening to determine if requirements may be filled from those assets.

## WEAPONS SYSTEMS PROGRAM

The weapon systems materiel utilization program, administered by the Defense Supply Agency in cooperation with the military services, promotes Defense-wide redistribution and utilization of military weapon systems assets and other large aggregations of special high-cost materiel generating from phaseouts, tactical withdrawals, and program terminations. The materiel reutilization dollar potential from these sources is very substantial.

The program covers, but is not limited to complete weapons (defensive or offensive), complete aircraft, aircraft engines, missiles, combatant ships, armament, communications equipment, etc., including the components, assemblies, and parts thereof plus related supporting equipment. This materiel is widely diversified in character including items of a highly special and technical nature ranging in cost from a few thousand dollars to \$1 million and up.

The weapon systems program has as its major objective the maximum reutilization of weapon systems materiel by the military services and other eligible Federal agencies. This objective is achieved through (1) the utilization of close working relationships and liaison between DSA and all echelons of the military departments and other Defense agencies; (2) the acquisition of early planning intelligence concerning military systems to be phased out or otherwise discontinued; (3) the development of new or alternate uses and applications of the materiel; (4) the compilation, printing, and distribution of illustrated brochures and flyers; and (5) the vigorous promotional efforts by DSA personnel.

The program has materially improved DOD reutilization of excess assets through intraservicing and interservicing transfers.

The cumulative dollar status of DOD reutilization of weapon systems assets for the period January 1961 through December 1964 exceeds \$632.8 million and includes assets from the following systems:

<i>System</i>	<i>Total reutilization</i>	<i>Millions</i>
Terrier (Marine Corps).....		\$76.0
Nike-Ajax (Army).....		67.9
Honest John (Marine Corps).....		20.0
Thor (Air Force).....		143.1
Jupiter (Air Force).....		50.9
Skybolt (Air Force).....		101.9
Corporal (Army).....		9.3
LaCrosse (Army).....		23.0
Redstone (Army).....		4.3
Bomarc A (Air Force).....		116.0
Atlas D (Air Force).....		20.0
SS-10 (Army).....		.4

## STANDARDIZATION AND ITEM GROWTH

In July 1964, responsibility for administration of the DOD standardization program was transferred to the Office of Technical Data and Standardization Policy, under the Assistant Secretary of Defense (I. & L.). The Defense Supply Agency will continue to have standardization management responsibility, how-



ever, for approximately 2.5 million items or 64 percent of the 3.9 million DOD items in the Federal supply system.

The favorable downward trend in the growth of the Federal Catalog, achieved in calendar year 1963, was reversed in the first half of calendar 1964; but during the second half of the year, the growth begun in the first half was checked, and the number of DOD items in the catalog started to decline again. During calendar year 1964, 379,300 items were added to the Defense Catalog, and 364,700 items were deleted, resulting in a net increase of 14,600 items. The first half of the year saw a net increase of 24,754 items and the second half, a net decrease of 10,166 items. At the end of 1964, there were 3,940,485 DOD items in the catalog. The favorable downward trend continued in January 1965 with a net decrease of 8,400 items.

Item reduction through standardization and Federal Catalog improvement is being vigorously pursued, and it is estimated that approximately 108,000 items will be identified for elimination from DSA-managed classes in fiscal year 1965.

#### ITEM ENTRY CONTROL

DSA has begun implementing item entry control screening procedures which we developed as a result of a study of methods to control the number of items, in DSA classes, entering the Defense supply system. The DSA item entry control program includes the development of improved technical data for screening purposes, preparation of standard criteria for screening proposed new items, and the screening of proposed new items by technical characteristics prior to assignment of Federal stock numbers. DSA has implemented an optional service to DOD provisioning activities, by screening manufacturers' part numbers of items recommended by contractors to support new equipments. In addition, the DOD Item Entry Control Office, established within DSA to develop item entry control procedures for application to all commodity areas, is studying the various aspects of item entry control on a DOD-wide basis. This office recently completed a test of control of item entry at the cataloging stage by a technical review of proposed new items prior to stock number assignment. The results of this test are still under evaluation. Considerable study has also been given to the problem of item entry control at the design stage. A program has been undertaken which will accelerate development of military standards in the commodity areas responsible for about 50 percent of all new items entering the supply system. These standards list and limit items preferred for use in new design. Increased selection of standard items at the design stage is expected to reduce unnecessary introduction of new items into the Defense supply system.

#### WAREHOUSING GROSS PERFORMANCE MEASUREMENT SYSTEM

On February 1, 1965, DSA was assigned responsibility for managing the warehousing gross performance measurement system, in coordination with the military departments in accordance with instructions provided by the Assistant Secretary of Defense (Installations and Logistics). The Department of Defense Warehousing Gross Performance Measurement Office has been established within DSA to develop, monitor, analyze, and maintain the system. The objective of the system is to provide a uniform method of evaluating the effectiveness of warehouse operations and resource utilization in DOD storage activities.

#### SUPPLY EFFECTIVENESS

In November 1962, DSA implemented a uniform system for the measurement of supply effectiveness. This system employs standardized reporting by all supply centers and uses two key indicators to measure effectiveness. The first indicator, stock availability, measures the performance of centers as inventory managers by determining the percentage of requisitioned items supplied from available stock. Overall availability has been relatively high throughout calendar year 1964, running between 89 and 91 percent, and consistently exceeding the DSA established overall target of 90 percent. DSA's second indicator of effectiveness, on-time fill, measures responsiveness by determining the percentage of items shipped within the time limits established by the DOD uniform material issue priority system. The rate of ontime fill has been steadily improving, moving from a low of 72 percent in January 1964 to 84 percent in December 1964. This performance rate is only 1 percent below the end fiscal year 1965 target of 85 percent.

## SUMMARY

DSA is believed to have equaled or exceeded the goals set for it when the Agency was established, both in terms of effective support of the military services and operational economy.

DSA has maintained and, in some instances, improved on the high standards of responsiveness to customer demands established by the departmental single managers. DSA's system has been tested in emergency operations and in major military exercises. The quality of its performance is documented.

By the end of fiscal year 1965, DSA will be performing currently assigned missions with 7,800 fewer civilian and military personnel than were identified with the performance of the same missions within the military departments. This amounts to annual recurring savings of \$57 million.

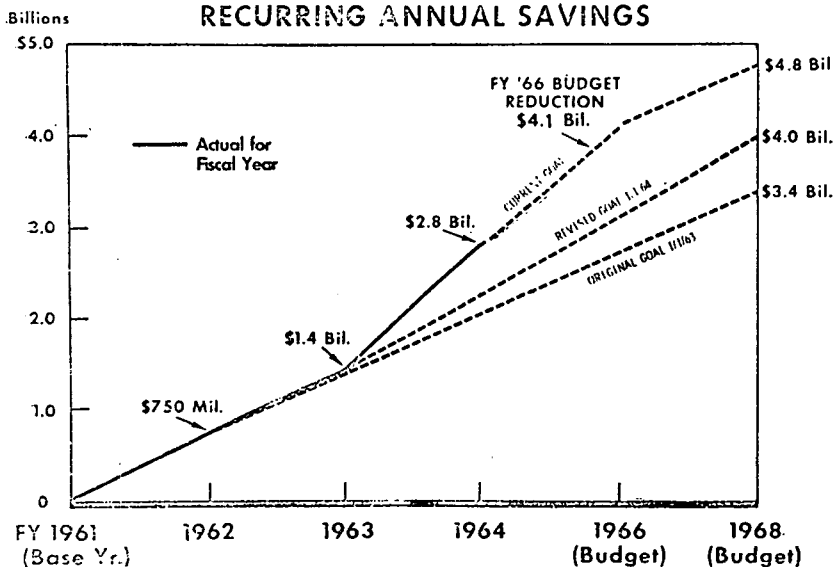
DSA is not going to solve all supply problems; some of these are bound up in the complex relationship of strategy and economics, the forward sweep of technology, and the rapid obsolescence of military materiel. The concept of a consolidated agency reducing decisionmaking time is sound, however, and operating costs are reduced accordingly.

## APPENDIX 2

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

We are now at the halfway point in the 5-year cost-reduction program inaugurated on July 1, 1962. I can report that every military department and Defense agency has, for the second successive year, far exceeded its goals. As a result, we hope to be able again to raise our sights and establish a new target above the current goal of \$4.8 billion of recurring annual savings when we review the program on July 1, 1965.

#### PROGRESS OF DoD COST REDUCTION PROGRAM RECURRING ANNUAL SAVINGS



This achievement is a tribute to the entire Defense Establishment. 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.

Indeed, 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 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 to insure the savings being reported are valid and can be properly substantiated.

The Defense Department's cost reduction program has been developed with these principles in mind. Firm, time-phased goals have now been fixed for 27 distinct management areas. These goals are the aggregates of the individual

goals established for each of the services and Defense agencies. The service goals are further subdivided down to the lowest level of logistics management so that all of our key managers know exactly what is expected of them.

Within my own office, the Assistant Secretary of Defense (Installations and Logistics) has been made directly responsible for the effective operation of the program throughout the Department. The Assistant Secretary of Defense (Comptroller) has been given responsibility for the review, examination, and validation of all goals and savings reported under the program. The service secretaries and agency heads have been made responsible for the accomplishment of the goals. They are required to review and approve personally the reports of progress. Within each of the military departments and the Defense Supply Agency a senior official has been given specific responsibility for the day-to-day administration of the program. And, with 2½ years of experience behind us, this program is now a reality rather than a promise.

The fiscal year 1966 budget now before the Congress is some \$4.1 billion less than it otherwise would have been because of this program. The detailed goals and accomplishments of the various programs we have established in pursuit of these objectives are shown in table 1 (p. 56), but I have summarized them below:

[In billions of dollars]

	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

In previous appearances before this committee, I have discussed the character of these programs in some detail. At this time, I would simply like to give you a progress report, highlight some of the savings actions of the past year, and outline some of our plans for the future.

#### A. BUYING ONLY WHAT WE NEED

##### 1. Refining requirements calculations

Better analysis of our materiel requirements will continue to offer major opportunities for savings in the cost-reduction program. Basically, this effort is aimed at pruning out of each proposed new procurement program every non-essential 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 absolute minimums required to meet the needs of approved forces and mobilization objectives. Some examples of these actions are:

The Army was able to reduce scheduled procurement of M-85 machineguns when study showed that M-2 models already on hand could satisfy all 50-caliber vehicular gun needs except for the M-60 tank. Procurement quantities were reduced by 8,800 guns, at a savings of \$21,120,000.

The Navy and Air Force conducted comprehensive reevaluations of their requirements for air-to-air and air-to-ground missiles and other nonnuclear ordnance in fiscal year 1964. By basing these requirements on a more detailed analysis of the threat to be countered and improved measures of individual weapons effectiveness, previously planned procurements were reduced by \$152 million in fiscal year 1964. Even larger reductions are being made in fiscal year 1965-66.

The Army restudied its training needs for the 7.62-millimeter cartridge (used in the M-14 rifle and the M-60 machinegun) and cancelled the planned procurement of over 400 million rounds, with a savings of \$30 million.

##### 2. Increased use of excess inventories

At the end of fiscal year 1961, excess and long-supply stocks held by the three military departments totaled \$13.1 billion. In that year, only \$956 million of such stocks had been returned to productive defense uses. Since then, we have in-

stituted procedures under which all new proposed procurements must be matched against these stocks to determine if a suitable excess item may not be substituted instead. The result has been a steadily increasing substitution of excess stocks for new procurements as shown below:

[In millions of dollars]

Fiscal year—	Value of excess stocks returned to productive use	Increase over fiscal year 1961
1961.....	956	-----
1962.....	1,080	124
1963.....	1,120	164
1964.....	1,287	331

Some recent examples of the reutilization of excess:

The Army received 60 excess aircraft engines from the Air Force for use on its Caribou aircraft, saving.....	\$2,010,000
The Marine Corps received over 87,000 excess 3.5-inch rockets from the Army for use in training and to fill mobilization needs, saving.....	1,045,000
The Air Force received 15,000,000 rounds of excess 20-millimeter ammunition from the Navy to meet valid operational requirements, saving.....	30,900,000

### 3. Eliminating goldplating through value engineering

We cannot afford to buy qualitative features in our weapons, equipment, and supplies which are not essential to meet the standards of performance, reliability, and durability required by the military mission. Last year, we estimated that, by "purifying" 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.

Looking ahead, we are now convinced that savings of \$500 million annually will ultimately be attainable through "value engineering" techniques. This improved outlook stems in great part 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.

Some examples of recent savings achieved by eliminating "goldplating" are:

	Unit cost		Savings on current procurement
	Before redesign	After redesign	
M449 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 fiberglass and aluminum for a bulky steel container.....	2,732	869	174,400
Tilting tailpipe for A-6A aircraft: Eliminated as nonessential after analyzing operational experience. Weight reduced 154 pounds per aircraft.....	31,911	0	765,864

### 4. Inventory item reduction

During the past year, we have also reemphasized the standardization of material within and among the military departments—in order to reduce the varieties, sizes, and types of items in use. To oversee this effort, a new staff organization, the "Office of Technical Logistics Data and Standardization Policy," has been established. During fiscal year 1964, some 2,450 specifications and 583,000 individual items were eliminated. Actions taken since fiscal year 1961 have cut supply management costs by \$61 million annually.

## B. BUYING AT THE LOWEST SOUND PRICE

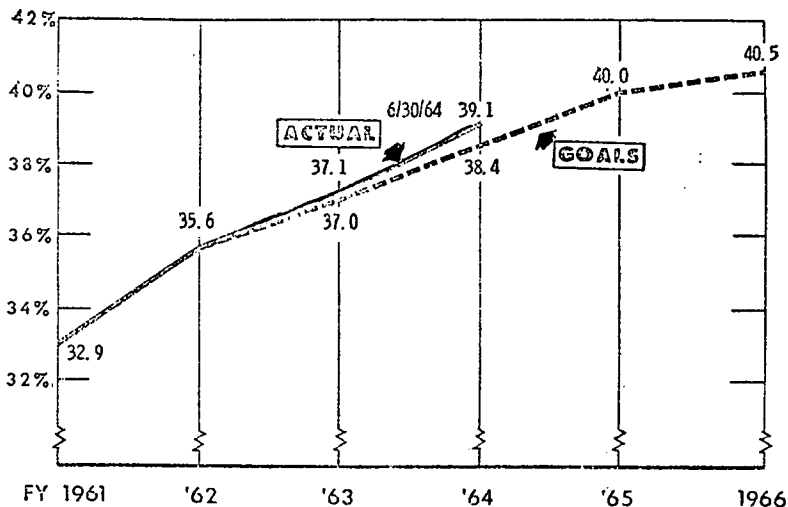
During the past 4 years, we have devoted much attention to strengthening the policies and practices governing the 10 million purchase actions made annually by the Department of Defense. As a result, we believe that most of the steps needed to realize the savings potential in this area of the 5-year cost-reduction 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 (CPFF) 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 table 1, page 56.

1. *Shifting from noncompetitive to competitive procurement*

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. In fiscal year 1964, the rate had been raised to 39.1 percent and we now expect to reach 40 percent by the end of this fiscal year and 40.5 percent by end fiscal year 1966, as shown below.

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



In reaching our objective we will have shifted more than \$1.7 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	Noncompet- itive 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	13,686,015
Radio receiver-transmitter (AN/A RC-51).....	4,670.00	3,207.00	31	1,953,712
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

We believe that there are only a few remaining commodity areas in which we can expect to achieve significant further 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 electronic equipment; (2) spare parts; and (3) services for the maintenance and repair of equipment and facilities. We will be concentrating our energies in these areas in the coming months.

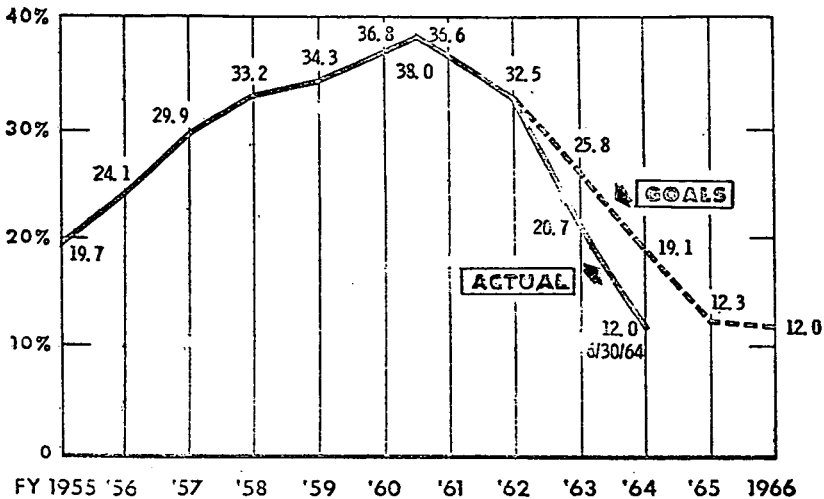
## 2. *Shifting from cost-plus-fixed-fee (CPFF) to fixed price and incentive contracts*

When we use CPFF contracts, the contractor is fully reimbursed for all allowable costs and in addition is guaranteed a fixed fee as profit. This type of contract places all of the risk on the Government, and provides equal reward for both good and poor contractor performance. In addition, movement away from CPFF contracts forces our military buying agencies to prepare much more precise work statements for our contractors and contract costs to be controlled much more closely—as a result, cost overruns and schedule slippages are minimized, while at the same time higher performance and better reliability are achieved.

CPFF contracts are the least efficient method of contracting and should be used only where no other form of contract is suitable, e.g., in exploratory research or study projects where no meaningful measure of performance can be established in advance. We estimate that for every dollar we can shift from CPFF to the higher risk arrangements of incentive and fixed price contracts, we save at least 10 cents.

In fiscal year 1962, we set a goal of reducing the proportion of CPFF contracts from the peak of 38 percent reached in March 1961 to a level of 12.3 percent by fiscal year 1965. As you can see on the chart below, this objective has been met ahead of schedule, and our fiscal year 1966 budget request is \$599 million less than it would have been had no reduction been made in the proportion of CPFF contracts.

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



Several other measures are contributing to improved weapon systems contracting:

Letter contracts, which foster loose management by both the Government and its contractors, reached a peak of \$3.1 billion in December 1962, dropped to a low of \$638 million in September 1964, and are still declining under the tight controls now being applied by all procurement offices.

A similar program of administrative controls has been launched to hold down the number and value of "unpriced" change orders with the goal of reducing them by at least 10 percent.

The performance of major contractors in meeting their contractual commitments, and in achieving cost reductions, is now being centrally recorded. Defense Department purchasing offices are required to evaluate this record prior to selecting contractors for new development projects and prior to negotiating fees on noncompetitive contracts.

As contractors assume a larger share of the cost risk through incentive and fixed-price arrangements, we are relaxing a number of detailed reports and controls (such as prior approval of overtime) which are necessary under CFFF arrangements. These actions will save administrative costs both for Government and for industry.

#### C. REDUCING OPERATING COSTS

The third objective of the cost-reduction program is 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 fiscal year 1966 budget estimate is \$1,067 million less as a result of the following actions.

##### 1. Terminating unnecessary operations

In the spring of 1961, I pointed out to the House Armed Services Committee: "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 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 effort and waste resources."

Since then we have been continually reviewing the approximately 6,700 separately identifiable Defense installations and activities throughout the world. The original list of 73 closure actions, which I announced at that time, has now



grown to 669, and the recurring annual saving from \$220 million to over \$1 billion, after deducting all one-time closing and relocation costs. The present status of the program is shown below:

Number of actions to close or reduce.....	669
Real estate released (acres).....	1, 480, 267
Industrial plants with commercial potential made available for sale....	65
Positions eliminated.....	149, 881
Recurring annual savings.....	\$1, 038, 000, 000

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.

We know that in some cases these actions produce temporary hardships for individual employees and local communities, and I described in the first section of this statement the many actions the Department of Defense and the Government as a whole have taken to assist them. But, 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. Together with the General Services Administration, we have made an analysis of what has happened to the military properties released since 1961. The results of this analysis clearly demonstrate 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.....	15	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	30	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. Some of the most interesting cases involve the use of former military facilities by private industry. For example:

The Navy Ordnance Plant at York, Pa., employing some 1,100 workers was due to be closed in 1965. Instead, the plant and its equipment were sold for \$9.6 million to a private company which promptly rehired the entire work force and has since increased employment by 60 percent.

The Army's Signal Depot facilities at Decatur, Ill., were sold to private interests. Today, its new owners employ half again as many civilians as did the Army and they are still adding workers.

The former Snark missile base at Presque Isle, Maine, was closed in June 1961 with the loss of 1,200 military and civilian jobs. Today, the old base is a part of an industrial complex which has added 2,000 jobs. The base itself has provided educational, commercial aviation, local government, and industrial facilities.

The list of base closings announced late last year is one of the largest such actions we have taken thus far. 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 closings. About 83,000 of the jobs will be moved to other locations but the remaining 63,000 positions will be eliminated. The civilian career employees holding such positions, as I noted earlier, will be offered a job opportunity elsewhere in the Defense Establishment and where moving costs are involved, they will be paid by the Government.

Included in this list of 95 closures are some very large facilities: Brookley AFB, at Mobile, Ala., with more than 13,000 military and civilian jobs; the air materiel area of Norton AFB, at San Bernardino, Calif., with about 8,500 jobs; Hunter

AFB at Savannah, Ga., with about 5,800; Schilling AFB at Salina, Kans., with 5,400; Lincoln AFB 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 AFB 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. In the case of the Portsmouth Naval Shipyard, which is the principal employer in the Portsmouth area, the phaseout will be extended over a 10-year period.

Although many more jobs are involved in the realignment of the SAC base structure and the Air Force major depot system, the decision to close two naval shipyards has attracted the greatest attention. These are both very large installations but it has been recognized for many years that the Navy has too many shipyards for the workloads that can be anticipated over the next 10 years, in peace or in war. The 11 yards are now working at about 63 percent of optimum capacity and by 1967 would have been down to 53 percent. Utilization of the private shipyards has recently been estimated at between 40 and 55 percent of optimum.

Accordingly, about a year ago I appointed a special Shipyards Policy Board to study the entire naval shipyard system and to recommend to me what action should be taken to place this system on a more efficient basis. The Board completed its work last November and made the following recommendations:

- (1) The New York Naval Shipyard should be closed.
- (2) The Portsmouth Naval Shipyard should be phased out by a gradual phasedown prior to 1975.
- (3) The Mare Island and San Francisco Naval Shipyards should be merged immediately under a single commander.
- (4) The Department of the Navy should prepare a 5-year modernization program for the remaining naval shipyards, with priority to projects offering a 3-year "payback" due to decreased costs.
- (5) The Department of the Navy should establish more precise procurement evaluation standards so as to assure that bidders receiving awards of conversion, alteration, and repair work are qualified in terms of financial, management, technical, and facilities capabilities. Where there are significant measurable benefits to the fleet related to the location and services provided by specific private and naval shipyards, these should be considered in deciding between work to be contracted versus work to be performed "in-house", and in choosing among private contractors.

I have approved these recommendations. On the basis of my own review of the Board's report and my visits to the shipyards during the last year, I am fully satisfied that the selection of the yards to be closed or merged was made solely on the basis of objective operational, strategic, and economic criteria, including geographic location, relative industrial capabilities, cost, etc. What I want to emphasize here is that the Department of Defense has now moved to make its shipyard complex more efficient. The Navy is presently preparing a 5-year modernization plan for the yards which will be retained, the first increment of which is contained in the current year's program and the second has been included in the fiscal year 1966 budget request. If we are to realize the benefits of this modernization, as well as the economies promised by the consolidation, the workload of the new yard complex should be planned so as to serve these objectives.

Our studies show that on the basis of "incremental costs" (as contrasted with "total costs") there is little or no advantage in contracting certain ship repair work to private yards. We believe that, at least in the short run, annual savings of \$10 to \$15 million would be possible if the proportion of conversion, alteration, and repair work in public yards was raised from 65 percent to about 80 percent, thereby spreading fixed overhead costs over a larger workload. It will continue to be in the national interest to direct a portion of such work to the private yards in order to help maintain a competitive industrial base. Thus, in the future, the scheduling of any specific year's ship construction and repair program should be directed principally to achieving the most effective utilization of both naval and private shipyard capacity. To this end, we are requesting the elimination of the statutory "35/65" ratio for the allocation of ship repair, alteration, and conversion work between privately owned and public shipyards, contained in section 539 of the Defense Appropriation Act for 1965.

## *2. Consolidation and standardization of operations*

This element of the cost-reduction program comprises our efforts to eliminate unnecessary overhead and personnel expense through the consolidation of common support functions previously performed separately by the military departments.

a. *Defense Supply Agency operating expense savings.*—The Defense Supply Agency (DSA) was established in January 1962 to integrate the management of some 1.9 million different items of common supply. The resultant savings are indeed impressive. Operating savings alone in fiscal year 1964 amounted to \$42 million, and the fiscal year 1966 budget request anticipates economies of \$57 million. The following table illustrates some of DSA's accomplishments.

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

b. *Consolidation of contract administration services.*—Last June, I directed that a single organization be established under DSA to manage the 150 field offices and 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. We have excluded from this consolidation only the administration of highly specialized contracts, such as those for major weapon systems, construction, shipbuilding, and subsistence. The headquarters of this new organization will be operational this February, and all field units will have been integrated into DSA by June 1966. We estimate that, as a result, the administrative costs of our contractors will be reduced by \$60 million annually, which will, in time, be reflected in lower procurement costs for us. Additional savings of \$19 million will be realized from the elimination of 1,835 personnel spaces as previously separate contract administration offices in 29 cities are consolidated.

In a related action, we have decided to consolidate in a single organization the contract audit activities now performed by three separate audit agencies. This move will simplify the contractor's audit relationship with the Defense Establishment, establish standard policies, organization, and procedures and we believe will eventually permit significant manpower savings as administrative and management functions are merged.

c. *Departmental operating expenses.*—Savings in this area, estimated at \$95 million in fiscal year 1966, result from the more efficient use of electronic computers; continued reduction in the number and volume of forms, reports, and paperwork; further simplification of procedures; and increased productivity of personnel.

### 3. Increasing efficiency of operations

The final category of cost reduction projects are 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 these 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.

a. *Improved telecommunications management.*—The fiscal year 1966 budget request anticipates savings of \$129 million through the elimination, consolidation, and integration of leased lines, tariff rate reductions and more effective use of existing Defense and commercial communications services and facilities.

b. *Improved transportation and traffic management.*—The fiscal year 1966 budget request anticipates savings of \$35 million through increased use of less expensive means of passenger travel and cargo transportation, and lower cost of household goods shipments.

c. *Improved equipment maintenance management.*—The fiscal year 1966 budget anticipates savings of \$156 million from many sources including transfer of certain types of maintenance functions from depot level to base level; reductions in the scope and frequency of inspections when experience indicates this can be done without adverse effect on readiness; increased use of an "inspect and repair only as necessary" policy; increased emphasis on improving manpower productivity at overhaul and repair shops; substitution of commercial-type vehicles for tactical vehicles wherever permitted by mission requirements; and increased use of civil service employees in lieu of more expensive contract technicians.

d. *Improving real property and housing management.*—The fiscal year 1966 budget estimate anticipates savings of \$41 million as a result of such actions as control of costs through the establishment of cost standards; higher productivity of the work forces; reductions in utility costs; and the consolidation of public works functions.

#### 4. *Military assistance program*

Because we believe that good management is just as important in the military assistance program as it is in other Defense programs, we are including that activity in our cost-reduction effort with the establishment of a savings goal of about \$100 million.

TABLE 1.—*Department of Defense cost reduction program*

[In millions of dollars]

	Estimated savings to be realized in—				
	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965	Fiscal year 1966	Fiscal year 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 engineering).....	72	76	15	83	-----
4. Inventory item reduction.....				72	-----
Total buying only what we need.....	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>1</sup> .....	37.1	39.1			-----
Total amount of savings.....	237	448	216	414	-----
2. Shift from CPFF to fixed or incentive price:					
Total percent CPFF <sup>2</sup> .....	20.7	12.0			-----
Total amount of savings.....		100	436	599	-----
3. Breakout for direct purchase.....				2	-----
Total buying at lowest sound price.....	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>3</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 technicians.....		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 reducing operating costs.....	239	757	641	1,067	1,711
Total program.....	1,386	2,831	2,461	4,055	4,826

<sup>1</sup> Includes certain 1-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 last 9 months of fiscal year 1961, CPFF was 38 percent, a reduction of \$6,800,000,000 is required to reduce that percentage to the fiscal year 1966 goal of 12 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 1966 budget; actual accomplishment is expected to exceed this amount.

### APPENDIX 3

*U.S. General Accounting Office index of reports on Defense activities issued to the Congress during the period Feb. 28, 1964, through Feb. 28, 1965*

Index No.	Report file No.	Date	Title of report	Department
1	B-133396	Feb. 28, 1964	Unnecessary Costs Incurred as a Result of Awarding Without Competition a Contract for Overhaul and Modification of Aircraft Engines. (See p. 140.)	Army.
2	B-146854	----do-----	Overpricing of CAX-12 Aerial Reconnaissance Cameras by Fairchild Camera & Instrument Corp., Syosset, N.Y., Under Negotiated Fixed-Price Contract AF 33(600)-38860. (See p. 141.)	Air Force.
3	B-146733	Mar. 5, 1964	Overpricing of Steam Generators for Nuclear Aircraft Carrier. (See p. 141.)	Navy.
4	B-146867	----do-----	Shipment of Household Goods Improperly Classified as Professional Items by Military Personnel To Avoid Payment for Excess Weight. (See p. 186.)	Army.
5	B-146845	Mar. 6, 1964	Overpricing of Contracts Negotiated for T38A Electrical Power Systems with Westinghouse Electric Corp. (See p. 142.)	Air Force.
6	B-146865	Mar. 10, 1964	Wasteful Practices in the Management of Age-Controlled Aeronautical Spare Parts. (See p. 122.)	Do.
7	B-146848	Mar. 17, 1964	Unnecessary Costs Incurred in Furnishing Ammunition for Test-Firing M14 Rifles. (See p. 123.)	Army.
8	B-146866	----do-----	Excessive Costs Incurred as a Result of Multiple Management of Supplies at the Atlantic Missile Range. (See p. 92.)	Air Force.
9	B-146718	Mar. 18, 1964	Overpricing of the Nuclear Frigate U.S.S. <i>Bainbridge</i> Purchased From the Bethlehem Steel Co., Quincy, Mass. (See p. 142.)	Navy.
10	B-146812	----do-----	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by the Aerospace Division of Martin-Marietta Corp., Baltimore, Md.; Denver, Colo.; and Orlando Fla. (See p. 94.)	Defense.
11	B-146824	Mar. 19, 1964	Excessive Costs Incurred in Using Contractor-Furnished Personnel Instead of Government Personnel by the Pacific Region of the Ground Electronics Engineering Installation Agency, Air Force Logistics Command. (See p. 197.)	Air Force.
12	B-146727	Mar. 20, 1964	Followup Review of the Failure to Use Excess Spare Parts and Assemblies in Aircraft Production. (See p. 72.)	Navy.
13	B-146551	Mar. 23, 1964	Unnecessary Per Diem Payments for Military Personnel Reporting Early for Temporary Duty Assignments. (See p. 187.)	Do.
14	B-146885	----do-----	Additional Costs in the Procurement of P6M Seaplane from Glen L. Martin Co., Baltimore, Md. (See p. 178.)	Do.
15	B-118695	Mar. 30, 1964	Overpricing of B-58 Electrical Power Systems Purchased From Westinghouse Electric Corp. by General Dynamics Corp. Under a Cost-Plus-a-Fixed-Fee Prime Contract. (See p. 144.)	Air Force.
16	B-146740	----do-----	Unnecessary Per Diem Payments to Military Personnel During Construction of Nuclear-Powered Submarines. (See p. 188.)	Navy.
17	B-146793	Mar. 31, 1964	Unnecessary Planned Procurement of Major Assemblies for the M151 Utility Truck. (See p. 123.)	Army.
18	B-146870	----do-----	Unnecessary Costs Incurred in the Procurement of the M405 Rocket Handling Unit. (See p. 179.)	Do.
19	B-146872	Apr. 3, 1964	Excessive Costs of Duplicate Automatic Teletype Switching Centers in the Military Services. (See p. 93.)	Defense.
20	B-146880	----do-----	Excessive Costs Resulting From the Operation of Separate Departmental Public Information Offices. (See p. 93.)	Do.
21	B-146877	Apr. 8, 1964	Improper Charges to Government Cost-Type and Incentive-Type Contracts Held by Grumman Aircraft Engineering Corp., Bethpage, N.Y. (See p. 144.)	Navy.
22	B-146765	Apr. 9, 1964	Uneconomical Practices in the Management of Mobilization Reserve Stocks of Construction Equipment and Commercial-Type Vehicles. (See p. 124.)	Do.
23	B-149779	----do-----	Unnecessary Costs Incurred for the Naval Radio Research Station Project at Sugar Grove, W. Va. (See p. 180.)	Do.

*U.S. General Accounting Office index of reports on Defense activities issued to the Congress during the period Feb. 28, 1964, through Feb. 28, 1965—Continued*

Index No.	Report file No.	Date	Title of report	Department
24	B-146874	Apr. 13, 1964	Unnecessary Procurement Resulting From Failure To Review Requirements for Nonrecoverable Spare Parts During Fiscal Year 1963. (See p. 124.)	Air Force.
25	B-125071	-----do-----	Unnecessary Cost Incurred by the Government by Not Using Surplus Stockpiled Materials to Satisfy Defense Contract Needs. (See p. 73.)	Do.
26	B-146747	Apr. 17, 1964	Unnecessary Interest Costs Incurred by the Government Because of Improper Retention of Overpayments by Burroughs Corp., Detroit, Mich. (See p. 145.)	Army.
27	B-146890	Apr. 20, 1964	Improper Utilization of Trained Enlisted Personnel. (See p. 198.)	Do.
28	B-146732	Apr. 23, 1964	Unnecessary Cost to the Government in the Leasing of Electronic Data Processing Systems by the Boeing Co., Airplane Division, Wichita, Kans. (See p. 95.)	Defense.
29	B-118695	Apr. 27, 1964	Overpricing of B-58 Aircraft Components Under Cost-Plus-Incentive-Fee Purchase Orders Issued to Sperry Gyroscope Co. Division of Sperry Rand Corp., Great Neck, N.Y., by Convaire, a Division of General Dynamics Corp., Fort Worth, Tex. (See p. 145.)	Air Force.
30	B-146732	Apr. 28, 1964	Unnecessary Costs to the Government in the Leasing of an Electronic Data Processing System by the Chrysler Corp., Defense Operations Division, Center Line, Mich. (See p. 96.)	Army.
31	B-146732	Apr. 29, 1964	Unnecessary Costs to the Government in the Leasing of an Electronic Data Processing System by the Continental Aviation & Engineering Corp., Research Division, Detroit, Mich. (See p. 97.)	Defense.
32	B-132990	Apr. 30, 1964	Impairment of Combat Capability and Unnecessary Costs Due to Inefficient and Uneconomical Supply and Maintenance Practices for Communications and Electronic Equipment Within Certain Units of the 8th U.S. Army, Korea. (See p. 203.)	Army.
33	B-146551	May 4, 1964	Payments to Army and Air Force Reserve Officers on Annual Active Duty Training for Days on Which No Training or Necessary Travel Was Performed. (See p. 189.)	Defense.
34	B-133058	May 12, 1964	Unnecessary Retention of Spare Parts at Western Pacific Supply Depots. (See p. 74.)	Navy.
35	B-132990	May 15, 1964	Unnecessary Procurement Due to the Failure to Identify and Utilize Available Missiles Spare Parts, 8th U.S. Army, Korea. (See p. 75.)	Army.
36	B-146882	-----do-----	Unnecessary Packaging Costs Incurred in the Procurement of Repair Kits From Hamilton Standard Division, United Aircraft Corp., Windsor Locks, Conn. (See p. 184.)	Air Force.
37	B-146872	May 19, 1964	Unnecessary Costs Being Incurred by Leasing Teletype Equipment Rather Than Using Available Government-owned Equipment. (See p. 83.)	Defense.
38	B-146889	-----do-----	Improper or Unnecessary Payments of Pay, Travel, and Other Allowances to Crew Members of the U.S.S. <i>Kitty Hawk</i> . (See p. 189.)	Navy.
39	B-146881	May 21, 1964	Procurement of Militarily Designed Transmitter When Commercially Designed Equivalent Was Available at Less Cost. (See p. 125.)	Do.
40	B-146886	-----do-----	Excessive Relocation Payments to Employees Transferred From One Company Location to Another by Lockheed Missiles & Space Co., Sunnyvale, Calif., a Division of Lockheed Aircraft Corp. (See p. 146.)	Defense and National Aeronautics and Space Administration.
41	B-146888	-----do-----	Unnecessary Costs Incurred for Aircraft Parts Supplied by Overhaul Contractors. (See p. 66.)	Army.
42	B-146890	-----do-----	Inefficient and Uneconomical Utilization of Military Maintenance Personnel, Fort Campbell, Ky. (See p. 198.)	Do.
43	B-146717	May 25, 1964	Overstated Cost Estimates Included in the Initial Target Prices of Incentive Contracts AF 33(600)-36319 and AF 33(600)-38098 With the Boeing Co., Seattle, Wash., for the Bomarc "A" Weapon System. (See p. 147.)	Air Force.
44	B-125016	June 2, 1964	Unnecessary Costs to the Government for Unreasonable Delay by Collins Radio Co., Cedar Rapids, Iowa, in Releasing Special Tooling. (See p. 147.)	Army.
45	B-146894	-----do-----	Illegal Award of Advertised Construction Contract and Excessive Costs for Contract Modifications. (See p. 148.)	Army and Air Force.
46	B-146895	June 5, 1964	Available Government Quarters and Messes Not Used by Military Personnel Attending Classes at Contractors' Facilities. (See p. 87.)	Air Force.

*U.S. General Accounting Office index of reports on Defense activities issued to the Congress during the period Feb. 28, 1964, through Feb. 28, 1965—Continued*

Index No.	Report file No.	Date	Title of report	Department
47	B-118663	June 9, 1964	Overstatement of Contract Target Price Negotiated With American Bosch Arma Corp., Arma Division, Garden City, N.Y. (See p. 149.)	Air Force.
48	B-118768	June 11, 1964	Erroneous Payments Made for Military Pay, Leave, and Travel at Biggs Air Force Base, Tex. (See p. 190.)	Do.
49	B-146732	.....do.....	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Dynamics Corp., Fort Worth Division, Fort Worth, Tex. (See p. 98.)	Defense.
50	B-146732	June 12, 1964	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by Aerojet-General Corp., Sacramento, Calif. (See p. 99.)	Do.
51	B-133149	June 15, 1964	Excessive Prices Negotiated by the Defense Petroleum Supply Center for Storage of Petroleum in a Commercial Facility at St. Ignace, Mich. (See p. 149.)	Do.
52	B-146732	.....do.....	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by Autometrics, a Division of North American Aviation, Inc., Anaheim, Calif. (See p. 100.)	Do.
53	B-133177	June 16, 1964	Unnecessary Costs Incurred Due to the Development and Procurement of an Expensive Utility Cap With Serviceability Limitations. (See p. 71.)	Army.
54	B-146883	.....do.....	Unnecessary Costs Incurred for M61 Machinegun Components under Contracts with General Electric Co., Burlington, Vt. (See p. 150.)	Do.
55	B-133063	June 18, 1964	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Equipment by the Finance Center, Fort Benjamin Harrison, Indianapolis, Ind. (See p. 100.)	Do.
56	B-146773	.....do.....	Unnecessary Costs for Rebuild of Used T97 Track for Tanks. (See p. 185.)	Do.
57	B-146711	June 19, 1964	Unnecessary Procurement of Photographic Supplies for the Atlantic Missile Range. (See p. 75.)	Air Force.
58	B-146873	June 22, 1964	Overpricing of Contracts DA-20-089-ORD-8406 and DA-36-034-ORD-897 with Chrysler Corp., Newark, Del. (See p. 150.)	Army.
59	B-146891	.....do.....	Uneconomical Contracting for Service-Station-Type Vehicle Maintenance at Olmsted Air Force Base, Pennsylvania. (See p. 185.)	Air Force.
60	B-146896	.....do.....	Combat Readiness of Aircraft of the 1st and 2d Armored Divisions Impaired by Inadequate Maintenance at Fort Hood, Tex. (See p. 203.)	Army.
61	B-146906	.....do.....	Unnecessary Planned Procurement of AN/UPM-98 Radar Test Sets. (See p. 76.)	Do.
62	B-146902	June 24, 1964	Cancellation and Curtailment of Specialized Rotary Wing Pilot Training Courses Because Helicopters were Grounded for Lack of Serviceable Engines. (See p. 204.)	Do.
63	B-146903	June 25, 1964	Unjustified Disposal of Aircraft Parts. (See p. 76.)	Do.
64	B-146732	June 26, 1964	Unnecessary Costs to the Government Through the Leasing of Electronic Data Processing Systems by the Operating Contractor, ARO, Inc., Arnold Engineering Development Center, Arnold Air Force Station, Tenn. (See p. 101.)	Air Force.
65	B-133341	June 29, 1964	Unnecessary Costs Incurred in the Procurement of Aircraft Engine Ring and Vane Assemblies From the Allison Division of General Motor Corp. (See p. 126.)	Navy.
66	B-146732	June 30, 1964	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by the Good-year Aerospace Corp., Akron, Ohio. (See p. 102.)	Defense.
67	B-146751	.....do.....	Overcharges to the Government for Change Orders Issued Under Navy Contracts Awarded to the Ingalls Shipbuilding Corp., a Division of Litton Industries, Inc., Pascagoula, Miss. (See p. 151.)	Navy.
68	B-146900	.....do.....	Overcharges for Aircraft Products Liability Insurance Under Various Contracts Awarded to Pratt & Whitney Aircraft Division of United Aircraft Corp., East Hartford, Conn. (See p. 151.)	Do.
69	B-132990	July 2, 1964	High Deadline Rate of Air Defense Equipment and Excess Spare Parts at an Oversea Location Due to Supply Support Deficiencies. (See p. 205.)	Army.
70	B-146914	July 6, 1964	Overstatement of Requirements for Aircraft Electronic Systems Resulted in Improper Procurement Actions. (See p. 127.)	Navy.
71	B-146912	July 7, 1964	Unnecessary Payments for Temporary Lodging Allowances to Military Personnel in Naples, Italy. (See p. 89.)	Defense.

*U.S. General Accounting Office index of reports on Defense activities issued to the Congress during the period Feb. 28, 1964, through Feb. 28, 1965—Continued*

Index No.	Report file No.	Date	Title of report	Department
72	B-146913	July 13, 1964	Excessive Quantities of Heavy Trucks and Buses at Selected Military Installations. (See p. 85.)	Defense.
73	B-146872	July 14, 1964	The Uneconomical Acquisition and Use of Teletypewriter Circuits and Equipment by the Army and Air Force. (See p. 127.)	Do.
74	B-146917	.....do.....	Overprocurement of Containers for 5-Inch, 54-Caliber Ammunition Cartridges. (See p. 128.)	Navy.
75	B-146915	July 15, 1964	Lack of Appropriate Consideration of Cost Savings Obtainable by Canceling the Procurement of Ineffective Rocket Packs for F8-U Aircraft. (See p. 130.)	Do.
76	B-133149	.....do.....	Unnecessary Annual Expenditures by the Departments of the Army and the Navy for Leasing Commercial Facilities To Store Petroleum Products in the Los Angeles, Calif., Area. (See p. 119.)	Defense.
77	B-146862	July 20, 1964	Unnecessary Costs Incurred When Privately Owned Vehicles are Used for the Convenience of Personnel on Temporary Duty Assignments. (See p. 126.)	Do.
78	B-132990	July 22, 1964	Adverse Effects of Inefficient Supply Management at the U.S. Army Engineer Depot, 8th U.S. Army, Korea. (See p. 129.)	Army.
79	B-146716	.....do.....	Combat Capability of an Infantry Battalion in Europe Impaired Because of Inadequate Maintenance of Combat and Combat-Support Vehicles. (See p. 205.)	Do.
80	B-133316	July 23, 1964	Continuing Inadequate Control over Programing and Financing of Construction. (See p. 206.)	Air Force.
81	B-125037	July 24, 1964	Ineffective Administration of Allotments of Pay by Military Personnel. (See p. 191.)	Army.
82	B-146793	July 27, 1964	Unnecessary Procurement of Special Tooling for Production of Engines for M151 Utility Trucks. (See p. 186.)	Do.
83	B-133019	.....do.....	Unnecessary Repair of Aeronautical Spare Parts and Components by the San Antonio Air Materiel Area. (See p. 77.)	Air Force.
84	B-125037	July 28, 1964	Unnecessary Payments of Basic Allowance for Quarters to Military Personnel. (See p. 87.)	Navy.
85	B-146732	July 31, 1964	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Electric Co. Flight Propulsion Division, Cincinnati, Ohio and West Lynn, Mass. (See p. 103.)	Defense.
86	B-146897	.....do.....	Costs Incurred for Completion of a Solid-Propellant Continuous-Mix Facility for Which There Was No Planned Use. (See p. 207.)	Air Force.
87	B-146732	.....do.....	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Electric Co., Heavy Military Electronics Department, Syracuse, N.Y. (See p. 104.)	Defense.
88	B-152600	.....do.....	Overpricing of Survival Kit Equipment Furnished by Rocket Jet Engineering Corp., Glendale, Calif., to Scott Aviation Corp., Lancaster, N.Y., for the F-4 Aircraft Program. (See p. 152.)	Do.
89	B-133143	.....do.....	Excessive Prices Negotiated for Installation and Test of Radar Systems Under a Negotiated Fixed-Price Contract With Avco Corp., Electronics Division, Cincinnati, Ohio. (See p. 153.)	Air Force.
90	B-125071	.....do.....	Overpricing of Modification Kits and Spare Parts Purchased From Hughes Aircraft Co., Culver City, Calif., Under Negotiated Firm Fixed-Price Contracts. (See p. 154.)	Do.
91	B-146922	Aug. 4, 1964	Improper Reimbursement for Personal Property Taxes to Hoffman Electronics Corp., El Monte, Calif., Under Defense Contracts and Subcontracts. (See p. 154.)	Defense.
92	B-132998	.....do.....	Unnecessary Costs Incurred in the Procurement of Ground Speed and Distance Indicators From Douglas Aircraft Co., Inc. (See p. 181.)	Navy.
93	B-133019	.....do.....	Unnecessary Procurement of Certain Hi-Valu Aeronautical Parts and Components Managed by the San Antonio Air Materiel Area. (See p. 129.)	Air Force.
94	B-146732	Aug. 5, 1964	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Motors Corp., AC Spark Plug Division, Milwaukee, Wis. (See p. 105.)	Defense.
95	B-133313	.....do.....	Ineffective Interservice Utilization of Selected Electronic Equipment. (See p. 84.)	Do.
96	B-146934	Aug. 11, 1964	Improper Procurement Actions Resulting From Overstatement of Requirements for Wooden Pallets. (See p. 77.)	Navy.
97	B-125099	Aug. 12, 1964	Review of Financial Claims for Logistic Support of United Nations Forces in Korea. (See p. 208.)	Army.
98	B-146921	.....do.....	Unnecessary Costs Resulting From Noncompetitive Procurement of Military H-Ton Trucks. (See p. 130.)	Do.



*U.S. General Accounting Office index of reports on Defense activities issued to the Congress during the period Feb. 28, 1964, through Feb. 28, 1965—Continued*

Index No.	Report file No.	Date	Title of report	Department
99	B-146732	Aug. 12, 1964	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by the Boeing Co., Aero-Space Division, Seattle, Wash. (See p. 106.)	Defense.
100	B-146732	Aug. 13, 1964	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Electric Co., Light Military Electronics Department, Utica, N.Y. (See p. 107.)	Do.
101	B-146918	Aug. 18, 1964	Overstated Material Cost Estimates Included in Firm Fixed Prices Negotiated for T-37 Airplanes Produced by Cessna Aircraft Co., Wichita, Kans. (See p. 155.)	Air Force.
102	B-146916	-----do-----	Overstated Cost Estimates for Miscellaneous and Minor Outside Production Items Included in Incentive Target Prices Negotiated With the Boeing Co., Seattle, Wash., for KC-135 Airplanes. (See p. 155.)	Do.
103	B-146920	Aug. 20, 1964	Excessive Cost to the Government in Rentals of Electrical Accounting Machines by General Dynamics/Astronautics, a Division of General Dynamics Corp., San Diego, Calif. (See p. 156.)	Do.
104	B-146883	Aug. 21, 1964	Unnecessary Costs Resulting From Government Production of M60 Machineguns and Repair Parts Rather Than Procurement From the Commercial Source. (See p. 130.)	Army.
105	B-146772	-----do-----	Combat Capability of Vehicles Impaired and Unnecessary Procurement Costs Incurred Because of Lack of Repair Parts Support by the Army Tank-Automotive Center. (See p. 206.)	Do.
106	B-125037	-----do-----	Failure To Use Available Government-Owned Housing at Fort Leonard Wood, Mo. (See p. 89.)	Do.
107	B-133256	-----do-----	Utilization of Excess Parts as Government-Furnished Property Under Production and Modification Contracts. (See p. 78.)	Do.
108	B-146975	Aug. 24, 1964	Evaluation of Department of Defense Comments Concerning General Accounting Office Report Entitled "Failure To Curtail Operation at Government Expense of Military Commissary Stores in Continental United States Where Adequate Commercial Facilities Are Available." (See p. 209.)	Defense.
109	B-146901	-----do-----	Procurement of Unneeded Spare Assemblies Resulting From Negligence of the Raytheon Co., Lexington, Mass. (See p. 131.)	Army.
110	B-146869	Aug. 25, 1964	Excessive Payments of Living Quarters Allowance to Civilian Employees in Japan. (See p. 191.)	Air Force.
111	B-133313	Aug. 28, 1964	Failure To Use Excess Air Force Aeronautical Instruments to Satisfy Navy Needs. (See p. 78.)	Defense.
112	B-146917	-----do-----	Overprocurement of Ammunition by the U.S. Marine Corps. (See p. 132.)	Navy.
113	B-146892	Aug. 28, 1964	Rent-Free Use of Government-Owned Facilities in Production of Commercial Aircraft Engines by Pratt & Whitney Aircraft Division of United Aircraft Corp., East Hartford, Conn. (See p. 157.)	Do.
114	B-146884	Aug. 31, 1964	Unreasonable Charges to Government Cost-Type Contracts for Depreciation on Buildings Acquired from the Government at No Cost by Stanford Research Institute, Menlo Park, Calif. (See p. 153.)	Army.
115	B-146938	-----do-----	Uneconomical Practices in Management and Utilization of Government Quarters at U.S. Naval Air Station, Barber's Point, Oahu, Hawaii. (See p. 90.)	Navy.
116	B-146772	-----do-----	Improper Disposal of Needed Brake Lining Kits. (See p. 79.)	Army.
117	B-146732	-----do-----	Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by Lincoln Laboratory, Massachusetts Institute of Technology, Lexington, Mass. (See p. 107.)	Air Force.
118	B-146848	-----do-----	Followup Review of Government Production Compared to Procurement of Weapons and Related Parts. (See p. 132.)	Army.
119	B-146793	-----do-----	Cost of Welding Equipment Improperly Included in Price Redetermination Proposal Under Contract with Ford Motor Co., Dearborn, Mich. (See p. 153.)	Do.
120	B-146732	Sept. 3, 1964	Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by Lear Siegler, Inc., Instrument Division, Grand Rapids, Mich. (See p. 108.)	Defense.
121	B-146936	Sept. 4, 1964	Increased Costs Resulting From Ineffective Use of Automatic Data Processing System in Supply Management at the Philadelphia Naval Shipyard, Philadelphia, Pa. (See p. 209.)	Navy.

*U.S. General Accounting Office index of reports on Defense activities issued to the Congress during the period Feb. 28, 1964, through Feb. 28, 1965—Continued*

Index No.	Report file No.	Date	Title of report	Department
122	B-146939	Sept. 4, 1964	Unnecessary Costs Resulting From the Purchase and Use of Paint Products in Uneconomical-Size Containers. (See p. 133.)	Defense.
123	B-125037	Sept. 11, 1964	Unnecessary Costs Being Incurred for the Maintenance and Payment of Allotments of Military Personnel. (See p. 199.)	Army.
124	B-146926	Sept. 15, 1964	Unnecessary Costs to the Government for Insurance on Government-Owned Inventories and Special Tooling Held by Contractors Under Negotiated Fixed-Price Contracts. (See p. 159.)	Defense.
125	B-133313	Sept. 17, 1964	Lack of Progress Under the Defense Standardization Program Resulting in Unnecessary Procurement and Supply Management Costs for Electronic Items. (See p. 71.)	Do.
126	B-146940	Sept. 18, 1964	Uneconomical Procurement of Motor Vehicle Parts and Accessories. (See p. 133.)	Navy.
127	B-133019	Sept. 22, 1964	Unnecessary Repair of Aeronautical Spare Parts and Components Managed by Oklahoma City Air Materiel Area. (See p. 80.)	Air Force.
128	B-125037	-----do-----	Ineffective Administration of Military Leave. (See p. 102.)	Army.
129	B-146852	Sept. 23, 1964	Impairment of Capability To Meet Mission Requirements and Waste of Funds in the D-Day Augmentation Forces of the Naval Reserve Surface Program. (See p. 199.)	Navy.
130	B-146714	-----do-----	Failure of the Air Force To Consider Available Army Aircraft Crash Firetrucks in its Planned Procurements. (See p. 86.)	Army and Air Force.
131	B-146919	Sept. 24, 1964	Unnecessary Testing Costs Included in the Prices of Klystron Tubes Purchased from Radio Engineering Laboratories, Inc., Long Island City, N.Y. (See p. 160.)	Air Force.
132	B-146732	Sept. 30, 1964	Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by the Bacchus Works, Hercules Powder Co., Magna, Utah. (See p. 109.)	Defense.
133	B-146931	-----do-----	Unnecessary Procurement of Cargo Transporters. (See p. 134.)	Army.
134	B-133149	-----do-----	Excessive Prices Negotiated by the Defense Fuel Supply Center for Storage of Petroleum in a Commercial Facility at Grand Forks, N. Dak. (See p. 161.)	Defense.
135	B-146932	Oct. 1, 1964	Unnecessary Costs Incurred in the Procurement of Defective Torpedo Tubes from the Youngstown Welding & Engineering Co., Youngstown, Ohio. (See p. 161.)	Navy.
136	B-146946	Oct. 2, 1964	Unnecessary Costs Incurred in the Purchase of Automatic Flight Control Systems for A-4 Series Aircraft. (See p. 66.)	Do.
137	B-146876	-----do-----	Uneconomical Leasing of Motor Vehicles for Use in Assembly and Checkout Operations at Minuteman Missile Launch Sites and Avoidance of Congressional Controls Relating to Acquisition of Motor Vehicles. (See p. 120.)	Air Force.
138	B-146942	Oct. 5, 1964	Unnecessary Costs Incurred in the Procurement from AC Spark Plug Division of General Motors Corp. of Bombing-Navigational System Components Manufactured by International Business Machines Corp. (See p. 67.)	Do.
139	B-146732	-----do-----	Unnecessary Costs to the Government Through the Leasing of Electronic Data Processing Systems by General Dynamics/Astronautics, a Division of General Dynamics Corp., San Diego, Calif. (See p. 111.)	Do.
140	B-146901	Oct. 12, 1964	Unnecessary Disposal of Spare Components Procured for the Hawk Air Defense Guided-Missile System. (See p. 80.)	Army.
141	B-146898	Oct. 16, 1964	Overcharges Included in Prices Negotiated for Change Orders Issued Under Fixed-Price Contracts Awarded to Avondale Shipyards, Inc., New Orleans, La. (See p. 162.)	Navy.
142	B-146945	-----do-----	Overpricing of Valves Purchased From the Garrett Corp., AResearch Manufacturing Division, Phoenix, Ariz., by General Dynamics Corp., Astronautics Division, San Diego, Calif., for the Atlas Intercontinental Ballistic Missile. (See p. 163.)	Air Force.
143	B-153839	-----do-----	Unnecessary Per Diem Payments Made to Military Personnel Assigned to Temporary Duty at Bath, Maine. (See p. 88.)	Navy.

*U.S. General Accounting Office index of reports on Defense activities issued to the Congress during the period Feb. 28, 1964, through Feb. 28, 1965—Continued*

Index No.	Report file No.	Date	Title of report	Department
144	B-146948	Oct. 21, 1964	Use of Private Executive Aircraft Rather Than Commercial Aircraft Resulted in Unwarranted Charges to Government Cost-Reimbursable-Type Contracts by Lockheed Missiles & Space Co., Sunnyvale, Calif. (See p. 163.)	Defense.
145	B-146732	Oct. 23, 1964	Excessive Costs to the Government in the Sale and Leaseback of an Electronic Data Processing System by the Aerojet-General Corp., Sacramento, Calif. (See p. 112.)	Do.
146	B-146906	Oct. 26, 1964	Unnecessary Costs Incurred in Sole-Source Procurement of Portable Radar Sets. (See p. 182.)	Army.
147	B-146733	Oct. 29, 1964	Unwarranted Allowance for Material Price Increases to Newport News Shipbuilding & Dry Dock Co., Newport News, Va., for Construction of the Aircraft Carrier U.S.S. <i>Enterprise</i> . (See p. 164.)	Navy.
148	B-146947	Oct. 30, 1964	Retention of Uneconomical Units in the Reserve Officers' Training Corps Program. (See p. 200.)	Army and Air Force.
149	B-146732	-----do-----	Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by General Electric Co. Missile and Space Division, Valley Forge, Pa. (See p. 112.)	Defense.
150	B-146905	Nov. 17, 1964	Uneconomical Use of Facilities by the Hawaii National Guard. (See p. 92.)	Do.
151	B-133307	Nov. 19, 1964	Inventions Not Disclosed and Confirmatory Royalty-Free Licenses Not Obtained Under Selected Research and Development Contracts With Certain Divisions of Thompson Ramo Woolridge, Inc. (See p. 165.)	Do.
152	B-146952	Nov. 23, 1964	Expensive Operation of Mountain Recreation Facilities at Armed Forces Recreation Center, Kilauea Military Camp, Hawaii Volcanoes National Park. (See p. 210.)	Do.
153	B-146705	Nov. 24, 1964	Overstated Cost Estimates Included in Target Prices Negotiated for B-52G Airplanes Produced by the Boeing Co., Wichita Branch, Wichita, Kans. (See p. 166.)	Air Force.
154	B-146956	Nov. 25, 1964	Excessive Prices for Powerpack Assemblies Purchased From Sparton Corp., Jackson, Mich., by Various Prime Contractors. (See p. 166.)	Army.
155	B-133251	-----do-----	Overstatement of Target Cost of AN/FPS-7 Radar Equipment Under Fixed-Price Incentive Contracts AF 30(635)-12300 and AF 30(635)-11073 with General Electric Co., Heavy Military Electronics Department, Syracuse, N. Y. (See p. 167.)	Air Force.
156	B-133386	Nov. 27, 1964	Inventions Not Disclosed and Confirmatory Royalty-Free Licenses Not Obtained Under Selected Research and Development Contracts With Lockheed Missiles & Space Co., Division of Lockheed Aircraft Corp., Sunnyvale, Calif. (See p. 163.)	Defense.
157	B-146920	Nov. 30, 1964	Unnecessary Cost to the Government in the Leasing of Electrical Accounting Machines by General Dynamics/Astronautics, San Diego, Calif., and Lockheed Missiles & Space Co., Sunnyvale, Calif. (See p. 121.)	Do.
158	B-146882	-----do-----	Unnecessary Costs Resulting From Indirect Procurement of Transmitters from Hamilton Standard Division of United Aircraft Corp. (See p. 68.)	Air Force.
159	B-146732	Dec. 2, 1964	Unnecessary Cost of the Government Through the Leasing of Electronic Data Processing Systems by Defense Electronic Products, Radio Corp. of America, Camden, N. J. (See p. 113.)	Defense.
160	B-125037	Dec. 3, 1964	Unnecessary Vacancies in Available Capehart Wherry and Other Government-Owned Family Housing at Fort Knox, Ky. (See p. 91.)	Army.
161	B-133312	-----do-----	Savings Resulting From Resale of Reusable Ammunition Containers Procured From the United Kingdom. (See p. 183.)	Do.
162	B-125097	-----do-----	Unnecessary Transportation Costs for Small Arms Ammunition Components Purchased for the Military Assistance Program. (See p. 211.)	Do.
163	B-132999	Dec. 8, 1964	Overstaffing of civilian personnel at the Naval Ammunition Depot, Hawthorne, Nev. (See p. 201.)	Navy.
164	B-153878	Dec. 9, 1964	Unauthorized use of military personnel and government property at Fort Gordon, Ga., for activities related to the Masters Golf Tournament. (See p. 211.)	Army.
165	B-146860	Dec. 10, 1964	Overstated costs included in price of turbojet engine parts purchased from Solar Aircraft Co., San Diego, Calif., by General Electric Co., West Lynn, Mass. (See p. 169.)	Air Force.

*U.S. General Accounting Office index of reports on Defense activities issued to the Congress during the period Feb. 28, 1964, through Feb. 28, 1965—Continued*

Index No.	Report file No.	Date	Title of report	Department
166	B-146805	Dec. 10, 1964	Unnecessary costs incurred in negotiated procurements of batteries for aircraft ground equipment by Rome Air Materiel Area, Rome, N.Y. (See p. 135.)	Air Force.
167	B-146718	Dec. 11, 1964	Further comment on overpricing of the Nuclear Frigate U.S.S. <i>Bainbridge</i> purchased from the Bethlehem Steel Co., Quincy, Mass. (See p. 170.)	Navy.
168	B-133201	Dec. 14, 1964	Overcharges for long-distance telephone channels leased by the 8th U.S. Army, Korea. (See p. 172.)	Army.
169	B-133019	Dec. 18, 1964	Unnecessary procurement of AN/APN-99A radar system components resulting from failures of Warner Robins Air Materiel Area to make excess spare components available for installation on new aircraft. (See p. 81.)	Air Force.
170	B-146961	Dec. 21, 1964	High costs of unnecessary daily compilation of statistical data by use of automatic data processing equipment. (See p. 212.)	Army.
171	B-125016	.....do.....	Failure To Recover Unpaid Royalties Retained by Collins Radio Co., Cedar Rapids, Iowa. (See p. 172.)	Defense.
172	B-154092	Dec. 22, 1964	Illegal Payments of Hazardous-Duty Submarine Pay to Military Personnel Assigned to Submarine Force Command Staffs. (See p. 193.)	Navy.
173	B-133118	.....do.....	Failure To Consider Available Assets Resulted in Overstated Needs for Avionics Test Equipment by the Aviation Supply Office, Philadelphia, Pa. (See p. 84.)	Do.
174	B-133245	Dec. 23, 1964	Ineffective Supply Management Causing Shortages and Excesses of End Items and Repair Parts in Okinawa. (See p. 136.)	Army.
175	B-146954	Dec. 28, 1964	Overpricing of Buffer Amplifiers Purchased From HKB-Singer, Inc., State College, Pa., by the Boeing Co., Wichita Branch, Wichita, Kans., for B-47 Aircraft. (See p. 173.)	Air Force.
176	B-152600	Dec. 30, 1964	Unnecessary Costs Incurred in the Procurement of Selected Subsystems and Accessories for F-4 and Other Types of Aircraft. (See p. 69.)	Navy.
177	B-146760	Jan. 5, 1965	Unsupported Costs Included in Price of Nuclear Submarine Valves Purchased From Crane Co., Chicago, Ill., by Westinghouse Electric Corp., Pittsburgh, Pa., Under Cost-Plus-a-Fixed-Fee Contracts. (See p. 174.)	Do.
178	B-146888	Jan. 6, 1965	Additional Costs Resulting From the Failure To Procure Parts Used in Overhauling Special Air Mission Aircraft Engines Directly From the Overhauling Subcontractor Curtiss-Wright Corp. (See p. 70.)	Air Force.
179	B-146829	.....do.....	Procurement of Defective Fuel Servicing Semitrailers and School Buses. (See p. 175.)	Army.
180	B-146732	Jan. 7, 1965	Unnecessary Cost to the Government Due to Excessive Rentals for Electronic Data Processing Equipment at Lockheed Missiles & Space Co., Sunnyvale, Calif. (See p. 176.)	Defense.
181	B-146774	Jan. 13, 1965	Unnecessary Costs Incurred in the Procurement of Radar Components and Related Parts. (See p. 183.)	Navy.
182	B-125037	Jan. 14, 1965	Erroneous Payments Made for Military Pay, Leave, and Travel at Elmendorf Air Force Base, Alaska. (See p. 193.)	Air Force.
183	B-146761	Jan. 19, 1965	Unreasonably High Prices Paid by Government Prime Contractors and Subcontractors for GG49 Gyroscopes Purchased from the Only Qualified and Approved Source, Honeywell, Inc., Aeronautical Division, Minneapolis, Minn. (See p. 176.)	Defense.
184	B-146732	.....do.....	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by McDonnell Aircraft Corp., St. Louis, Mo. (See p. 115.)	Do.
185	B-118734	Jan. 25, 1965	Unnecessary Costs Resulting from Leasing Rather Than Purchasing Electronic Data Processing Equipment at Mare Island Naval Shipyard, Vallejo, Calif. (See p. 116.)	Navy.
186	B-146732	Jan. 27, 1965	Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by Lockheed Missiles & Space Co., Sunnyvale, Calif. (See p. 117.)	Defense.
187	B-146964	Jan. 29, 1965	Accumulation and Retention of Excess Missile Spare Parts Due to Inadequate Supply Management Practices of the U.S. Army, Europe. (See p. 137.)	Army.
188	B-146772	.....do.....	Planned Disposals of Needed Automotive Repair Parts. (See p. 82.)	Do.
189	B-146931	.....do.....	Unnecessary Transportation Costs Incurred Because Available Government-owned Containers Were Not Used for the Movement of Household Goods. (See p. 82.)	Defense.

*U.S. General Accounting Office index of reports on Defense activities issued to the Congress during the period Feb. 28, 1964, through Feb. 28, 1965—Continued*

Index No.	Report file No.	Date	Title of report	Department
190	B-146965	Feb. 2, 1965	Increased Costs Due to Failure To Obtain Competition in Procurement of Electronic Parts on Qualified Products Lists at the Defense Electronics Supply Center, Dayton, Ohio, Defense Supply Agency. (See p. 137.)	Defense.
191	B-146968	-----do-----	Unnecessary Costs Resulting From the Use of State-side Personnel in Civilian Positions at Naval Installations on Guam, Mariana Islands. (See p. 202.)	Navy.
192	B-132992	Feb. 9, 1965	Potential Savings Through Procurement of Operating Supplies From General Services Administration Sources by Martin-Marletta Corp., Denver Division, Denver, Colo. (See p. 121.)	Air Force.
193	B-118755	-----do-----	Accumulation of Excesses and Unnecessary Procurement of Missile Spare Parts Because of Supply Management Deficiencies at 3d U.S. Army Logistical Support Group Installations in Florida. (See p. 133.)	Army.
194	B-132993	Feb. 17, 1965	Erroneous Payments for Military Pay, Leave, and Travel at Ellsworth Air Force Base, S. Dak. (See p. 194.)	Air Force.
195	B-125037	Feb. 19, 1965	Erroneous Payments for Military Pay, Leave, and Travel at Charleston Air Force Base, S.C. (See p. 195.)	Do.
196	B-146899	-----do-----	Unavailability of Certain Aircraft at an Oversea Location Due to Maintenance and Supply Deficiencies. (See p. 206.)	Army.
197	B-146917	Feb. 23, 1965	Unnecessary Procurement of Shipping Containers and Packaging Materials for 2.75-inch Rockets. (See p. 82.)	Navy.
198	B-146970	Feb. 24, 1965	Unnecessary Costs Incurred in the Procurement of Reusable Metal Containers for the Bullpup Missile. (See p. 139.)	Do.
199	B-146868	Feb. 26, 1965	Loss of Revenue Resulting From the Practice of Requiring That Surplus Marine Anchors Be Sold as Scrap. (See p. 139.)	Commerce, Defense, and Navy.
200	B-146967	-----do-----	Improper Application by the Hallicrafters Co., Chicago, Ill., of Government's Share of Vendor Credits for Volume Discounts Under Contracts AF 33-(600)-40992, AF (600)-40994, and AF (600)-42414. (See p. 178.)	Air Force.
201	B-137441	-----do-----	Excess Travel Time Allowed Military Personnel Using Privately Owned Vehicles on Permanent Change of Station Travel. (See p. 196.)	Defense.

## APPENDIX 4

### DIGESTS OF U.S. GENERAL ACCOUNTING OFFICE REPORTS ON DEFENSE ACTIVITIES ISSUED TO THE CONGRESS DURING THE PERIOD FEBRUARY 28, 1964, THROUGH FEBRUARY 28, 1965

(Filed by Subject Matter)

#### DIRECT VERSUS INDIRECT PROCUREMENT

C-64-124<sup>1</sup>

Index No. 41  
B-146888, May 21, 1964

#### Unnecessary Costs Incurred for Aircraft Parts Supplied by Overhaul Contractors, Department of the Army

In our review of the cost of aircraft parts supplied by Department of the Army overhaul contractors under 58 selected contracts through November 1963, we found that unnecessary costs estimated at \$1.9 million were incurred because the Aviation Materiel Command, St. Louis, Missouri, permitted these contractors to purchase parts which were available to the Army at a substantially lower cost either under existing supply contracts with parts suppliers or from inventory. These unnecessary costs were caused by the failure of the Aviation Materiel Command to identify from available information parts which would be needed in the overhaul work and by its failure to determine the most economical source of parts which were identified.

The Department of the Army, in letters dated December 24, 1963, and January 30, 1964, agreed with the principle of our finding and stated that action had been taken to implement our proposal that the Aviation Materiel Command be required to maintain a current list of parts needed in overhaul operations and that this listing be the basis for determining the most economical sources of repair parts. We believe that the actions stated to have been taken by the Aviation Materiel Command should result in improvements in determining the most economical sources of repair parts.

Index No. 136  
B-146946, October 2, 1964

C-65-65

#### Unnecessary Costs Incurred in the Purchase of Automatic Flight Control Systems for A-4 Series Aircraft, Department of the Navy

Our review disclosed that, during the 2-year period ended June 30, 1963, the Government incurred unnecessary costs of about \$1.1 million in the procurement of A-4 series aircraft because the Bureau of Naval Weapons Purchased Automatic Flight Control Systems through the Douglas Aircraft Company, the airframe manufacturer, instead of purchasing them directly from the actual manufacturer of the system. In the earlier stages of the development of the A-4 Automatic Flight Control System, it may have been necessary that Douglas maintain engineering and procurement responsibility for the system to assure that it was compatible with the other systems. It should have been apparent to the Bureau as early as November 1960, however, that the continued involvement of Douglas in the procurement of this system was no longer essential because the system had been proven reliable and fully operational through extensive test programs and it was readily obtainable from the actual manufacturer. Moreover, in June 1960, Douglas had advised the Bureau that any additional design changes to the system were not in the best interests of the Government as to time and costs. Despite these facts, the Bureau took no action to authorize the purchase of this system from the manufacturer of the system until 2 years later. Had the Bureau initiated action in November 1960 to provide for the direct procurement of this system, it could have obtained savings of about \$1.1 million through the elimination of profits allowed Douglas on the cost of this system.

<sup>1</sup> Cross-reference code to chronological listing in subcommittee files.

In view of the significantly lower cost to the Government when aircraft subsystems and assemblies are furnished by the Government instead of the aircraft manufacturer, we proposed to the Secretary of Defense that all subsystems and accessories of a significant value that are not associated with the structure of the airplane be furnished by the Government unless there are valid reasons for permitting the airframe manufacturer to retain procurement responsibility. Specifically, we proposed that (1) all subsystems and accessories be furnished by the Government unless it is established in writing that there is a valid need for the airframe manufacturer to be responsible for procurement of the item and (2) that the Secretary of Defense require that reports be submitted to his office by the Navy on items that are to be purchased from the airframe manufacturer and the reasons that purchase in this manner is deemed necessary.

In commenting on our findings and proposals, the airframe contractor agreed that the basic design of the Automatic Flight Control System may have been stabilized in October 1959, but it disagreed with our finding that the subsystem was susceptible to direct procurement by the Navy in November 1960, as indicated in our report. The Assistant Secretary of the Navy (Financial Management) agreed that savings could and should be obtained by timely and adequate consideration of contractor-furnished subsystems and assemblies for direct procurement by the Government. The Assistant Secretary stated further that the Navy had initiated a study of its procedures for selecting items of equipment to be furnished by the Government and that our proposals were being considered as a possible solution to the problems of timely conversion from contractor to Government-furnished equipment. He advised us, however, that it was the Navy's position that the Bureau's action in delaying the direct procurement of the A-4 Automatic Flight Control System was both proper and reasonable.

The record does not support the position of either Douglas or the Navy on the matters included in this report. In this respect, we found that the basic design of the System had been stabilized in October 1959. Douglas had advised the Navy in June 1960 that further design changes were not in the interest of the Government and that qualification and service life tests had been completed in November 1960.

In view of the study being conducted by the Bureau of its procedures for selecting items of contractor-furnished equipment suitable for direct procurement by the Government, we did not make any recommendations at the time of the submission of our report. We requested, however, that the Secretary of the Navy furnish us with the results of the Bureau's study so that we may consider whether the measures the Navy proposes to take will be adequate to correct the deficiencies disclosed in our report. The effectiveness of the implementation of these measures will be tested as part of our continuing review of the activities of the Department of Defense.

Index No. 138  
B-146942, October 5, 1964

C-65-67

Unnecessary Costs Incurred in the Procurement from AC Spark Plug Division of General Motors Corporation of Bombing-Navigational System Components Manufactured by International Business Machines Corporation, Department of the Air Force

Our review of the procurement of the ASB-15 Bombing-Navigational Subsystem for B-52 aircraft disclosed that the Air Force will incur unnecessary costs of at least \$754,000 as a result of having procured certain components from the prime systems contractor, AC Spark Plug Division of General Motors Corporation, instead of buying them directly from the actual manufacturer, the International Business Machines Corporation. The Air Force was fully aware that the components were to be purchased by AC Spark Plug from the manufacturer and had, in fact, been purchasing the identical components directly from the manufacturer in connection with a similar subsystem. The additional cost which will be incurred consists of the profit allowed to AC Spark Plug on the cost of the subcontracted components. This additional cost will be incurred because the Air Force failed to place sufficient emphasis on the savings possible through direct procurement, in relation to other factors such as time, quality and performance, in deciding to buy the components from the prime systems contractor. In this instance the potential for substantial savings does not appear to have been offset by any potential loss of time, quality, or performance, and, in our opinion, consideration of all these factors should have resulted in a decision to procure these components directly from the actual manufacturer.

The Air Force has stated that in the acquisition of the ASB-15 subsystem, it was determined that the best assurance of timely program success was for a responsible contractor to provide engineering control over all aspects of the configuration and that AC Spark Plug would not accept systems responsibility unless it had control over the engineering design of the various components. AC Spark Plug stated that the required capability of the ASB-15 could be achieved only by complete compatibility of all components and that, to accomplish this, the prime contractor must establish close relationships with its suppliers and assume responsibility for the quality of all components. AC Spark Plug contended that this would be difficult to accomplish if the prime contractor did not have a contractual relationship with the suppliers.

We do not question the extent of AC Spark Plug's contribution to this program. As a general rule, however, we believe that the Government's interest will be served best if the equipment it requires is procured directly from actual manufacturers to the maximum extent practicable. In this way the Government can avoid the pyramiding of overhead and profits by higher tier contractors. If the services of a systems contractor are required to perform certain testing and to provide engineering and technical direction, we believe that this can be contracted for separately and that appropriate fees or profits can be paid for such effort. In this case, such an arrangement would not have resulted in any expense not already being borne by the Government under the existing contracts with AC Spark Plug, but would have avoided the profit that AC Spark Plug will realize on the cost of components which the Air Force could have bought itself.

In our opinion, the indirect procurement of this equipment which could have been brought directly at considerable savings indicates a failure of contracting officials to exercise reasonable care in the expenditure of Government funds. Furthermore, this indirect procurement appears to us to be contrary to the policy expressed in the Air Force regulation governing systems procurement.

The Air Force has taken the position that its regulation was fully complied with in this procurement. From this we conclude that this regulation is susceptible of being interpreted and applied, by responsible officials, in a manner which fails to place sufficient emphasis on economy, in relation to other factors, in deciding to buy subsystems and components through prime system contractors instead of directly from actual manufacturers. Accordingly, we recommended that the Secretary of Defense have reviews made on a continuing basis at Air Force procurement activities to attain a greater degree of assurance that major components and subsystems are procured from actual manufacturers, whenever feasible, in accordance with prescribed Air Force policy.

Index No. 158  
B-146882, November 30, 1964

C-65-87

#### Unnecessary Costs Resulting From Indirect Procurement of Transmitters From Hamilton Standard Division of United Aircraft Corporation, Department of the Air Force

The Department of the Air Force decision to acquire transmitters through Hamilton Standard Division, United Aircraft Corporation, Windsor Locks, Connecticut, the prime contractor for an air traffic control system, instead of procuring the transmitters directly from the manufacturer and supplying them as Government-furnished equipment, resulted in unnecessary costs of about \$104,000. The Air Force paid Hamilton Standard Division \$472,600 for 276 TED-9 transmitters, even though these items could have been procured direct for the manufacturer for \$368,600. The \$104,000 difference consists primarily of the indirect costs of Hamilton Standard Division, including material handling and general and administrative expenses, and provision for profit.

The TED-9 transmitters were purchased by Hamilton Standard as substitutes for like transmitters which originally were to have been furnished by the Air Force for incorporation by Hamilton Standard into AN/MRN-20 Air Traffic Control Sets. Except for initiating and administering the purchase order, Hamilton Standard performed the same functions on the TED-9 transmitters that it would have performed on the other transmitters under the original contract for the air traffic control systems. Since the amount of the original contract was not reduced to eliminate Hamilton Standard's costs and related profit for such effort, it seems reasonable to conclude that all or a major part of the \$104,000 represents a duplicate and unwarranted payment of costs and profit.

In response to our suggestion that an appropriate refund be obtained, the Department of the Air Force, in a letter dated August 5, 1964, informed us that an investigation had been started to establish the amount of any refund due.



We requested that we be informed of the results of this investigation. The Department of the Air Force informed us also that it had reemphasized to all procurement personnel that, unless there is a sound reason for doing otherwise, awards should be made directly to the manufacturer and that a task group had been appointed to study the overall problem of direct procurement from the manufacturer.

Index No. 176

C-65-106

B-152600, December 30, 1964

Unnecessary Costs Incurred in the Procurement of Selected Subsystems and Accessories for F-4 and Other Types of Aircraft, Department of the Navy

Our review of the procurement of selected subsystems and accessories for installation in F-4 and other types of military aircraft being produced under contracts awarded by the Navy indicated that unnecessary costs of about \$4.1 million had been incurred in the procurement of quantities of two subsystems and an accessory because the items were procured by the airframe manufacturers rather than furnished by the Government. Additional subsystems and accessories valued at about \$1 billion, and involving over \$123 million in fees or profits to be paid by the Government, are currently planned to be sub-contracted by the airframe manufacturers during fiscal years 1965 through 1969. About \$73 million of these fees are applicable to F-4 aircraft. A significant portion of these fees could, in all likelihood, be avoided if those items susceptible of direct procurement were furnished by the Government.

Although all three of the items of equipment included in our review met the Bureau of Naval Weapons criteria for Government-furnished equipment the Bureau continued to purchase them through the airframe manufacturers and paid the manufacturers substantial fees for procuring them. The \$4.1 million of unnecessary costs comprises these fees plus, in one case, the difference in the prices paid by the airframe manufacturer and the lower prices paid by another Government purchasing activity for an identical item. On the basis of our findings, we estimated that the Government would incur additional unnecessary costs of about \$2.7 million for the F-4 and other types of aircraft planned for procurement in fiscal years 1965 through 1969 if the Bureau continued to purchase the three items through the airframe manufacturers.

Our findings were presented to the Department of Defense for its review and comment. In bringing our findings to the attention of the Secretary of Defense we proposed that the emphasis of the Navy's program be changed so as to provide that (1) all subsystems and accessories of a significant value that are not associated with the structure of the airframe be furnished by the Government unless it is established in writing that there is a valid need for the airframe manufacturer to be responsible for procurement of the item and (2) the Secretary of Defense require that reports be submitted to his office by the Navy on items that are to be purchased from the airframe manufacturer and the reasons why purchase in this manner is deemed necessary.

The Department of Defense advised us that it had undertaken a special study for the purpose of reviewing current procedures and providing more detailed guidance in this area, if determined to be necessary, on a Defense-wide basis. In addition, the Navy concurred in our proposal that greater emphasis be placed upon the conversion of contractor-furnished equipment to Government-furnished equipment for aircraft weapon systems. Toward this end, the Bureau has undertaken specific interim and long-range studies and had initiated action to develop definite policies that will result in increased procurement of aircraft subsystems and accessories by the Government rather than by the aircraft manufacturer. The Navy believes that once it has established formal policies for the conversion of contractor-furnished equipment to Government-furnished equipment, and has placed greater emphasis upon Government-furnished equipment, it will be unnecessary to make detailed reports to the Office of the Secretary of Defense as proposed in our report draft.

With regard to our findings on the three equipments discussed in our report, the Navy advised us that (1) the Bureau had taken action to provide the horizontal situation indicator and survival kit as Government-furnished equipment in fiscal year 1965 and (2) it was presently investigating the feasibility of purchasing the ejection seats installed in the F-4 aircraft directly from the Martin-Baker Aircraft Company. Moreover, the Navy advised us that it had made arrangements with the Air Force to consolidate its procurement needs with Air Force procurements for the horizontal situation indicator system.

We requested that the Secretary of the Navy advise us of the results of the Bureau's study of its procedures for selecting items of contractor-furnished equipment suitable for direct procurement by the Government and of the corrective measures taken. In addition, we requested that the Secretary of the Navy advise us of the Bureau's decision relative to the direct procurement of the Martin-Baker ejection seats for the fiscal year 1965 procurement of F-4 type of aircraft. The effectiveness of the actions taken by the Navy will be tested as part of our continuing review of the activities of the Department of Defense.

Index No. 178

C-65-108

B-146888, January 6, 1965

**Additional Costs Resulting From the Failure To Procure Parts Used in Overhauling Special Air Mission Aircraft Engines Directly From the Overhauling Subcontractor Curtiss-Wright Corporation, Department of the Air Force**

The Air Force incurred an estimated \$390,000 of unnecessary costs for parts used in the overhaul of engines used in executive-type aircraft of its Special Air Mission fleet because it chose to procure the parts through its prime contractor, Lockheed Aircraft Corporation, rather than directly from the engine overhaul subcontractor, Curtiss-Wright Corporation. The additional cost represents the difference between the prices charged to Lockheed by Curtiss-Wright and the prices we estimate would have been paid by the Air Force had it procured the same parts directly from Curtiss-Wright. Prices paid by Lockheed to Curtiss-Wright were charged to the Government under its contracts for overhauling the Special Air Mission fleet aircraft. Our estimate of unnecessary costs pertains to the 5 years ended June 30, 1963. For each year of continued purchase of the parts through Lockheed, additional costs of about \$80,000 may be incurred.

During the 5-year period ended June 30, 1963, Curtiss-Wright supplied parts for the overhaul of Special Air Mission aircraft engines as a subcontractor to Lockheed at a total price of \$891,469. The parts purchased through Lockheed could have been procured by the Air Force directly from Curtiss-Wright for approximately \$500,000 under annual call-type contracts negotiated for parts used in the overhaul of Curtiss-Wright military-type engines in the Air Force inventory. Parts purchased under the call contracts were priced in accordance with a formula which took into account the standard cost of each part and a negotiated mark-up factor, and generally tended to produce prices lower than those applicable to parts sold to commercial customers. Many of the parts found in the military-type engines are common to those of the Special Air Mission fleet engines. Moreover, our review established that the Air Force could have also purchased those Special Air Mission aircraft engine parts which were not common to military engine parts at comparable price reductions if it had procured the parts under the call-type contracts.

In its comments on our draft of this report, the Air Force stressed the fact that the Special Air Mission aircraft comprised a small specialized fleet of commercial models whose operation was patterned after that of commercial airlines and that the disproportionate cost of supporting a small specialized number of aircraft influenced its decision to procure spare parts commercially. As examples of the types of costs which would render direct Government procurement of the engine parts uneconomical, the Air Force cited costs of establishing a Government-owned inventory of parts, obsolescence, material handling, warehousing, and administrative costs such as requisitioning and cataloging of parts. However, the Air Force furnished no actual amounts of the anticipated cost except to estimate the annual warehousing cost at \$50,000.

Our review indicated that this estimate of warehousing cost was exorbitant and apparently based on the accumulation of a much larger inventory than needed. We found that considerably more than 50 percent of the parts for these engines, constituting 42 percent of their total dollar value, were common to parts having other military usage. Over the 5-year period we reviewed, parts furnished by Curtiss-Wright in the overhaul of these engines averaged only \$100,000 a year, costed at Government prices. In view of this, we believe that the cost of the Air Force assuming the management of the inventory would be far less than the savings to be realized.

Curtiss-Wright informed us that it would be willing to use in its engine overhauls parts furnished from Government inventories procured under the call contracts at military prices. Lockheed concurred, provided the parts could be made available in a timely manner.

The decision by Air Force officials to permit Lockheed to contract with Curtiss-Wright for the parts, as part of the engine overhaul subcontract, was apparently

made without sufficient appreciation of the additional cost to the Government which this method of procurement entailed. We therefore recommended (1) that the Secretary of the Air Force take appropriate action to provide for the direct procurement under existing call contracts with Curtiss-Wright of parts, used in overhauling the R 3350-75 and R 3350-34 engines for the Special Air Mission fleet, which are common to parts already being procured in support of other Curtiss-Wright engines in the Air Force inventory, and (2) that, in view of the considerably smaller required investment in inventory and related costs than was indicated in prior Air Force considerations of direct procurement, the Secretary reconsider also placing the remaining engine parts under the call contracts.

## STANDARDIZATION

C-64-136

Index No. 53  
B-133177, June 16, 1964

Unnecessary Costs Incurred Due to the Development and Procurement of an Expensive Utility Cap With Serviceability Limitations, Department of the Army

Our review of the Department of the Army's development and procurement of a utility cap disclosed that the Government incurred unnecessary costs of about \$1.4 million through December 1963 and will incur further unnecessary costs of about \$1.3 million through fiscal year 1965 because the Army, after the military services could not agree on a common utility cap, developed its own cap using material and a design significantly more expensive than that being used by the Navy and the Marine Corps. Further, while the Marine Corps and the Navy have found their utility caps to be acceptable over a period of years of use, the Army cap, on the basis of tests conducted by the Army and the other military services, had and still has many serious drawbacks. On the insistence of the Army, however, the Defense Clothing and Textile Supply Center, despite its authority to control the introduction of new items into the supply system, procured material for the Army's new cap before the services had completed their tests and then procured over \$3 million worth of the caps despite the known deficiencies and high cost involved.

The Deputy Assistant Secretary of Defense (Supply and Services) in commenting to us on this matter, furnished reasons and justifications why the Army introduced its new cap into the supply system. As disclosed in our report, however, the introduction of the cap was not necessary since there were other acceptable caps already in the supply system. Further, the Defense Supply Agency and the Defense Clothing and Textile Supply Center were opposed to the introduction of the Army's cap into the supply system, but their actions to prevent it were inadequate.

We recommended that the Secretary of Defense require the Director, Defense Supply Agency, to direct and control projects that involve two or more military services in order to achieve greater objectivity, to attain maximum practical standardization, and to prevent the unnecessary introduction of items into the supply system, especially when there are other acceptable items available in the system. We recommended further that the Defense Supply Agency or its delegated agency be required to exercise its authority in controlling the introduction of new items requested by the military services to prevent the procurement of items that have known deficiencies or are unnecessarily expensive.

Index No. 125  
B-133313, September 17, 1964

C-65-54

Lack of Progress Under the Defense Standardization Program Resulting in Unnecessary Procurement and Supply Management Costs for Electronic Items, Department of Defense

Our review of the item-reduction phase of the Defense standardization program disclosed that progress has been negligible in the area of electronics, resulting in unnecessary procurement and unnecessary supply management costs totaling millions of dollars annually. Furthermore, this lack of progress has not been adequately identified because in semiannual progress reports submitted to the Congress, standardization accomplishments have been greatly overstated.

We found that unneeded items are being retained in the military supply system because the services fail to take appropriate and timely action to complete item-reduction projects initiated under the Defense standardization program. Failure of the services to accomplish item-reduction projects results principally from the lack of authoritative direction and control by the Department of Defense standardization activity over work assigned to the military departments.

Our examination, limited to certain electronic item-reduction projects initiated by the Army Signal Corps, revealed that potential savings of approximately \$17 million in supply management costs have been lost annually because the services failed to coordinate and complete the work required to eliminate the unneeded items. For example, in one case the Department of the Army had a number of item-reduction projects prepared at a contract cost of \$210,000. These projects, in which 5,900 items were proposed for elimination from the supply system, were forwarded to the Departments of the Air Force and the Navy during 1959 for review and coordination. Because of procedural disputes and general procrastination, these projects were finally canceled during 1963, and most of the unneeded items proposed for elimination have remained in the supply system.

Furthermore, a limited review of purchases of nonstandard electronic items disclosed 70 instances of unnecessary procurement, valued at approximately \$173,000, which we believe are attributable to the lack of progress under the Defense standardization program.

In semiannual progress reports, required by law to be submitted to the Congress by the Department of Defense, standardization accomplishments have been grossly overstated as a result of duplicative and improper reporting of accomplishments by the various military services. For example, we found that, of the 68,000 item reductions reported by the Army Electronics Materiel Support Agency during the years 1960, 1961, and 1962, 35,257 were reported more than once. Consequently, the lack of progress under the standardization program has not been identified to the Congress, nor has the need for corrective action been made evident. The overstatements of accomplishments resulted mainly from the lack of understanding of the reporting objectives by the originators of the claimed reductions and from the unquestioned acceptance of data compiled at field installations.

We brought our findings to the attention of the Secretary of Defense and proposed that (1) the central management role of the Defense standardization activity be strengthened to provide more effective guidance, direction, and control of the Defense-wide standardization effort and (2) an improved reporting system be devised which would include adequate controls to assure reliability of data on standardization progress reported semiannually to the Congress. In this connection, we were advised by the Deputy Assistant Secretary of Defense (Supply and Services) that a top-level management group was studying the standardization program with a view to recommending organizational and policy changes necessary to provide a strong central management organization with overall responsibility for the direction and control of all Defense standardization work.

Recently the Department of Defense announced the establishment of an office under the Assistant Secretary of Defense (Installations and Logistics) to administer the Defense-wide standardization program. Although this new 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 warranted to assure that appropriate action is taken to preclude the recurrence of deficiencies such as we have identified in this report.

Relative to our second proposal that a more reliable system be devised for reporting standardization accomplishments to the Congress, the Deputy Assistant Secretary stated that he subscribes to the necessity for better definition of standardization accomplishments and increased reliability of data but that he considers unilateral reductions of multiuser items by one of the several service users constitute valid accomplishments. We recommended that, if partial reductions of multiuser items are reported, they should be identified in such a manner as to avoid subsequent overstatements of achievement when other users eliminate the same items.

#### FAILURE TO USE AVAILABLE MATERIAL, EQUIPMENT AND FACILITIES

Index No. 12  
B-146727, March 20, 1964

C-64-94

Follow-up Review of the Failure to use Excess Spare Parts and Assemblies in Aircraft Production, Department of the Navy

We made a follow-up review of the failure to use excess spare parts and assemblies in aircraft production by the Department of the Navy. Our initial report on this matter entitled "The Failure of the Department of the Navy to Use Its Excess Spare Parts and Assemblies in the Production of Navy Aircraft," was issued to the Congress on February 15, 1963.

At the time of our earlier review, the Navy had excess spare parts and assemblies valued at about \$294,000 that were usable in the production of S2-type aircraft. In response to our report on that earlier review, the Navy told us that it planned to use as many of these parts as possible in the production of S2-type aircraft ordered by the Navy during fiscal year 1963. Grumman Aircraft Engineering Corporation, the manufacturer of the S2-type aircraft, subsequently informed the Navy that about \$107,000 worth of these excess items could be used in production of the aircraft the Navy had ordered during fiscal year 1963. However, the excess items were not used for this purpose because the Navy delayed so long in furnishing these items that Grumman's production schedules would not permit it to wait for the Navy to transfer the parts and assemblies. If the excess items had been furnished to Grumman, the Government would have been able to negotiate an appropriate reduction in the cost of the aircraft.

After we inquired into this matter during May and June 1963, the Navy took action to determine the quantities of excess items that could be made available to Grumman for use in the production of aircraft after fiscal year 1963. By the time this action was taken, an additional \$298,000 worth of spare parts and assemblies applicable to S2-type aircraft had become excess to needs, thereby increasing the Navy's excesses of these items from \$294,000 to about \$592,000 worth. The Navy initiated action for the transfer of about \$288,000 worth of these excess items to Grumman for use in aircraft production during fiscal years 1964 and 1965. Although Grumman's use of these items will result in a significant reduction in these inventory excesses, Grumman could have used additional excess items valued at about \$63,700 if the Navy had started furnishing excesses to Grumman in fiscal year 1963.

In response to our initial report, the Navy informed us that it would issue instructions that would, in effect, provide a permanent program for the use of excess spare parts and assemblies in the production of aircraft. However, not all the instructions necessary to implement this program were issued. We believe that, if these instructions had been issued promptly and responsibility for proper implementation of the procedures prescribed by these instructions had been formally assigned to specific individuals, excess items would have been furnished to Grumman a year earlier and that additional excess items valued at \$63,700 would have been transferred to Grumman.

Subsequently, the Navy informed us that it agreed that additional instructions relating to the Bureau of Naval Weapons' furnishing excess spare parts to aircraft manufacturers were needed and would be issued. To preclude the recurrence of the condition discussed above, we recommended that the Secretary of the Navy monitor the preparation and issuance of these additional instructions.

Index No. 25

C-64-107

B-125071, April 13, 1964

#### Unnecessary Cost Incurred by the Government by Not Using Surplus Stockpiled Materials to Satisfy Defense Contract Needs, Department of the Air Force

Our review disclosed that, although the Government already owns, and is storing at considerable cost, large quantities of titanium and aluminum which are surplus to its current stockpile requirements, the Air Force is incurring millions of dollars of unnecessary cost through procurement by its contractors of substantial quantities of these materials for use in the manufacture of the MINUTEMAN weapon system. We found that the Air Force had not considered obtaining the surplus titanium and aluminum for its MINUTEMAN requirements because the Government's disposal policies, as established by the Office of Emergency Planning for such indirect use, are not clearly defined and do not specifically direct Government agencies to arrange for their prime contractors and subcontractors to utilize surplus stockpiled materials in the manufacture of articles they are furnishing to the Government agencies. We found also that Government agencies are not reporting their indirect requirements to the Office of Emergency Planning and that no single Government authority is actively engaged in a program directed to utilizing the Government's surplus materials for these indirect requirements.

It seems clearly inappropriate for the Government to continue to buy materials when it possesses surplus quantities of such materials and to bear the costs of maintaining these surplus stocks. The finding discussed in this report illustrates the savings that might be realized through wider use by contractors of surplus Government-owned materials in the manufacture of articles produced for the Government. So that these savings may be realized, we believe it is essential that (1) existing disposal policies be amended to clearly set forth the policies

relating to the indirect use of surplus materials (2) procedures be established for keeping a single authority constantly aware of Government contractors' requirements for surplus materials, and (3) this authority be given responsibility for arranging for these requirements to be satisfied, where practicable, from surplus stocks. We believe that these actions would result in reductions in (1) the Government's surplus inventories of materials, (2) Government expenditures for articles manufactured and furnished by its contractors, (3) storage costs for surplus materials, and (4) interest cost on the Government's investment in surplus materials.

We recommended, therefore, that the Director, Office of Emergency Planning, further amend the disposal policies contained in Defense Mobilization Order V-7, dated December 10, 1959. This amendment should clearly set forth the policies relating to the indirect use of surplus materials and, as in the case of direct Government use of such materials, specifically direct Government agencies to arrange for its prime contractors and subcontractors to utilize surplus materials in the manufacture of articles they are furnishing to the Government, whenever such action is found to be consistent with overall disposal policies and in the best interests of the Government. We recommended also that the President give consideration to requiring Government agencies to identify their direct and indirect material requirements which can be satisfied through the use of materials surplus to the Government's stockpile objectives and to placing in a single authority responsibility for arranging for these requirements to be met, where practicable from the inventories of Government-owned surplus materials. Similar recommendations were made in our report to the Congress (B-125067, dated May 31, 1962) entitled "Review of Policies and Procedures for the Use of Excess Stockpile Materials by Federal Government Agencies."

Index No. 34

B-133058, May 12, 1964

C-64-117

#### Unnecessary Retention of Spare Parts at Western Pacific Supply Depots, Department of the Navy

Our examination into management of inventories of ship and submarine spare parts stocked in Western Pacific supply depots disclosed that the Department of the Navy was retaining excessive quantities because a policy established by the Ships Parts Control Center provided for these depots to retain as much as twice the stock for mobilization reserves as Navy records indicated was actually needed. At the same time that these depots had excess stocks, the Ships Parts Control Center was buying or had need for additional quantities of the identical items. After we called this matter to the attention of the Ships Parts Control Center, it revised its policy and released parts worth over \$1 million for other uses. Spare parts valued at \$736,500 were returned to the United States to meet needs that otherwise would have been met by purchase of additional quantities.

We submitted our findings to the Departments of Defense and the Navy for their review and comment. In view of the action taken by the Ships Parts Control Center, we did not make any suggestions regarding its retention policy. However, we advised the Departments that the fact that a wasteful policy was allowed to continue for an extended period of time indicated a need for more stringent control over matters affecting the management of ships parts. We advised the Departments also that it was our belief that the lack of written documentation of this policy was a significant factor in its long duration. Had the policy been set forth in written instructions, it is much more likely that it would have come to the attention of management personnel and consequently would have been revised at an early date. Moreover, the very act of reducing the policy to writing, and the considerations that should have been required in doing so, might have led its originator, or those whose approval would have been required, to reject the policy. Therefore, we suggested that the Ships Parts Control Center establish controls to assure that all its policies that have a significant effect upon supply management are reduced to writing and distributed to appropriate management personnel.

Although the possibility of detecting the wasteful policy would have been enhanced by having it in written form, it is nonetheless difficult to understand how the personnel at both the Ships Parts Control Center and the supply depots—Yokosuka, Guam, and Subic Bay—could for years have failed to challenge a policy that in many cases provided for stocking twice as many parts as Navy computations indicated were needed for mobilization reserves. We believe that the failure to challenge this policy by the many Navy personnel who must have become aware of it demonstrates a lack of vigilance and alertness in taking the

steps necessary to prevent unnecessary expenditures of Government funds. Accordingly, we have advised the Departments that it is our view that the extent to which such vigilance and alertness is demonstrated should be recognized in evaluating personnel for promotion and reassignment and in other personnel actions.

We suggested also that this report be distributed to appropriate supply management personnel to illustrate the type of situation that can result in unnecessary cost to the Government and to demonstrate the need for more alertness and vigilance over policies affecting the procurement and management of spare parts and related supplies.

The Department of the Navy advised us that it concurred in our findings and had taken action on our suggestions.

Index No. 35

C-64-118

B-132990, May 15, 1964

Unnecessary Procurement Due to the Failure to Identify and Utilize Available Missiles Spare Parts Eighth United States Army, Korea, Department of the Army

Our review disclosed that the failure of the Department of the Army to identify about \$1.1 million worth of expensive NIKE spare parts in Korea and in excess of the needs of the Eighth United States Army resulted in unnecessary procurement of at least \$100,000 worth of additional quantities of some of these parts. The primary underlying causes were that (1) the Eighth United States Army failed to identify the parts and to report them as excess and (2) Army regulations permitted overstockage at overseas depots and tended to limit redistribution of excess spare parts.

We advised the Department of Defense and the Department of the Army of our finding and proposals for corrective action. The Acting Assistant Secretary of the Army (Installations and Logistics), commenting for the Department of the Army on behalf of the Secretary of Defense, concurred with our finding and advised us of actions taken by the Army to correct the deficient supply management practices disclosed in our review. We were informed that the Eighth United States Army had disposed of its NIKE spare parts excesses in accordance with instructions from the National Inventory Control Point. We were advised also that Headquarters, United States Army, Pacific, had taken steps to increase surveillance of supply practices in the field and that the Army was in the process of implementing additional procedures to provide National Inventory Control Points with more complete information on the status of overseas stocks. These procedures, if effectively implemented and adhered to, should improve the capability of the National Inventory Control Points to recognize excess stocks in overseas commands and to more accurately determine procurement requirements. However, since the deficiencies described in this report were primarily failures to comply with established procedures, we believe that the proposed improvements in supply management must be accompanied by increased emphasis on individual responsibility at all supply levels and by continuous supervisory review.

Index No. 57

C-64-140

B-146711, June 19, 1964

Unnecessary Procurement of Photographic Supplies for the Atlantic Missile Range, Department of the Air Force

The Department of the Air Force incurred a loss of about \$137,000 when photographic supplies procured for use at the Atlantic Missile Range were disposed of after deterioration during prolonged storage. The supplies were purchased by the Air Force for use by Pan American World Airways, Inc., the range contractor.

We found that about \$56,000 worth of photographic paper and film became excess because Pan American purchased the same items from suppliers, although aware that the material was being held for its use by the Air Force. Also, \$34,000 worth of items were procured unnecessarily by the Air Force because Pan American failed to provide the Air Force with accurate or up-to-date requirements data. The other items disposed of consisted of excess supplies which had been procured by the Air Force at a cost of about \$50,000 although firm requirements for the items did not exist. The Government was able to sell some of the deteriorated supplies for about \$3,000.

We brought our findings to the attention of the Secretary of the Air Force and proposed that he take action to recover about \$90,000 from Pan American.

In response, the Air Force informed us that it was taking action to recover the amount of loss (about \$56,000) resulting from the contractor's purchase of supplies which the Air Force could have furnished, but that records and supporting documents were no longer available which might have permitted similar action to be taken to recover the \$34,000 spent unnecessarily because Pan American overstated its requirements. The Secretary of the Air Force further informed us that, pursuant to our proposal, he had brought this case to the attention of procurement personnel as an example of the waste of public funds which may occur when procurements are undertaken on behalf of a contractor without first obtaining a clear and unequivocal agreement with the contractor.

Pan American acknowledged responsibility for some of the losses but characterized them as isolated instances, comparatively minor in amount, for which it should not be penalized.

We recommended that, in addition to the action initiated to obtain recovery from Pan American of the excessive costs incurred as a result of the contractor's purchases of supplies which were available from the Air Force, appropriate action be taken by the Secretary of the Air Force to recover the losses sustained by the Government when unnecessary supplies were procured because of Pan American's failure to furnish accurate requirements data. We requested that we be advised of the final action taken in order that we may consider whether any further action is required by our Office.

Index No. 61  
B-146906, June 22, 1964

C-64-144

#### Unnecessary Planned Procurement of AN/UPM-98 Radar Test Sets, Department of the Army

In our review of the procurement and management of radar test sets in the Department of the Army, we found that the Army Electronics Command had needlessly taken actions to procure AN/UPM-98 radar test sets valued at \$484,000 to satisfy a specified application. These unnecessary procurement actions were taken because stock already in the Army supply system that would have satisfied this application was not properly accounted for by using organizations and because the Electronics Command did not reconcile the data received from using organizations with other available information. After we brought this matter to the Army's attention, it was determined that \$184,000 worth of the AN/UPM-98 radar test sets already procured could be used to satisfy another Army application and plans for the procurement of an additional \$300,000 worth of sets were canceled.

Since the computation of quantities to be procured is directly dependent upon the quantity of stock on hand, it is essential that adequate controls be maintained to assure reasonable completeness and reliability of the inventory data reported. We believe that it becomes virtually inevitable that deficiencies in reporting will go undetected unless reconciliations are made between the quantities reported and those for which using organizations should account.

The Deputy Assistant Secretary of Defense (Supply and Services) advised us that the Army recognized that many problems existed in reconciling reports of stocks for one period with reports of stocks for the next period. He stated, however, that a new system and procedures for reviewing editing, and verifying the accuracy of inventory reports had been established and that, as experience is gained, the reporting system should improve considerably and minimize the incidence of human error.

We plan to evaluate the effectiveness of this new system in our future reviews. Also, we recommended that the Secretary of the Army require all Army commands to make periodic independent internal reviews to determine compliance with the requirements of the new system.

Index No. 63  
B-146903, June 25, 1964

C-64-147

#### Unjustified Disposal of Aircraft Parts, Department of the Army

We found that the United States Army Aviation Materiel Command was in the process of disposing of various quantities of 975 aircraft parts valued at about \$414,000 which were needed by the Army. The unjustified disposal actions were taken because the Aviation Materiel Command's supply analysts failed to follow instructions for determining which parts were excess to the Army's needs and because responsible supervisors did not adequately review these disposal actions.

When we informed Aviation Materiel Command officials that the parts authorized for disposal were needed by the Army, they took immediate action to return



the 975 parts to depot stock, thus realizing current and potential savings of about \$414,000. Also, the Aviation Materiel Command suspended disposal action on quantities of an additional 1,475 parts valued at about \$694,000 pending further review to determine whether the Army had requirements for the parts. The return of any of these items to depot stock to meet Army requirements should result in additional savings to the Government.

The Department of the Army, in a letter dated March 26, 1964, agreed that the screening of the parts declared excess and the review of disposal actions had not been carried out in accordance with existing regulations. The letter further stated that action had been taken to insure at least periodic supervisory reviews of all disposal actions and that the Aviation Materiel Command had reemphasized the need for supply analysts to comply with established disposal procedures.

The actions taken by the Department of the Army should be adequate to preclude a repetition of the conditions cited in our report, provided proper emphasis has been placed on individual responsibilities for carrying out assigned duties, including disciplinary action where appropriate. We plan, however, to review the effectiveness of these actions at a later time.

Index No. 83  
B-133019, July 27, 1964

C-65-12

#### Unnecessary Repair of Aeronautical Spare Parts and Components by the San Antonio Air Materiel Area, Department of the Air Force

Our review of the need to repair aeronautical spare parts and components managed by the Air Force's San Antonio Air Materiel Area disclosed that spare parts and components were repaired although sufficient serviceable items were available to meet current or long-range needs, as evidenced by Air Force requirements determinations. We estimate that the total cost incurred during fiscal year 1963 by San Antonio because of the unnecessary repair of medium-value spare parts and components approximated \$700,000.

We believe that the unnecessary repair resulted, in part, from inadequate training of commodity managers and from insufficient supervisory review of their performance. These deficiencies indicate a failure of San Antonio officials to fulfill their responsibilities, and we believe that the inadequacies in their performance should be considered when making personnel evaluations and management assignments.

The Air Force has indicated general agreement with our findings and has advised us that actions designed to improve its performance in this area are being taken. We believe that these actions, if properly carried out, should be of benefit in eliminating the deficiencies cited in our report. We recommended, however, that the Secretary of the Air Force require that periodic reviews be made at San Antonio by officials of his office to assure that the corrective measures taken in this instance are adequate and that the corrective measures are not subsequently abandoned.

Index No. 96  
B-146934, August 11, 1964

C-65-25

#### Improper Procurement Actions Resulting From Overstatement of Requirements For Wooden Pallets, Department of the Navy

The Navy began action to buy 52,000 wooden pallets, estimated to cost \$312,000, although it had on hand sufficient identical or similar wooden pallets to meet its needs. The Navy began this purchase action because the Ordnance Supply Office overstated its requirements in a recommendation to the Bureau of Naval Weapons in March 1963 that \$312,000, recovered from the sales of shipping and handling material—principally containers and boxes—to foreign countries under the military assistance program, be expended for 52,000 Mark 2-0 pallets. Although the number of pallets required had not been properly computed, the Ordnance Supply Office informed the Bureau of Naval Weapons that 52,000 pallets were "urgently required." Because of the stated urgency, the Bureau of Naval Weapons authorized the procurement of the pallets.

At the time of our review, the Purchase Division at the Ordnance Supply Office, Mechanicsburg, Pennsylvania, had been instructed to buy the pallets and was preparing bid invitations to be sent to prospective vendors. After we brought our finding to the attention of Ordnance Supply Office officials, the entire purchase action was canceled.

It seems evident that the Navy would not have started this procurement action had the responsible Government employees used greater care in determining its wooden pallet requirements. We believe that this case illustrates the need for

a greater sense of individual responsibility on the part of Government employees for economy in Government operations. Therefore, we recommended to the Secretary of the Navy that he direct that appropriate consideration be given to such actions in evaluating the responsible individuals for future promotions and assignments.

Index No. 107

C-65-36

B-133256, August 21, 1964

#### Utilization of Excess Parts as Government-Furnished Property Under Production and Modification Contracts, Department of the Army

The General Accounting Office has made a follow-up review of the actions taken by the Army Tank-Automotive Center, Department of the Army, on our recommendation to require screening of excess items in the Army supply system to determine if they could be utilized as Government-furnished property under production and modification contracts. Our review, disclosed that the costs of contracts awarded by the Center during the period 1959 through 1963 were reduced by over \$5.5 million because certain repair parts were identified as excess to Army needs and were furnished to contractors.

In 1958 we conducted a review of the development and procurement of combat and tactical vehicles by the Center. During that review we noted that the Center had not established procedures to require that repair parts in long supply be screened to determine if they could be used by contractors engaged in the production and modification of military vehicles. Although the Center had, from time to time, furnished small quantities of such items to contractors, there were no procedures in effect to assure that Government stocks be systematically screened in connection with the award of contracts. The importance of having effective screening procedures is indicated by the fact that the Army annually initiates disposal of large quantities of excess parts. For example, in fiscal year 1963 the Tank-Automotive Center directed disposal of \$125.8 million worth of excess items. During that year the Government realized a return of only about 6.7 percent of cost on such items actually sold.

We discussed the lack of screening procedures with Center officials in 1958, and they agreed to institute procedures designed to identify surplus items that could be utilized under Government contracts. During our follow-up review, beginning in January 1964, we examined selected procurement actions occurring during the period 1959 through 1963 and identified contract price reductions of about \$5.5 million resulting from the use of long supply items as Government-furnished property. One notable example was the March 1961 purchase of 739 transmission sets used in the M60 tank. The contractor was furnished with excess parts valued at \$2.2 million, and the contract price was reduced from \$8.3 million to \$6.1 million. On another contract, awarded in September 1963 for the modification and rebuild of M48A1 tank engines, the Government saved about \$700,000 by furnishing the contractor with engine parts that were not needed in the Army system.

Index No. 111

C-65-40

B-133313, August 28, 1964

#### Failure To Use Excess Air Force Aeronautical Instruments To Satisfy Navy Needs, Department of Defense

Our review of the management of certain aeronautical instruments disclosed that excess stocks valued at \$575,000 which were on hand in Air Force inventories were not being used to meet Navy requirements. The Navy had procured some instruments, at a cost of \$109,000, from commercial sources to partially meet its needs. However, procurement action had not been taken on the remaining instruments that the Navy needed. After we called this matter to the attention of the Navy and the Air Force, instruments valued at \$209,000 were transferred from the Air Force to the Navy and additional transfers were planned.

Our review disclosed that interservice supply support failed for the following reasons:

1. Air Force and Navy personnel did not use adequate care in reviewing records to ascertain stock needs and excesses or in responding to inquiries from the other service.
2. The Air Force stocked certain instruments in need of repair. The Navy did not repair such instruments, and consequently Navy personnel were reluctant to accept those in need of repair.
3. The Navy carried many similar items under one Federal stock number while the Air Force assigned several separate stock numbers to those items.

The differences in numbers for identical items impeded identification of the items the Navy needed.

The establishment of a system for communication among the services of requirements and inventory data has improved the interservice utilization of items that are used by more than one service. However, our review of the interservice utilization of aeronautical instruments has shown that this system has not reached its full potential and that unnecessary costs are being incurred because of the system's deficiencies.

The Deputy Assistant Secretary of Defense (Supply and Services), in a letter dated May 15, 1964, agreed that the facts set forth in our report were essentially correct and stated that the Department of Defense concurred with our findings. He cited several projects, programs, procedures, and controls that had been initiated to provide better interservice utilization of supplies.

These are steps in the right direction. However, our experience has disclosed that project or program development, and procedures and directives do not, of themselves, guarantee that wasteful practices will be avoided unless supplemented by independent review by officials at a high level. For example, we have issued several reports on the failure of the military services to effectively utilize available materials on the basis of interservice needs, but we continue to find that interservice utilization of inventories is not effective.

In the interest of accomplishing more effective interservice utilization of available supplies, we recommended that the Secretary of Defense require that this subject be incorporated in the internal audit programs of each of the services and that these programs be effectively supervised by the Office of the Secretary of Defense.

We recommended also that the Department of Defense bring this report to the attention of individuals concerned with interservicing programs to illustrate that the effectiveness of procedures depends to a large extent on the ability and initiative of the individuals who are charged with the responsibility for carrying out the procedures.

It seems evident that the substantial unnecessary costs that the Government incurred in the cases cited in this report could have been prevented if the responsible Government employees had used greater care and initiative in the performance of their assigned duties. We believe that these cases illustrate the need for a greater sense of individual responsibility on the part of Government employees for economy in Government operations. Therefore, we recommended that the Secretary of Defense direct that appropriate consideration be given to such actions in evaluating the performance of the responsible individuals for such purposes as determination of future assignments, responsibilities, and entitlement to within-grade promotions.

Index No. 116

B-146772, August 31, 1964

C-65-45

#### Improper Disposal of Needed Brake Lining Kits, Department of the Army

Our review of the supply management of repair parts at the Army Tank-Automotive Center, Warren, Michigan, disclosed that the Army disposed of 113,550 brake lining kits valued at about \$169,000 although a need existed for the kits at the time of their disposition. This occurred because Army Tank-Automotive Center supply personnel did not stop an authorized disposal action for the kits when a subsequent study disclosed increased requirements. At the time this occurred, Center officials had failed to instruct supply personnel to investigate previously authorized disposal actions when changed conditions indicated a need for the items. The Army has already incurred unnecessary costs of about \$14,200 through procurement of similar brake lining kits since the disposal action was initiated. Also, the most recent supply study by the Center shows a need for about 80,000 additional kits and this requirement could have been met with the kits that had been disposed of improvidently. Additional unnecessary costs will be incurred as future purchases are made to fill the remainder of the current anticipated total requirement.

We brought this matter to the attention of the Secretary of Defense and suggested that the Secretary of the Army issue specific instructions to all inventory control points to assure that procedures require follow-up on disposal actions when a subsequent need is determined. We have been advised by the Department of the Army that such instructions have been issued and that the matter is also being brought to the attention of the other military departments.

The corrective action initiated by the Department of the Army should, if carried out, prevent future occurrences of the type described in this report. We

believe, however, that consideration should be given to expanding the newly established procedures to include follow-up at cognizant inventory control points in the other military departments and the Defense Supply Agency. Accordingly, we recommended that in those cases where procurement needs of common use items are substantial, the cognizant inventory control points of the other military services and the Defense Supply Agency also be questioned regarding the possibility that surplus items are still being held in the system.

Index No. 127

B-133019, September 22, 1964

C-65-56

Unnecessary Repair of Aeronautical Spare Parts and Components Managed by Oklahoma City Air Materiel Area, Department of the Air Force

Our review of the need for repair of aeronautical spare parts and components managed by the Air Force's Oklahoma City Air Materiel Area disclosed that spare parts and components were being repaired although sufficient serviceable spare parts and components were available to meet the Air Force's current or long-range worldwide needs, as evidenced by comparison of Air Force inventories with requirements. We found that costs totaling about \$286,000 were incurred during the first 3 months of fiscal year 1964 for the unnecessary repair of spare parts and components. Substantial additional quantities of spare parts and components were scheduled to be repaired unnecessarily during the remainder of fiscal year 1964. Following disclosure of our findings in September 1963, Oklahoma City Air Materiel Area officials canceled scheduled repairs which were estimated to cost \$6,380,000. Our limited tests showed that items managed by the Oklahoma City Air Materiel Area had been repaired unnecessarily also during the preceding fiscal year. We believe that the unnecessary repair resulted primarily from insufficient emphasis being placed on timely review of repair schedules following receipt of more current supply data, from inadequate supervisory review of the performance of commodity managers, and from inadequate regulations pertaining to the repair of line-generated items.

The Air Force generally agreed with our findings. The Air Force stated that it was seriously concerned over this matter and that actions designed to improve performance in this area were being taken. We were advised also that Headquarters, Air Force Logistics Command, had undertaken a complete operations analysis of fiscal year 1964 repair schedules at all its Air Materiel Areas and that we would be advised of the results of this analysis. We believe that these actions, if properly carried out, should be of benefit in eliminating the unnecessary repair of aeronautical spare parts and components. We recommended however, that officials of the Office of the Secretary of the Air Force review the adequacy of the corrective measures taken at each of the Air Materiel Areas. We plan to review the effectiveness of these actions in our continuing reviews at the Air Force Air Materiel Areas.

We have previously reported a number of instances where the military services incurred substantial amounts of unnecessary costs because they had failed to correlate repair needs with available stocks. In these cases we reported that one service was repairing items even though another service had sufficient quantities of the items in serviceable condition to meet the needs of both services. In this case, however, there seems even less justification for incurring repair costs since the Air Force had in its own inventory sufficient stocks of spare parts and components in serviceable condition to meet its needs.

In order to prevent unnecessary repair costs in the future, we believe that, in addition to the actions being taken by the Air Force, the persons determining repair needs in all the military services should be made aware of their personal responsibilities to schedule only necessary repairs. Therefore we recommended that the Secretary of Defense require that each of the services obtain from the persons determining repair needs written certifications that serviceable items are not available in any of the military services to meet its needs.

Index No. 140

B-146901, October 12, 1964

C-65-69

Unnecessary Disposal of Spare Components Procured for the Hawk Air Defense Guided-Missile System, Department of the Army

Our review disclosed that the Government had incurred unnecessary costs of about \$85,000 in the procurement of HAWK missiles and launchers because the Army Missile Command had failed to provide available spare components to the contractors for their use in the missile and launcher production. The available

components were antenna sections and support rings purchased as spares but which were considered by the Missile Command to be in excess of spare requirements. These spares could have been used in new launcher and missile production but were disposed of as scrap during the period September 1961 to July 1962. The unnecessary disposals of these usable components resulted from the Missile Command's inadequate procedures for managing the disposition of excess spare parts. In 1963, after we discussed this matter with Missile Command officials, they provided a remaining quantity of support rings to the launcher contractor and recovered \$4,738 of the unnecessary procurement costs.

The Acting Assistant Secretary of the Army (Installations and Logistics), commenting on our finding for the Secretary of Defense, advised us that in May 1964 the Missile Command established procedures for more thorough consideration of possible uses for excess repair parts.

In view of the large quantities of spare parts that are disposed of annually, and our findings with respect to utilization of such parts, we recommended that the Department of Defense make a study of Defense-wide practices and procedures for the utilization of excess spare parts.

Index No. 169

C-65-99

B-133019, December 18, 1964

Unnecessary procurement of AN/APN-99A radar system components resulting from failures of Warner Robins Air Material Area to make excess spare components available for installation on new aircraft, Department of the Air Force

In our review of the management of AN/APN-99A radar system components, we found that the Aeronautical Systems Division of the Air Force Systems Command unnecessarily procured components costing about \$1,106,000, did not terminate procurement of additional unneeded components costing about \$301,000, and subsequently initiated action to procure additional unneeded components estimated to cost about \$668,000. These unnecessary procurements resulted from the failure of officials of the Warner Robins Air Material Area, Air Force Logistics Command, to offer spare AN/APN-99A radar system components, which they had determined were excess to Air Force needs, to the Aeronautical Systems Division for installation on new aircraft during manufacture. After we advised officials of the Aeronautical Systems Division that spare AN/APN-99A radar system components were excess to Air Force needs, arrangements were made to obtain needed components from Warner Robins Air Material Area. The Aeronautical Systems Division purchase requests for components estimated to cost about \$668,000 were then canceled.

We believe that the deficiencies disclosed by our review demonstrate a lack of proper attention by personnel at Warner Robins to the utilization of excess spare components to meet the requirements of the Aeronautical Systems Division. Also, we believe that our findings evidence a lack of effective supervisory and management control at Warner Robins over the training and performance of inventory managers.

The Air Force concurred with our findings and has informed us that, as we had proposed, (1) appropriate Warner Robins personnel have been instructed in the techniques employed in processing notifications to the Aeronautical Systems Division of items which are excess to Air Force needs and available for aircraft installation and (2) the Air Force Logistics Command had brought our findings to the attention of all inventory managers and their supervisors through correspondence directed to their respective Air Material Areas. We have been informed, also, that administrative controls have been effected at Warner Robins to eliminate the conditions cited in our report and that periodic reviews of the effectiveness of procedural techniques have been and will continue to be made.

We believe that, in addition to the actions taken, there is a need to develop among inventory managers a greater sense of personal responsibility for conserving the Government's funds. We recommended that, in order to do this, the Secretary of the Air Force emphasize to inventory management officials that failures to take appropriate actions to prevent procurement of unneeded equipment will be considered in making future personnel evaluations and management assignments. We recommended also that the Secretary of the Air Force require that, as a last step prior to the award of contracts for equipment needed in the production or modification of aircraft, the Systems Division obtain from appropriate inventory management officials certifications that, after considerations of

determined needs for spare equipment, world wide inventories of such equipment are inadequate to meet the needs of the Systems Division.

Index No. 188  
B-146772, January 29, 1965

C-65-120

Planned Disposals of Needed Automotive Repair Parts, Department of the Army

Our review of planned disposals of automotive repair parts disclosed that the Government would have incurred substantial unnecessary costs had we not brought to the Army Tank-Automotive Center's attention the fact that needed automotive repair parts were being processed for disposal. We found that, during the period February through October 1964, automotive repair parts valued at about \$195,900 were scheduled for sale as surplus at an estimated net loss of about \$182,000 although they were needed by the Army. For example, 46 tank carrier assemblies valued at \$9,016 were to be disposed of although the Center would need these parts in the near future.

The disposals were taking place because Center officials failed to establish an interim procedure for use in screening surplus parts against requirements until an automated procedure would be placed in effect in fiscal year 1965. It was not until we brought this matter to the attention of Center officials that action was taken to provide for the screening of requirements against excess property. As a result, the disposal of repair parts valued at about \$195,900 was averted thereby preventing a net loss to the Government of about \$182,000. The interim procedure will be continued until adequate control is established through the use of the automated procedure and should result in additional savings.

Index No. 189  
B-146931, January 29, 1965

C-65-121

Unnecessary Transportation Costs Incurred Because Available Government Owned Containers Were Not Used for the Movement of Household Goods, Department of Defense

We have found that the Department of Defense incurred during 1963 unnecessary transportation costs estimated at \$2,675,000 because of restrictive instructions of the Department and the failure of transportation officers to arrange for the use of available Government-owned metal containers (CONEX transporters) for the movement of household goods of military personnel from Europe to the United States. We reported our finding to the Congress because the amount involved is significant and because future costs for transportation of household goods can be reduced if adequate corrective measures are taken.

About \$2,150,000 of the total unnecessary costs represents the estimated transportation cost of returning empty CONEX transporters to the United States, which cost could have been avoided had the transporters been furnished to commercial carriers engaged in shipping household goods to the United States for the military services. For example, we found that empty CONEX transporters were being shipped from Spain to the United States at the approximate cost of \$125 each for the standard-size container. The remaining \$525,000 resulted from payment of the higher transportation rate applicable when carriers furnish their own containers for household goods shipments. Had these CONEX containers been used for the household goods, the transportation rate would have been reduced by \$1.50 for each hundredweight of household goods shipped, in accordance with the rates negotiated between the Department of Defense and the various associations representing the household goods carriers.

The Department of Defense, in commenting on our findings, agreed that some unnecessary costs had been incurred and advised us of specific actions being taken to eliminate such costs, consistent with maintaining satisfactory service in the movement of household goods. These actions included provisions for making more use of the CONEX transporters in the shipment of household goods from overseas to the United States and for making more realistic cost comparisons for determining the method of shipment producing the lowest cost to the Government.

Index No. 197  
B-146917, February 23, 1965

C-65-130

Unnecessary Procurement of Shipping Containers and Packaging Materials for 2.75-Inch Rockets, Department of the Navy

Our review of selected procurements of shipping containers and packaging material for the 2.75-inch rocket during fiscal year 1964 disclosed that the Department of the Navy had failed to use excess stocks valued at \$178,000 to meet

Department of the Army requirements. The failure to use excess stocks occurred despite the existence of Department of Defense policies which are intended to ensure effective interservice utilization of excess supplies that are used by more than one military service.

The improper actions involving the interservice utilization of supplies and equipment disclosed in this and other reports prepared by this Office reflect a failure to comply with existing procedures or a failure to exercise appropriate judgment on the part of individuals at the operating level charged with the responsibility for carrying out the Department of Defense interservice supply utilization program.

At the time the Navy received Military Interdepartmental Purchase Requests from the Army for the shipping containers and packaging materials, the Navy had on hand items valued at \$137,000 which were excess to its known needs and which could have been furnished to the Army. Nevertheless, the Navy initiated procurement of additional quantities of the items to fill the Army's requests.

In addition, the Navy had destroyed shipping containers which could have been used by the Army, and as a result identical containers, costing about \$41,000, were purchased for the Army by the Navy. Although these containers were destroyed before the receipt of the Army request, notification to the other military services before the containers were scheduled to be destroyed would have disclosed Army needs for the containers and precluded their destruction.

At the time of our review, the contracts for the \$178,000 worth of items cited in the report had already been initiated, but deliveries had not been completed. After we called this matter to the attention of the Navy, procurement actions amounting to \$103,000 were canceled and Navy stocks were utilized to satisfy the Army requests. Also, the Deputy Assistant Secretary of Defense (Supply and Services) in a letter dated November 25, 1964, advised us that the Department of Defense concurred in the findings set forth in our report and that the Department of Defense and the Department of the Navy had taken actions to introduce improvements in the utilization of ammunition and related material as well as in the total program of material utilization.

The actions being taken should minimize the possibilities of recurrence of unnecessary procurement actions resulting from the failure to utilize available stocks, provided that adequate surveillance over the improved procedures is maintained by responsible officials in the Department of the Navy and in the Department of Defense. In view of the improved procedures being initiated by the Department of Defense and the Navy we did not make any further procedural recommendations. In the interest of improving interservice utilization of available supplies, however, we recommended that the Secretary of Defense bring our report to the attention of individuals concerned with interservicing programs to illustrate that the effectiveness of procedures depends to a large extent on the ability and initiative of the individuals who are charged with the responsibility for carrying out the procedures.

Index No. 37  
B-146872, May 19, 1964

C-64-120

#### Unnecessary Costs Being Incurred by Leasing Teletype Equipment Rather Than Using Available Government-Owned Equipment, Department of Defense

The military departments needlessly spend over \$750,000 annually by leasing teletype machines from commercial communications companies, for use in the continental United States, instead of using identical or functionally equivalent Government-owned teletype machines which are not being used and are considered excess by the military departments. In our examination we identified sufficient excess Government-owned teletype machines to replace 1,221 teletype machines being leased for \$756,720 annually. We determined that \$318,468 could be saved annually if each military department replaced leased teletype machines with its own excess Government-owned teletype machines. Additional savings of \$438,252 could be attained by transferring excess Government-owned teletype machines from the Army and Navy to the Air Force where they could replace identical or functionally equivalent leased teletype machines.

These unnecessary expenditures, which represent almost 30 percent of the amount spent annually by the military departments for leasing teletype machines, are caused by the failure of the Department of Defense to provide suitable management controls, including procedures and regulations, that would require the military departments to use available Government-owned teletype machines at installations which have access to Government maintenance.

The Acting Assistant Secretary of Defense (Installations and Logistics) has agreed that there are instances where Government-owned teletype machines can replace leased teletype machines but has stated that such replacements cannot be accomplished on a large scale because of numerous problems that would be encountered in the substitution of Government-owned surplus and/or obsolescent teletype machines for leased teletype machines. On the basis of our review, however, we do not believe that the problems are such that large-scale replacements cannot be accomplished.

We recommended, therefore, that the Secretary of Defense require the military departments to thoroughly review the present leasing of teletype machines and take immediate action, wherever possible, to use the excess Government-owned teletype equipment identified in our review rather than to lease identical or functionally equivalent equipment. We recommended also that the Secretary require the military departments to determine whether there are, at bases not included in our review, additional Government-owned teletype machines which can be substituted for leased equipment.

Index No. 95

C-65-24

B-133313, August 5, 1964

#### Ineffective Interservice Utilization of Selected Electronic Equipment, Department of Defense

In our review of the Army's needs for various electronic equipment during 1962 and 1963, we found that equipment valued at \$882,700 was available in the other services but was not transferred until we brought this matter to the Army's attention. After the equipment was transferred, the Army was able to satisfy orders from troop installations and to reduce the need for procurements of this or later versions of the equipment. The Army did not take action to obtain this equipment prior to our review primarily because interservicing procedures did not specifically require the Army (1) to recheck with other services for available assets when a long delay intervened between the initial inquiry and the award of a contract and (2) to request other services to transfer currently needed equipment although such equipment was to be replaced by procurement of improved models. In addition, the other military services failed to properly reply to the Army's requests for assets because inventory managers were reluctant to release materiel—although they were required to do so by interservicing procedures—or they did not determine whether assets were available for transfer.

The Assistant Secretary of Defense (Installations and Logistics) stated that the facts set forth in our report were substantially correct. He stated further that during and subsequent to the period covered by our report, the Department of Defense developed and instituted many improved supply management and interservicing procedures for electronic and other types of equipment. Further discussion with responsible Department of Defense personnel disclosed that recent changes in various interservice programs should preclude the recurrence of certain of the deficiencies disclosed in this report.

While new programs have been instituted, and greater emphasis has been placed on interservice utilization of assets, the success of such programs will depend upon the manner in which inventory managers in the services carry out their responsibilities to assure that all releasable equipment is transferred when it is needed by another service. We recommended therefore that the Secretary of Defense direct each of the services to emphasize to all the inventory managers that the maximum utilization of assets within the Department of Defense requires that they make every effort to identify and transfer all releasable assets to the other services upon request. We recommended also that the Secretary of Defense require the internal audit staffs, in their reviews of the Interservice Supply Support Program, to examine closely any instances in which interservice coordination has been hindered so that faulty procedures may be corrected and any improper actions of responsible individuals, including inventory managers, may be noted in their personnel files for consideration in promotion, reassignment, and other personnel actions.

Index No. 173

C-65-103

B-133118, December 22, 1964

#### Failure To Consider Available Assets Resulted in Overstated Needs for Avionics Test Equipment by the Aviation Supply Office, Philadelphia, Pennsylvania, Department of the Navy

On March 29, 1963, the Navy's Aviation Supply Office, Philadelphia, Pennsylvania, was planning to purchase 95 test sets for use in testing electronic equipment



which was to be installed in Navy aircraft. In making its computation of needs for the test sets, the Aviation Supply Office did not give consideration to two other test sets it had on hand which could be used to satisfy a portion of its needs; all three of the test sets could be used interchangeably for testing certain electronic equipment. After this matter was brought to the attention of the Aviation Supply Office, plans to purchase 59 of the test sets costing about \$186,000 were canceled.

We found that the Aviation Supply Office did not consider all the test sets which were available because all sets were not included on equipment allowance lists. Allowance lists are listings which designate quantities of equipment that installations performing aircraft maintenance are authorized to maintain. The Aviation Supply Office uses these allowance lists together with other pertinent supply data in determining quantities of test equipment to be purchased or disposed of. We found that the two older test sets had been deleted from the June 1961 allowance lists and therefore were not considered by the Aviation Supply Office in the computation of its needs.

In commenting on our findings, the Navy advised that the older test sets had been deleted from the allowance lists but stated that in one case the deletion was inadvertent and not a procedural defect and that in the other, the set was an "interim" test set, usable for only a short time. We proposed that effective instruction and management controls should be provided to assure that items of significant value remain on appropriate allowance lists. The Navy concurred in the intent of our proposal but stated that in its opinion the procedures now in effect are sufficient.

Our review shows that, by considering only those assets on allowance lists in making its determination of needs, the Aviation Supply Office was overlooking equipment which was adequate to meet field requirements and which would limit the quantity of new equipment needed to be purchased. It is obvious, therefore, that the existing procedures are not sufficient to assure that all alternate and interchangeable equipment is considered in computing needs. We recommended, therefore, that the Secretary of the Navy direct that procedures in effect in the Aviation Supply Office and the Naval Air Technical Services Facility be strengthened to assure accurate determination of an item's availability and verification of its performance capability. In this respect, the Aviation Supply Office should, in the computation of requirements for additional or new support equipment, consider as available assets not only equipment shown on allowance lists but equipment classified and listed as alternate equipment and shown as such on Naval Air Technical Services Facility listings.

In prior reports issued to the Congress applicable to the supply management of aeronautical material within the Navy, it was disclosed that deficiencies previously reported by this Office have continued to persist despite the assurance that corrective action had been taken. The continuing reoccurrence of deficiencies in supply management illustrate that program development, procedures and directives do not, of themselves, guarantee that wasteful practices will be avoided. Therefore, we suggested to the Secretary of the Navy that this report be brought to the attention of cognizant supervisory personnel responsible for reviewing supply management activities within the Navy, to illustrate that the value and effectiveness of directives and procedures depend to a large extent upon the ability and initiative of the individuals charged with the responsibility of applying them.

Index No. 72  
B-146913, July 13, 1964

C-65-1

#### Excessive Quantities of Heavy Trucks and Buses at Selected Military Installations, Department of Defense

Our review of the utilization of 505 commercial-type heavy trucks and buses at five military installations disclosed that 78, or about 1 in 6, were excess to the installations' needs. The excesses, having a replacement value of about \$589,000, were at four of the five installations. We found that the excesses had accumulated because responsible management officials had not instituted controls or taken the action necessary to assure that quantities of these vehicles were kept commensurate with needs.

The Department of Defense is continually buying trucks and buses to replace those that are worn out and to meet additional needs. Although procurement is made centrally by the Department of the Army for all the military services, each service submits its requirements to the central procuring agency on the basis of the needs determined at the installation level. Consequently, the failure of an

installation to identify and report excess vehicles prevents the transfer of the excess vehicles from that installation to other installations having need for such vehicles and thereby can result in unnecessary procurement.

In view of the likelihood that the lack of adequate management control over stocks of heavy trucks and buses was leading to unnecessary procurement, we brought our findings to the attention of the Department of Defense and suggested that the Department make a special review of the use of heavy vehicles at other military installations to identify existing excesses and that additional procedures be instituted to improve the management control over such vehicles on a continuing basis.

The Department of Defense commented upon our findings and advised us that our conclusions were generally correct, as evidenced by reductions of motor vehicle inventories effected at the four installations cited. We were advised also that the Department had instructed the military services to review their reporting systems with the view of establishing procedures under which excess vehicles could be more easily identified. The Department did not consider it necessary, however, to make special reviews of the utilization of heavy vehicles by other military installations to determine whether these installations also had excess stocks of heavy vehicles. The Department based its position on its confidence in the general adequacy of the regulations in effect during our review.

Our findings related to a review of about 2 percent of the total dollar value of heavy vehicles held by the Department of Defense. If our findings are representative of the general situation with regard to such vehicles, the aggregate value of excess heavy vehicles at all Department of Defense locations could be as much as \$30 million. In view of the significant value of the excesses that could exist at other military installations and because the regulations now in effect are essentially the same as those in effect at the time of our review, we do not concur in the Department's view that special reviews of heavy vehicle needs are not warranted. Consequently, we recommended that the Secretary of Defense direct the military services to perform a special study of their needs for heavy trucks and buses in relation to their stocks of such vehicles. We recommended also that the Secretary of Defense maintain close surveillance over the military services' programs for improving their reporting systems to assure that the systems include such management controls and checkpoints as are necessary to provide reasonable certainty that excesses will be identified and appropriate action will be taken. We plan to inquire into the sufficiency of the action taken by the Department of Defense at an appropriate time in the future.

Index No. 130

B-146714, September 23, 1964

C-65-59

Failure of the Air Force To Consider Available Army Aircraft Crash Fire Trucks in Its Planned Procurements, Department of the Army, Department of the Air Force

The Department of the Air Force failed to consider 130 available Class 1500 aircraft crash trucks of the Department of the Army in its plans to procure, by the end of the fiscal year 1966, about 168 similar vehicles at a cost of about \$12.5 million. Although the Army was using 112 Class 1500 vehicles, each costing about \$70,000, the vehicles could be replaced by smaller vehicles, each costing about \$16,000, which are considered adequate for Army purposes. In addition, 18 Class 1500 vehicles costing about \$1.3 million are in Army depot stocks or are being used by Air Force Reserve Recovery Squadrons. These Squadrons have a very low priority for equipment, and, in some cases, the need for the squadrons themselves is questionable.

As disclosed in our May 16, 1962, report to the Congress, "Review of Development and Management of Selected Aircraft Crash Fire Trucks in the Department of Defense" (B-146714), the Army procured the Class 1500 vehicles for use in combating missile propellant fires but later found it impracticable to fight such fires. At about the same time, the Air Force and Navy had a need for similar vehicles for use in fighting fires resulting from aircraft crashes. When we called this matter to the attention of the Department of Defense in October 1961, the Air Force and Navy were directed to determine whether utilization of the Army's trucks was feasible. Our current review has disclosed that the Air Force determined, without the aid of appropriate tests, that the Class 1500 vehicle was not suitable and refused to utilize it.

We brought our current review findings to the attention of the Secretary of Defense on April 15, 1964, and recommended that independent tests of the Army Class 1500 vehicle as a crash truck be conducted to determine whether the vehicle

is adequate for that purpose and, if so, that the Air Force be required to use it instead of purchasing a similar quantity of P-4 crash trucks. The Department of Defense advised us that our recommendation was being carried out and that, if the Class 1500 vehicles successfully pass the tests, arrangements would be made for the transfer of some of the vehicles to meet Air Force requirements currently planned to be filled by the P-4 crash truck.

Index No. 46  
B-146895, June 5, 1964

C-64-129

**Available Government Quarters and Messes not Used by Military Personnel Attending Classes at Contractors' Facilities, Department of the Air Force**

The Government has incurred unnecessary costs in connection with training programs conducted at contractors' plants because Government facilities available nearby were not fully utilized to house and feed servicemen attending the training classes. In our review of training programs conducted by eight contractors between March 1961 and December 1963, we found that unnecessary costs of about \$110,000 had been incurred at four of the contractor locations where Government quarters and messing facilities were nearby and could have been used. The servicemen, however, arranged for food, lodging, and transportation individually and received maximum per diem allowances.

Our review was directed primarily to training programs of the Air Force. However, we considered the availability of quarters and messing facilities of all the military departments, and our findings at one location involved Navy as well as Air Force personnel. With respect to the Air Force, we believe that the failure to fully utilize Government facilities was attributable to the lack of aggressive action on the part of the Air Training Command in making necessary arrangements for the housing, feeding, and transporting of trainees attending classes in the vicinity of Government installations. As a result of our review, Air Force regulations have been revised to provide for greater consideration of the possible utilization of Government facilities in connection with training programs. Current information furnished by the Air Force indicates that such facilities are now being used to a greater extent. For example, at two of the four locations covered by our review, more than \$80,000 will be saved because Government facilities are now being used in connection with current training programs.

The Department of Defense has advised us that it is the policy of the Department of the Navy to use available Government quarters and messing facilities, wherever practicable, in connection with its training programs at contractors' plants and that the principal using agencies within the Department of the Army have been instructed to examine their procedures in handling temporary duty assignments to civilian contracts schools in order to make maximum use of Government quarters and messing facilities.

Our review indicated that in certain instances greater cooperation between the military services and between the several Air Force commands could result in additional utilization of Government facilities and further reduce the cost of training programs. We therefore recommended that the Secretary of Defense direct the military services and their subordinate commands to cooperate fully in providing the facilities and personnel necessary to furnish meals and lodging to servicemen attending classes at nearby schools or contractors' plants, whenever such action will result in savings to the Government. In making such arrangements, it should be recognized that it may be necessary and proper to expend funds for extra help or for making quarters ready for occupancy if overall savings to the Government can be anticipated as a result of a reduction in per diem costs.

Index No. 84  
B-125037, July 28, 1964

C-65-13

**Unnecessary Payments of Basic Allowance for Quarters to Military Personnel, Department of the Navy**

The Government is incurring unnecessary costs estimated at \$191,000 annually because military personnel on permanent duty at the Naval Hospital, Oakland California; the Naval Air Station, Whidbey Island, Washington; and the Naval Air Station, Patuxent River, Maryland, are paid quarters allowances when they could be occupying available rent-free Government quarters. The payments were made as a result of what we believe were unreasonable management decisions that Government quarters were not available. These decisions were made on the basis that the Government quarters (1) were located at a nearby naval installation rather than at the duty site, (2) were reserved for transient personnel despite the availability of other rent-free accommodations for these personnel, and (3) were

scheduled for deactivation to reduce station operating costs although there is a continuing need for the quarters. Moreover, since we found deficiencies in the assignment of Government quarters at three of the six installations we reviewed, we believe that the failure to utilize available quarters could be widespread throughout the naval establishment.

The Assistant Secretary of the Navy (Financial Management) in commenting on our findings expressed the position that it would be inappropriate to assign available Government quarters at the Naval Air Station, Alameda, to officers at the Naval Hospital, Oakland, California, because of the inconvenience and adverse living conditions involved in such assignments. He further contended that bachelor officers' quarters at the Naval Air Station, Whidbey Island, are not adequate for occupancy by officers permanently assigned to that station. However, after a review of the facts in each case, it is our opinion that these quarters are adequate and could be occupied by the officers involved without unduly inconveniencing them or adversely affecting their living conditions.

We were further advised by the Assistant Secretary that the Navy recognize that there is a need to reactivate the housing at Solomons Annex, Naval Air Station, Patuxent River, and that such housing would be reactivated as current and foreseeable requirements dictate. However, since basic allowance for quarters is currently being paid to Navy members who could be occupying the quarters at Solomons Annex, we are of the opinion that these quarters should be immediately reactivated.

In light of the findings disclosed in our report and because of the shortage of available military housing as reported to the Congress by the Secretary of Defense during the appropriation hearings for fiscal year 1964 and the attendant need to utilize military housing to the maximum practicable extent, we recommended that the Secretary of the Navy direct that—

(1) Action be taken to discontinue the payments of basic allowance for quarters to the officers below the rank of lieutenant commander at the Naval Hospital, Oakland, and the Naval Air Station, Whidbey Island, since adequate Government quarters are available for use by these officers.

(2) The Government-owned housing at Solomons Annex be activated immediately.

(3) A study be made of the administration of military housing in the Department of the Navy to determine whether conditions similar to those discussed in this report exist at other naval installations and that appropriate corrective action be taken as required.

Index No. 143  
B-153839, October 16, 1964

C-65-72

#### Unnecessary per Diem Payments Made to Military Personnel Assigned to Temporary Duty at Bath, Maine, Department of the Navy.

Our review disclosed that about \$637,000 in unnecessary payments of per diem were made to ships' crew members for temporary duty between December 1959 and June 1963 in connection with the construction of ships at a commercial shipyard in Bath, Maine, because available Government quarters and messing facilities at the Naval Air Station, Brunswick, Maine, about 7 miles from Bath, were not used by the crew members. The unnecessary payments could have been avoided if the responsible Navy officials had directed that the Brunswick facilities be used by the crew members. We found that such facilities could have been made available without detriment to the crew members involved and would have resulted in savings to the Government. For example, 12 officers and 78 enlisted men reported for temporary duty at Bath at various dates between June 19 and October 10, 1961, and were paid per diem totaling about \$64,900. During this period there were at least 170 vacancies in the enlisted men's barracks and at least 16 vacancies in the officers' quarters at Brunswick. Had Government quarters and messing facilities been utilized by these crew members, per diem and transportation costs would have amounted to only about \$22,300. Thus, the net unnecessary cost to the Government because these crew members did not use available quarters and messing facilities totals about \$42,600.

At the time of our review, we estimated that, if Government quarters and messing facilities at Brunswick were not made available to the crew members of nine ships scheduled to be constructed at the Bath shipyard during fiscal years 1964, 1965, and 1966, an additional \$818,000 in unnecessary payments of per diem would be made by the Navy.

The Department of the Navy stated that it agreed with our proposal that available Government quarters and messing facilities at the Naval Air Station,

Brunswick, should be used by the ships' crew members at Bath to the maximum extent practicable but that it did not fully agree with our conclusions. The Navy advised us, however, that the Commandant, First Naval District, was being directed to perform an independent and comprehensive study of the operations at Bath to determine the extent to which the facilities at Brunswick could be used. The Navy stated that maximum utilization would be made of the facilities on the basis of this study. We requested the Secretary of the Navy to advise us of the decision reached in this matter and the basis for it.

In addition, since naval vessels are undergoing construction or conversion by private contractors at other locations in close proximity to naval installations, we believe that situations similar to that discussed in our report may exist elsewhere. Accordingly, we recommended that the Secretary of the Navy direct that studies be conducted at those locations to determine whether maximum utilization is being made of available Government quarters and messing facilities by nucleus crews. In addition, we recommended that the Secretary of the Navy provide for the review of this area in the course of periodic internal or management reviews.

Index No. 71  
B-146912, July 7, 1964

C-64-155

#### Unnecessary Payments for Temporary Lodging Allowances to Military Personnel in Naples, Italy, Department of Defense

Unnecessary payments of temporary lodging allowances, amounting to about \$114,600 annually, are being made to military personnel stationed in the Naples, Italy, area because members do not move into suitable permanent quarters as soon after arrival as the quarters become available or because members prematurely surrender permanent quarters before their departure from Naples. These unnecessary payments were made because the commanding officers of the various naval activities in Naples had not established a program under which the necessity for members to occupy hotel or hotel-like accommodations could be determined and because the administration and management control over the payment of temporary lodging allowances had not been effective.

The Department of Defense and the Department of the Navy did not agree with all our findings concerning the temporary lodging allowance program in Naples. They contend that, because of the conditions existing in Naples, the time required for the members to obtain or vacate permanent accommodations is not excessive. However, our evaluation of the facts surrounding the acquisition of permanent quarters disclosed the availability of a sufficient number and variety of apartments to permit the members to select suitable homes in shorter periods of time than those for which temporary lodging allowances were claimed. Moreover, we could find no apparent justification for the premature surrender of permanent quarters by the members before leaving Naples.

The Department of Defense did acknowledge that some deficiencies existed, and we were advised that the Navy had improved its administrative control and had implemented an internal review procedure to detect abuse of the temporary lodging allowance program affecting Navy personnel in Naples.

In our opinion, however, further improvements are needed in the control and administration of temporary lodging allowance payments. Accordingly, we recommended that the Secretary of Defense assign to the Commander, Fleet Air Mediterranean and Naval Activities Mediterranean, responsibility for establishing and administering a uniform temporary lodging allowance program for all military personnel in the Naples area. This program, which could be coordinated by the Commanding Officer, Naval Support Activity, should include provisions for—

1. Denying payment to members reporting for duty at Naples until after they have registered at the Navy Housing Office.
2. Immediately terminating payments to members who refuse to move into suitable quarters determined to be available by the Navy Housing Office or who vacate quarters before departure earlier than determined to be necessary by that Office.

Index No. 106  
B-125037, August 21, 1964

C-65-35

#### Failure To Use Available Government-Owned Housing at Fort Leonard Wood, Missouri, Department of the Army

Our review of the utilization of Government-owned quarters at Fort Leonard Wood, Missouri, disclosed that the Government was unnecessarily paying to enlisted men quarters allowances estimated to be over \$125,000 annually to

provide their own housing while Government-owned quarters remained needlessly vacant for long periods of time. An average of 93 housing units, representing an investment by the Government of over \$1.6 million, were unnecessarily vacant during the 8-month period ended August 16, 1963. The unnecessary vacancies occurred because the number of housing units designated for officer occupancy continually exceeded officer needs and the installation failed to assign these quarters to enlisted personnel. Had these housing units been occupied, the Government's mortgage payments could have been offset by the savings in quarters allowances, as originally intended by the Congress.

The Deputy Assistant Secretary of Defense (Family Housing) advised us that various corrective actions had been taken since the completion of our review, including the assigning of officer-designated quarters to enlisted personnel. We recommended that the Secretary of Defense take the necessary action to assure that the military services review the allocation of quarters to officers and enlisted personnel at all installations and make any necessary redesignations in order to obtain the maximum utilization of Government-owned housing.

Index No. 115

C-65-44

B-146938, August 31, 1964

#### Uneconomical Practices in Management and Utilization of Government Quarters at United States Naval Air Station, Barber's Point, Oahu, Hawaii, Department of the Navy

Unnecessary payments of allowances of at least \$162,000 annually were made to Navy personnel because family housing units at the United States Naval Air Station, Barber's Point, Oahu, Hawaii, were vacant for excessive periods of time, although there was a waiting list of prospective tenants. For example, one unit remained vacant for 75 days when these quarters could have been occupied by an officer who received quarters and temporary lodging allowances of \$744 for this period because he was not furnished quarters. Another unit remained vacant for 75 days when they could have been occupied, with the result that \$1,350 in similar allowances were paid unnecessarily. We attribute the excessive vacancy periods to a lack of adequate planning for maintenance and renovation work and to poor coordination among the organization responsible for such work, the office responsible for assigning tenants to family housing units, and the prospective tenants.

Our findings indicated that the average vacancy period of 17 days between incoming and outgoing tenants of the Government housing could be substantially reduced by relatively minor adjustments in procedures. In response to our suggestion that certain corrective procedures be adopted, the Commanding Officer at Barber's Point advised us by letter of December 24, 1963, that he agreed with our findings and that corrective actions had been taken or proposed. In letter of May 15, 1964, the Commanding Officer at Barber's Point stated that, for the first 4 months of calendar year 1964, the average vacancy period had been reduced to 5.4 days and that the occupancy rate, based on the normal 24-month tour of duty, was 99.26 percent. The Commanding Officer estimated that the saving to the Government for this 4-month period was about \$59,600. In light of the corrective actions taken or proposed by the Commanding Officer, we did not make any further recommendations in our report concerning the management or utilization of family housing at Barber's Point.

The Department of the Navy concurred with our findings and advised us that our findings would be brought to the attention of all commands having jurisdiction over management and utilization of quarters, as an example of the type of deficiencies existing in such areas. Prior to our review, various directives pertaining to the utilization of Government-owned housing had been in effect. These directives did not include provisions for reviews by Navy auditors of the utilization of quarters. As disclosed by various reviews made by this Office, the issuance of directives cannot be relied upon to assure that necessary corrective actions are taken. We believe that, as an adjunct to such directives, periodic management reviews and internal audits are essential to identify locations where maximum utilization of housing is not being achieved. Accordingly, we recommended that the Secretary of the Navy provide for the review and evaluation of the adequacy of the utilization of Government-owned housing units during the course of regular management reviews and internal audits. Such reviews and evaluations should help to realize the significant savings obtainable through maximum utilization of Government-owned housing.

Index No. 160

C-65-90

B-125037, December 3, 1964

**Unnecessary Vacancies in Available Capehart, Wherry, and Other Government-Owned Family Housing at Fort Knox, Kentucky, Department of the Army**

We estimate that the Government unnecessarily paid over \$389,000 at Fort Knox, Kentucky, during the 18-month period ended June 30, 1963, for quarters allowances to military personnel to provide their own housing, although Capehart, Wherry, and other Government-owned family housing units at this location remained vacant. On the basis of our examination of housing records, we estimate that 2,739 vacancies were unnecessary for an average of 38 days each during this period, for a total in excess of 104,000 days. This vacancy time is equivalent to 1-year vacancies for 285 housing units which represent an investment by the Government of over \$3 million. Had these housing units been occupied, the Government's mortgage payments could have been offset by the reductions in quarters allowance payments, as intended by the Congress.

One of the reasons for the unnecessary vacancies in Government-owned family housing units was the failure of the Family Housing Officer to obtain applications from and maintain a waiting list of all military personnel arriving on post who were eligible to occupy Government-owned family housing. Another reason for the unnecessary vacancies was the failure of the Housing Officer to control the time taken to process and renovate family housing units for reoccupancy.

We also found that on March 26, 1963, a report on the status of family housing at Fort Knox was prepared which showed that 60 members, with dependents, eligible for Government-owned family housing were living in substandard private housing; 604 eligible members, with dependents, were living in private housing costing more than their quarters allowance; and 30 eligible members, with dependents, were living in private housing considered to be an excessive distance from the post. The report showed also that 78 eligible members whose dependents were not living in the area desired to move their dependents to Fort Knox and occupy Government-owned family housing, when available. The adverse effect on a service member's morale resulting from inefficient management of Government-owned family housing at Fort Knox cannot be measured, but there seems little question that it is substantial since his family's comfort and welfare are involved.

The Deputy Assistant Secretary of the Army (I&L) (Installations) advised us that the Army concurred that the procedures in effect were not satisfactory for providing complete centralized control over the management of family housing. He advised us also that command actions had been taken at Fort Knox in response to our proposals to improve controls. He stated, however, that we had failed to consider factors pertinent to a realistic evaluation of vacancy time, in computing our estimate of the unnecessary costs. As shown in the report, we reviewed our facts and the bases for our estimate and found them to be correct. We believe that agency officials should not make assumptions as to the basis for our calculations of unnecessary costs involved in our findings but should make positive determinations because incorrect assumptions generally tend to reduce the full monetary loss to the Government and may tend to diminish the interest of responsible officials in the matter.

In order to assure maximum utilization of Government-owned family housing at all times and to eliminate any unnecessary payments of quarters allowances, we recommended that the Secretary of Defense require that internal auditors of the various services give special attention to the utilization of Government-owned family housing and that the services issue instructions to provide that inefficient performance of personnel in carrying out their assigned duties in relation to the management of Government-owned family housing be appropriately noted in their personnel records for consideration in connection with assignments, promotions, and other personnel matters. Since our report shows that ineffective management of Government-owned family housing may be widespread, we recommended also that the Secretary of Defense bring our report to the attention of all personnel responsible for the utilization of Government-owned family housing throughout the Department of Defense and point out the need to maintain complete waiting lists and to expedite the renovation and reoccupancy of Government-owned family housing units.

Index No. 150  
B-146950, November 17, 1964

C-65-79

Uneconomical Use of Facilities by the Hawaii National Guard, Department of Defense

The National Guard Bureau has unnecessarily expended about \$183,000 of Federal funds in fiscal years 1962 and 1963 by constructing a facility in Hawaii that was not needed in meeting operation requirements, and it may expend an additional \$560,000 for construction in Hawaii if unnecessary projects that have been approved and programed by the National Guard Bureau are approved by the Department of Defense and the Congress. Also, a project costing \$40,000 was canceled after we questioned the need for the facility.

We found that on the island of Oahu the National Guard Bureau had constructed a three-unit armory at Fort Ruger and was planning to construct a headquarters building, a vehicle maintenance shop, and an engine buildup shop at Hickam Air Force Base as well as a one-unit armory at Pearl City to satisfy space requirements that could be met more effectively by the Hawaii National Guard's utilizing its neighboring Air Force activity on Oahu.

The Deputy Assistant Secretary of Defense (Properties and Installations) has stated that his investigation into the programing and construction of the allegedly unneeded facilities does not disclose that these actions resulted from failures of National Guard management. He pointed out that the programed projects we questioned had not yet been through the complete review process of the military departments and the Office of the Secretary of Defense and that they would be subject to detailed review to determine whether the requirements could be met by existing facilities.

We believe it is evident that the National Guard Bureau has failed to give sufficient consideration to the economies possible through more intensive use of existing facilities in Hawaii. This failure has resulted in the unnecessary expenditure of about \$183,000 and potential additional expenditures of about \$560,000 for unneeded facilities. Although review by the military departments and the Department of Defense may result in the cancellation of some or all of the planned projects in question, it is our opinion that adequate reviews by the National Guard Bureau would have disclosed that these facility requirements could have been met by more realistic utilization of existing Hawaii National Guard facilities and by taking advantage of the facilities available from the active Armed Forces on Oahu. It is our opinion, also, that these projects should not have been submitted to higher levels for approval.

We recommended, therefore, that the Secretary of Defense cancel the programed construction projects that we identified as being unnecessary and require the Hawaii National Guard to utilize all available facilities before resorting to construction. We also recommended that the Secretary of Defense establish meaningful management controls within the National Guard Bureau to assure that only justifiable construction projects are approved, programed, and constructed.

COMMON SERVICES WHICH COULD BE CONSOLIDATED

Index No. 8  
B-146866, March 17, 1964

C-64-90

Excessive Costs Incurred as a Result of Multiple Management of Supplies at the Atlantic Missile Range, Department of the Air Force

Over \$1 million a year in administrative costs could be saved if supply management at the Atlantic Missile Range were consolidated under the control of either the Air Force or Pan American World Airways, Inc. These savings would be realized from reductions in operating costs resulting from the anticipated decreased volume of supply actions and the need for fewer personnel. Additional significant savings would likely accrue from a consolidation of the requirements of all organizations at the missile range which would permit the lowering of overall stock levels and a consequent reduction in the amount of funds presently invested in inventories. Reductions in inventories and their management by a single organization should, in turn, minimize the accumulation of excess stocks and result in more economical utilization of available storage facilities and in reductions in the cost of supporting equipment, maintenance, and utilities.

Our proposal to consolidate the management of supplies was favorably received by Pan American World Airways, Inc. In addition, the National Aeronautics and Space Administration, a major user of the Atlantic Missile Range, indicated its acceptance of the proposal. The Air Force, in commenting on our proposal, stated that it agreed in principle that the consolidation of supply management



functions would be advantageous to the Government but did not indicate that it accepted consolidation under a single manager. Rather, the Air Force informed us that jointly with Pan American World Airways, Inc., it had taken action to reduce duplication between the two organizations by assigning the management of selected items to each organization. In our opinion, the action initiated by the Air Force will not achieve the desired elimination of waste inherent in a multiple management type of operation. The potential annual savings of more than \$1 million is predicated on the establishment of a single manager supply system, and any action short of this measure will prevent the Government from realizing savings to the fullest extent possible.

We therefore recommended that the Secretary of Defense designate a single organization to provide supply support to all organizations at the Atlantic Missile Range, take prompt action to effect the consolidation of all supply activities at the range, and advise us of the action taken. The single manager should have responsibility for all supply items except those, such as missile components, which are peculiar to the requirements of individual contractors using the range and, consequently, do not readily lend themselves to centralized management. Recognizing the advantages of maintaining sufficient flexibility to permit the independent procurement of supplies by individual users in special circumstances, we further recommended to the Secretary of Defense that, in cooperation with representatives of the range users, procedures be devised which would permit such independent procurement actions within reasonable limitations.

Index No. 19

C-64-101

B-146872, April 3, 1964

**Excessive Costs of Duplicate Automatic Teletype Switching Centers in the Military Services, Department of Defense**

The military services will unnecessarily expend about \$3,570,000 during the period July 1964 through December 1966 because the Department of Defense is delaying the closing of unnecessary duplicate automatic teletype switching centers at Stockton, California, and Cheltenham, Maryland, until calendar year 1966 although they could be completely closed at the latest by December 31, 1964. Of this amount, an unnecessary expenditure of about \$1,555,000 could be prevented by canceling the leases for 36 switching cabinets and auxiliary equipment at these Navy switching centers by June 30, 1964, and the remaining unnecessary expenditure of about \$2,015,000 could be prevented by canceling the remaining leases by December 31, 1964.

The military services operate teletype switching centers adjacent to each other on the west and east coasts. We found that the message traffic could be handled by two instead of three switching centers on each coast. We proposed to the Department of Defense that the message switching functions at Stockton, California, and Cheltenham, Maryland, be eliminated. The Department of Defense agreed that the switching centers could be closed and stated that their discontinuance in the near future had been considered, but that, after examining the number of spare terminations (equipment) at the Army and Air Force switching centers involved, it was found that the required terminations did not exist in sufficient quantities to completely take over the Stockton and Cheltenham automatic teletype switching functions at this time. Our review disclosed, however, that the switching of messages for 42 percent of the Stockton and Cheltenham tributary stations could be taken over by the nearby Army and Air Force switching centers and that the leases on enough equipment could be canceled by June 30, 1964, to effect substantial savings. The remaining switching functions could then be transferred to the Army and Air Force switching centers, and all the remaining leases could be canceled by December 31, 1964.

We recommended, therefore, that the Secretary of Defense take immediate steps to eliminate the duplicate facilities by systematically transferring the switching functions of Stockton and Cheltenham without waiting until the entire centers are closed.

Index No. 20

C-64-102

B-146880, April 3, 1964

**Excessive Costs Resulting From the Operation of Separate Departmental Public Information Offices, Department of Defense**

Our review of public information activities within the Department of Defense disclosed that excessive costs resulted from the operation of separate departmental public information offices.

During the last half of fiscal year 1963, there were approximately 450 persons engaged in public information activities in the Office of the Assistant Secretary of Defense (Public Affairs) and in the public information offices at the headquarters level of military departments, at a total cost of about \$3.8 million annually. In our opinion consolidation of the public information activities under a single Defense organization would permit improved distribution of workload and more efficient utilization of personnel without detracting from the effectiveness of the mission and would save an amount estimated at more than \$1 million annually.

We submitted a draft report of our findings to the Department of Defense for comment, indicating the savings which we estimated would result from a consolidation of the public information activities of the military departments and the Office of the Assistant Secretary of Defense (Public Affairs).

In responding to our draft report by memorandum dated January 21, 1964, the Assistant Secretary of Defense (Public Affairs) advised us that action had been taken to consolidate, within his office, certain of the public information activities of the military services and that additional steps are under active consideration to consolidate within his office other activities now under the information offices of the individual services. He advised also that detailed management improvement studies are now in process in connection with certain field information activities under the individual services.

We believe that the actions already taken by the Assistant Secretary of Defense (Public Affairs) to eliminate duplication of effort and improve operating efficiency are commendable. However, we believe that further savings and management improvements can result from consolidation of activities in the areas identified above as being under consideration or study. We recommended to the Secretary of Defense that the studies involving these additional areas of public information activities be diligently pursued and we requested that we be informed as to the actions taken as a result of such studies.

#### LEASE VERSUS PURCHASE (ADP EQUIPMENT, PLANT FACILITIES AND MOTOR VEHICLES)

Index No. 10  
B-146812, March 18, 1964

C-64-92

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by the Aerospace Division of Martin Marietta Corporation, Baltimore, Maryland; Denver, Colorado; and Orlando, Florida; Department of Defense

If the contractor, Aerospace Division of Martin Marietta Corporation, Baltimore, Maryland; Denver, Colorado; and Orlando, Florida, continues to lease the electronic data processing systems, the Government will incur unnecessary cost of about \$7.7 million over a 5-year period because the contractor will pay rentals greater than the full purchase and maintenance cost to the Government, including interest on the investment. The amount of the unnecessary cost will increase to about \$13 million at the end of a 6-year period, and the Government will have incurred unnecessary costs totaling about \$37 million at the end of a 10-year period. Furthermore, neither the Government nor the contractor will own the equipment even though amounts significantly in excess of the purchase cost of the equipment will have been paid.

While our report dealt only with the cost of leasing versus purchasing data processing equipment installed at Martin Marietta, it was based on the concept of central ownership and management of data processing equipment by the Government as a whole rather than from the standpoint of individual contractors or using agencies as has been the practice in the past. The General Accounting Office, as part of an over-all program for the review of the financial advantages of purchasing rather than leasing electronic data processing equipment, has issued a series of reports on this subject to the Congress, including B-115369 dated March 1963 and B-146732 dated April 1963. In these reports we recommended that the President of the United States establish in his organization a central management office suitably empowered with authority and responsibility to make decisions on the procurement and utilization of data processing equipment, with the objective of obtaining and utilizing all needed facilities at the lowest cost to the Government. We further recommended that, until the necessary coordinating organization is established, the Secretary of Defense direct that the acquisition and use of data processing equipment be administered by one department or agency of the military establishment which would act as a clearing house for data processing equipment requirements and usage.

The contractor generally disagreed with our finding that the Government was incurring unnecessary costs through the leasing of electronic data processing

equipment by Martin and commented upon the economic advantages of leasing rather than purchasing from its own standpoint as an individual Government contractor. Our finding, however, is predicated on the fact that most electronic data processing equipment is general purpose in nature and can be used to perform different kinds of tasks once programmed to do so. Such equipment, if no longer needed for its originally intended purpose, can be placed in use for other purposes in other activities if purchased by the Government rather than leased by the contractor.

The Department of Defense, in its comments to us on the subject of lease versus purchase, advised us that it agreed with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole. We were advised also that the military departments had initiated studies to reappraise leases of electronic data processing equipment by Government contractors and that, upon completion of these studies, the Department of Defense would take the necessary action to realize financial savings that may be available. We were further advised that the Department of Defense was considering a revision of the Armed Services Procurement Regulation that would, under certain conditions, limit reimbursement of lease costs to the equivalent of contractor ownership costs.

We recommended to the Secretary of Defense that immediate consideration be given either (1) to purchasing the equipment installed at Martin or (2) to limiting the amounts Martin is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application. Also, the Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and at contractors' plants where the equipment is used solely on Government work. This directive, however, does not apply to contractors engaged predominantly in Government work. We therefore recommended that this directive be amended to include a requirement that consideration also be given to purchasing equipment installed at contractors' plants such as Martin-Marietta where not all, but a substantial part, of the cost of such equipment will become a part of Government contract prices. Consideration should also be given to providing for the contractor to pay a reasonable charge for its use of the equipment in its non-Government activities.

Index No. 28  
B-146732, April 23, 1964

C-64-110

#### Unnecessary Cost to the Government in the Leasing of Electronic Data Processing Systems by The Boeing Company, Airplane Division, Wichita, Kansas, Department of Defense.

Our review of the leasing of electronic data processing systems by The Boeing Company, Airplane Division, Wichita, Kansas, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For instance, for the equipment installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$3.7 million over a 5-year period, about \$6.3 million over a 6-year period, and about \$17.3 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor generally disagreed that purchase of the equipment would be advantageous. The Department of Defense, however, in its recent comments to us on the subject of lease versus purchase, has advised us that it agrees with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole. We

have been advised also that the military departments have initiated studies to reappraise leases of electronic data processing equipment of Government contractors and that, upon completion of these studies, the Department of Defense will take the necessary action to realize financial savings that may be available. We have been advised further that the Department of Defense is considering a revision of the Armed Services Procurement Regulation that will, under certain conditions, limit reimbursement of lease costs to the equivalent of contractor ownership costs.

We recommended to the Secretary of Defense that immediate consideration be given either (1) to purchasing the equipment installed at Boeing or (2) to limiting the amounts Boeing is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application. Also, the Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive, however, does not apply to contractors engaged predominantly in Government work. We therefore recommended that this directive be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as Boeing/Wichita, where not all of the cost of such equipment but a substantial part of it will become a part of Government contract prices. We recommended also to the Director, Bureau of the Budget, that Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 30

B-146732, April 28, 1964

C-64-112

Unnecessary Costs to the Government in the Leasing of an Electronic Data Processing System by the Chrysler Corporation, Defense Operations Division, Center Line, Michigan, Department of the Army.

Our review of the leasing of an electronic data processing system, by Chrysler Corporation, Defense Operations Division, Center Line, Michigan, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For instance, for the equipment installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$56,000 over a 5-year period, about \$141,400 over a 6-year period, and about \$505,000 over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor acknowledged that the concept of a central control agency for data processing equipment may have some merit when viewed from an overall Government position and that the Government might experience lesser costs in the performance of its contracts if such an agency were established, but stated that this premise lacked validity when applied to its own individual operation. The Department of Defense, in its recent comments to us on the subject of lease versus purchase, has advised us that it agrees with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole. We were advised also that the military departments have initiated studies to reappraise leases of electronic data processing equipment of Government contractors and that, upon completion of these studies, the Department of Defense will take the necessary action to realize financial savings that may be available. We were advised further that the Department of Defense is considering a revision of the Armed Services Procurement

Regulation that would, under certain conditions, limit reimbursement of lease costs to the equivalent of contractor ownership costs.

We recommended to the Secretary of Defense that immediate consideration be given to either (1) to purchasing the system installed at Chrysler's Defense Operations Division or (2) to limiting the amounts Chrysler is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application. Also, the Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive, however, does not apply to contractors engaged predominantly in Government work. We recommended, therefore, that this directive be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as Chrysler's Defense Operations Division, where not all of the cost of such equipment but a substantial part of it will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 31

C-64-113

B-146732, April 29, 1964

Unnecessary Costs to the Government in the Leasing of an Electronic Data Processing System by the Continental Aviation and Engineering Corporation, Research Division, Detroit, Michigan, Department of Defense

Our review of the leasing of an electronic data processing system, by Continental Aviation and Engineering Corporation, Research Division, Detroit, Michigan, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For instance, for the equipment installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$72,400 over a 5-year period, about \$139,000 over a 6-year period, and about \$414,300 over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor generally disagreed with our finding and commented upon the economic advantages of leasing rather than purchasing from its own standpoint as an individual Government contractor. The Department of Defense, in its recent comments to us on the subject of lease versus purchase, has advised us that it agrees with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole. We have been advised also that the military departments have initiated studies to reappraise leases of electronic data processing equipment of Government contractors and that, upon completion of these studies, the Department of Defense will take the necessary action to realize financial savings that may be available. We have been advised further that the Department of Defense is considering a revision of the Armed Services Procurement Regulation that will, under certain conditions, limit reimbursement of lease costs to the equivalent of contractor ownership costs.

We recommended to the Secretary of Defense that immediate consideration be given either (1) to purchasing the equipment installed at Continental or (2) to limiting the amounts Continental is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful

life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application. Also, the Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing automatic data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive, however, does not apply to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as Continental, where not all of the cost of such equipment but a substantial part of it will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 49  
B-146732, June 11, 1964

C-64-132

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Dynamics Corporation, Fort Worth Division, Fort Worth, Texas, Department of Defense

Our review of the leasing of electronic data processing systems by General Dynamics Corporation, Fort Worth Division, Fort Worth, Texas, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For the equipment installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$2 million over a 5-year period, about \$3.9 million over a 6-year period, and about \$11.5 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government, in effect, bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor generally disagreed with our finding and commented upon the economic advantages of leasing rather than purchasing from its own standpoint as an individual Government contractor. The Department of Defense, in commenting on the subject of lease versus purchase, has advised us that it agrees with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole, but expressed reservations as to its application where contractor operations are involved. We have been advised also that the military departments have initiated studies to reappraise leases of electronic data processing equipment by Government contractors and that, upon completion of these studies, the Department of Defense will take the necessary action to realize financial savings that may be available. We have been advised further that the Department of Defense is considering a revision of the Armed Services Procurement Regulation that will, under certain conditions, limit reimbursement of lease costs to the equivalent of contractor ownership costs.

We recommended to the Secretary of Defense that immediate consideration be given either (1) to purchasing the equipment installed at General Dynamics/Fort Worth or (2) to limiting the amounts General Dynamics is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

Index No. 50

C-64-133

B-146732, June 12, 1964

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by Aerojet-General Corporation, Sacramento, California, Department of Defense

Our review of the leasing of electronic data processing systems by Aerojet-General Corporation, Sacramento, California, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For the equipment installed in the above plants at the time of our review, the leasing costs exceed purchase costs by about \$901,000 over a 5-year period, about \$2.8 million over a 6-year period, and about \$10.8 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor disagreed with our finding that the Government was incurring unnecessary costs through the leasing of electronic data processing equipment by Aerojet-General and stated that ownership and management of data processing equipment by the Government is neither practical nor economical. The Department of Defense, in commenting on the subject of lease versus purchase, has advised us that it agrees with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole but expressed reservations as to its application where contractor operations are involved. We have been advised also that the military departments have initiated studies to reappraise leases of electronic data processing equipment of Government contractors and that, upon completion of these studies the Department of Defense will take the necessary action to realize financial savings that may be available. We have been advised further that the Department of Defense is considering a revision of the Armed Services Procurement Regulation that will, under certain conditions, limit reimbursement of lease costs to the equivalent of contractor ownership costs.

We recommended to the Secretary of Defense that immediate consideration be given to either (1) purchasing the equipment installed at Aerojet-General or (2) limiting the amounts Aerojet-General is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

The Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration also be given to purchasing equipment installed at contractors' plants, such as Aerojet-General, where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Bureau of the Budget Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for its use of the equipment in its non-Government activities.

Index No. 52  
B-146732, June 15, 1964

C-64-135

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by Autonetics, a Division of North American Aviation, Inc., Anaheim, California, Department of Defense

Our review of the leading of electronic data processing systems, by Autonetics, a Division of North American Aviation, Inc., Anaheim, California, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For the equipment installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$3.2 million over a 5-year period, about \$5.9 million over a 6-year period, and about \$17.8 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor agreed that, in view of the increasing use of highly complex and expensive electronic data processing equipment, every effort should be made to assure that such equipment is effectively and economically employed. The Department of Defense, in commenting on the subject of lease versus purchase, has advised us that it agrees with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole, but has expressed reservations as to its application where contractor operations are involved. We have been advised also that the military departments have initiated studies to reappraise leases of electronic data processing equipment by Government contractors and that, upon completion of these studies, the Department of Defense will take the necessary action to realize financial savings that may be available. We have been advised further that the Department of Defense is considering a revision of the Armed Services Procurement Regulation that will, under certain conditions, limit reimbursement of lease costs to the equivalent of contractor ownership costs.

We recommended to the Secretary of Defense that immediate consideration be given either (1) to purchasing the equipment installed at Autonetics or (2) to limiting the amounts Autonetics is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total life of the equipment and should not be limited to the period of time it is anticipated to be used in its present applications.

The Department of Defense, on September 28, 1963, issued a directive which required that consideration be given to purchasing automatic data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive, however, does not apply to contractors engaged predominantly in Government work. We, therefore, recommended that this directive be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as Autonetics, where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We recommended also to the Director, Bureau of the Budget, that Bureau of the Budget Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 55  
B-133063, June 18, 1964

C-64-138

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Equipment by the Finance Center, Fort Benjamin Harrison, Indianapolis, Indiana, Department of the Army

Our review of the leasing of certain electronic data processing equipment by the Army Finance Center, Indianapolis, Indiana, disclosed that this method of



procurement was substantially more costly to the Government than it would have been for the Army to exercise an option to purchase offered by the manufacturer. We brought this matter to the attention of the Army and estimated that, if it continued to lease this equipment, the Government would incur unnecessary costs of about \$1.15 million in the next 5 years and, thereafter, about \$485,000 for each additional year the equipment was retained.

We have subsequently been informed that the Department of the Army has purchased this equipment, together with another similar piece of equipment, and that it expects a net savings to the Government of about \$500,000 in less than 3 years. The Department of Defense in commenting on the subject of lease versus purchase also advised us that it agrees with the basic concept that equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole.

The Army Finance Center has basic responsibilities in the military pay area. We have discussed on several occasions the need for overall improvements in the administration of the military pay system with Department of Defense officials. In a letter dated May 14, 1963, we pointed out to the Secretary of Defense that, although the pay system for the four services is governed by essentially the same laws and regulations, each independently implements and administers its own system. This has resulted in wide variations in equipment needs and uses. The Secretary of Defense has agreed that there is a considerable potential for cost savings in this area and has informed us that a study is now being made of the entire military pay structure. It is recognized that, because of the complexity of the military pay system, this and other necessary actions prior to implementation will take an appreciable period of time.

Therefore, in view of the potential for substantial savings in the not too distant future, and the fact that it is reasonable to expect that equipment of this nature could be used in other Government functions if it is no longer needed in the Army Finance Center as a result of changes in the military pay system, purchase of this equipment by the Department of the Army is the most economical method of accomplishing the Army's data processing work in the pay area during the interim period.

Index No. 64  
B-146732, June 26, 1964

C-64-148

Unnecessary Costs to the Government Through the Leasing of Electronic Data Processing Systems by the Operating Contractor, ARO, Inc. Arnold Engineering Development Center, Arnold Air Force Station, Tennessee, Department of the Air Force

Our review of the leasing of electronic data processing systems by ARO, Inc., operating contractor of the Air Force's Arnold Engineering Development Center, Arnold Air Force Station, Tennessee, has disclosed that leasing is substantially more costly to the Government, in the form of reimbursable costs to the contractor, than it would be for the Government to purchase this equipment and furnish it to the contractor. This equipment is used almost exclusively for Government work. For the equipment installed at the Arnold Engineering Development Center at the time of our review, the leasing costs exceed purchase costs by about \$424,000 over a 5-year period, about \$432,000 annually after the 5-year period, and about \$2.6 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In our draft report, which was forwarded to the Secretary of Defense on November 7, 1963, we pointed out also that about \$116,000 could be saved over the remaining portion of a 5-year life, or over \$900,000 during a 10-year life, if certain of the components of the systems were purchased as of December 31, 1963. We proposed that the Air Force consider the purchase of the components of these systems.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the location where installed. In our opinion, however, when the Government bears the predominant cost of such equipment, the decision affecting such costs should be based on the usefulness of such equipment throughout the Government. The Department of Defense, in recent comments to us on the subject of lease versus purchase, has stated that it agreed with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole, but expressed reservations

as to its application where contractor operations are involved. We were advised also that the military departments had initiated studies to reappraise leases of electronic data processing equipment leased by ARO, Inc., as well as at other contractor locations and that, upon completion of these studies, the Department of Defense would take the necessary action to realize financial savings that may be available.

In view of the potential savings available to the Government if the electronic data processing equipment rented by ARO, Inc., is purchased, and the fact that delays would minimize or eliminate these savings, we recommended that prompt consideration be given to the purchase of this equipment by the Department of Defense.

Index No. 66  
B-146732, June 30, 1964

C-64-150

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by the Goodyear Aerospace Corporation, Akron, Ohio, Department of Defense

Our review of the leasing of electronic data processing systems by Goodyear Aerospace Corporation, Akron, Ohio, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For instance, for the equipment installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$174,000 over a 5-year period, about \$402,000 over a 6-year period, and about \$1.3 million over a 10-year period. Moreover, although the Government would have paid, during these periods, the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor disagreed with our finding and commented that it would be in the interest of all concerned if this equipment were to be leased rather than purchased. The Department of Defense, in its recent comments to us on the subject of lease versus purchase, has advised us that it agrees with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole. We have been advised also that the military departments have initiated studies to reappraise leases of electronic data processing equipment of Government contractors and that, upon completion of these studies, the Department of Defense will take the necessary action to realize financial savings that may be available. We have been advised further that the Department of Defense is considering a revision of the Armed Services Procurement Regulation that will, under certain conditions, limit reimbursement of lease costs to the equivalent of contractor ownership costs.

We recommended to the Secretary of Defense that immediate consideration be given either (1) to purchasing the equipment installed at Goodyear or (2) to limiting the amounts Goodyear is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application. Also, the Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing automatic data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive, however, does not apply to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as Goodyear where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Circular No. A-54 be amended to include a similar requirement.

In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 85  
B-146732, July 31, 1964

C-65-14

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Electric Company Flight Propulsion Division, Cincinnati, Ohio, and West Lynn, Massachusetts, Department of Defense

Our review of the leasing of electronic data processing systems, by General Electric Company, Flight Propulsion Division, at its plants in Cincinnati, Ohio, and West Lynn, Massachusetts, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For the equipment installed in the above plants at the time of our review, the leasing costs exceed purchase costs by about \$1.3 million over a 5-year period, about \$2.6 million over a 6-year period, and about \$8 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor generally disagreed with our finding that the Government was incurring unnecessary costs through its leasing of data processing equipment. The Department of Defense, in commenting on the subject of lease versus purchase, has advised us that it agrees with the basic concept of acquiring and utilizing electronic data processing equipment in the most economical manner, but expressed its intention to avoid furnishing data processing equipment to contractors as Government-furnished equipment unless the equipment is Government-owned and in an excess status.

In view of the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government and the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work being performed is predominantly for the Government. In this regard, we recommended that the Secretary of Defense give immediate consideration to either (1) purchasing the equipment installed at General Electric or (2) limiting the amounts General Electric is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

The Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as General Electric, where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Bureau of the Budget Circular No. A-54, be amended to include a similar requirement. In addition, we

recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 87  
B-146732, July 31, 1964

C-65-16

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Electric Company Heavy Military Electronics Department, Syracuse, New York, Department of Defense

Our review of the leasing of electronic data processing systems by General Electric Company, Heavy Military Electronics Department, Syracuse, New York, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For the equipment installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$1 million over a 5-year period, about \$2.1 million over a 6-year period, and about \$6.8 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor generally disagreed with our finding that the Government was incurring unnecessary costs through the leasing of electronic data processing equipment by General Electric Company and commented upon the economic advantages of leasing rather than purchasing from its own standpoint as an individual Government contractor. The Department of Defense, in commenting on the subject of lease versus purchase, has advised us that it agrees with the basic concept of acquiring and utilizing electronic data processing equipment in the most economical manner, but expressed its intention to avoid furnishing data processing equipment to contractors as Government-furnished equipment unless the equipment is Government-owned and in an excess status.

In view of the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government and the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work being performed is predominantly for the Government. In this regard, we recommended that the Secretary of Defense give immediate consideration to either (1) purchasing the equipment installed at General Electric/Syracuse or (2) limiting the amounts General Electric is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

The Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement and consideration be given also to purchasing equipment installed at contractors' plants, such as General Electric/Syracuse, where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Bureau of the Budget

Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 94  
B-146732, August 5, 1964

C-65-23

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Motors Corporation AC Spark Plug Division, Milwaukee, Wisconsin, Department of Defense

Our review of the leasing of electronic data processing systems by General Motors Corporation, AC Spark Plug Division, Milwaukee, Wisconsin, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government—in the form of reimbursable costs and as elements of contract prices paid by the Government—than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For the equipment installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$1.2 million over a 5-year period, about \$2.3 million over a 6-year period, and about \$6.7 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In deciding whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment at only the one location where it is installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting the costs should be based on the usefulness of such equipment throughout the Government.

The contractor generally disagreed with our conclusion that the Government was incurring unnecessary costs through the leasing of electronic data processing equipment by the AC Spark Plug Division and commented upon the economic advantages of leasing rather than purchasing from its own standpoint as an individual Government contractor. The Department of Defense, in commenting on the subject of lease versus purchase, has advised us that it agrees with the basic concept of acquiring and utilizing electronic data processing equipment in the most economical manner, but expressed its intention to avoid furnishing data processing equipment to contractors as Government-furnished equipment unless the equipment is Government owned and in an excess status.

In view of the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government and the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work being performed is predominantly for the Government. In this regard, we recommended that the Secretary of Defense give immediate consideration to either (1) purchasing the equipment installed at the AC Spark Plug Division or (2) limiting the amounts which the AC Spark Plug Division is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment, and should not be limited to the period of time it is anticipated the equipment will be used in its present application.

The Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and at contractors' plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration also be given to purchasing equipment installed at contractors' plants, such as the AC Spark Plug Division, where not all the cost of such equip-

ment, but a substantial part of it, will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Bureau of the Budget Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 99

B-146732, August 12, 1964

C-65-28

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by the Boeing Company, Aero-Space Division, Seattle, Washington, Department of Defense.

Our review of the leasing of electronic data processing systems by the Boeing Company, Aero-Space Division, Seattle, Washington, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For the equipment installed in the Aero-Space Division at the time of our review, the leasing costs exceed purchase costs by about \$10.3 million over a 5-year period, about \$17.8 million over a 6-year period, and about \$47.6 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor disagreed with our conclusion that unnecessary costs will be incurred through the leasing of electronic data processing equipment at the Aero-Space Division. In commenting on the subject of lease versus purchase, the Department of Defense has advised us that it agrees with the basic concept of acquiring and utilizing electronic data processing equipment in the most economical manner, but expressed its intention to avoid furnishing data processing equipment to contractors as Government-furnished equipment unless the equipment is Government owned and in an excess status.

In view of the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government and the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work being performed is predominantly for the Government. In this regard, we recommended that the Secretary of Defense give immediate consideration to either (1) purchasing the equipment installed at Boeing or (2) limiting the amounts Boeing is permitted to charge Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

The Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as Boeing, where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We also recommended to the

Director, Bureau of the Budget, that Bureau of the Budget Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for usings this equipment in its non-Government activities.

Index No. 100

C-65-29

B-146732, August 13, 1964

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by General Electric Company, Light Military Electronics Department, Utica, New York, Department of Defense

Our review of the leasing of electronic data processing systems by General Electric Company, Light Military Electronics Department, Utica, New York, for use in performance of Government contracts has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For the equipment installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$840,000 over a 5-year period, about \$1.6 million over a 6-year period, and about \$4.9 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, it would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The contractor generally disagreed with our conclusion that the Government was incurring unnecessary costs through the leasing of electronic data processing equipment. In commenting on the subject of lease versus purchase, the Department of Defense has advised us that it agrees with the basic concept of acquiring and utilizing electronic data processing equipment in the most economical manner but expressed its intention to avoid furnishing data processing equipment to contractors as Government-furnished equipment unless it is Government owned and in an excess status.

In view of the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government and the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work being performed is predominantly for the Government. In this regard, we recommended that the Secretary of Defense give immediate consideration to either (1) purchasing the equipment installed at General Electric or (2) limiting the amounts General Electric is permitted to charge Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

Index No. 117

C-65-46

B-146732, August 31, 1964

Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by Lincoln Laboratory, Massachusetts Institute of Technology, Lexington, Massachusetts, Department of the Air Force

Our review of the leasing of electronic data processing systems by Lincoln Laboratory, Massachusetts Institute of Technology, Lexington, Massachusetts, has disclosed that leasing is substantially more costly to the Government, in the form of reimbursable costs to the contractor, than it would be for the Govern-

ment to purchase this equipment and furnish it to the contractor. This equipment is used exclusively for Government work. For the equipment installed at Lexington, Massachusetts, and Kwajalein Island at the time of our review, the leasing costs exceed purchase costs by about \$2.7 million over a 5-year period, about \$2.3 million annually after the 5-year period, and about \$14.4 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use. Our review disclosed that the contractor, 4½ years earlier, had also recognized the advantages of purchasing the largest of these systems, an IBM 7090 located at Lexington, Massachusetts; however, a recommendation to do so was rejected by the local management group of the Department of Defense.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the location where installed. In our opinion, however, when the Government bears the predominant or, as in this case, the entire cost of this equipment, the decision affecting such costs should be based on the usefulness of this equipment throughout the Government. The Department of Defense, in commenting on the subject of lease versus purchase, has stated that it agreed with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole but expressed reservations as to its application when contractor operations are involved. We were advised also that the military departments had initiated studies to reappraise leases of electronic data processing equipment at Lincoln Laboratory as well as at other contractor locations and that, upon completion of these studies, the Department of Defense would take the necessary action to realize financial savings that may be available.

The Department of Defense, on May 21, 1964, advised us of the results of its reappraisal to date. The Department, for the first time, expressed its intention to avoid furnishing data processing equipment to contractors as Government-furnished equipment unless the equipment is already Government owned and in an excess status. It concluded that lease versus purchase decisions pertaining to equipment at contractors' plants should be based on anticipated usefulness of the equipment solely at the plant where it is installed rather than on a Government-wide basis as we advocated. We believe, however, that the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government is evident. In view of the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work being performed is exclusively or predominantly for the Government. In this regard, we recommended that, in view of the potential savings available to the Government if components of the electronic data processing systems rented by Lincoln Laboratory are purchased and of the fact that delays would minimize or eliminate these savings, the Secretary of Defense give prompt consideration to the purchase of these components.

Index No. 120

B-146732, September 3, 1964

C-65-49

Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by Lear Siegler, Inc., Instrument Division, Grand Rapids, Michigan, Department of Defense

Our review of the leasing of electronic data processing systems by Lear Siegler, Inc., Instrument Division, Grand Rapids, Michigan, has indicated that leasing would be substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor. This equipment is used predominantly for Government work. For the equipment installed at Lear Siegler, Inc., at the time of our review, the leasing costs exceed purchase costs by about \$345,000 over a 5-year period, about



\$383,000 annually after the 5-year period, and about \$2.3 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The Department of Defense, in commenting on the subject of lease versus purchase, has stated that it agreed with the basic concept that the equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole, but expressed reservations as to its application when contractor operations are involved. We were advised also that the military departments had initiated studies to reappraise leases of electronic data processing equipment leased by Lear Siegler as well as at other contractor locations and that, upon completion of the studies, the Department of Defense would take the necessary action to realize financial savings that may be available. The Department of Defense, on May 21, 1964, advised us of the results of its reappraisal to date. The Department, for the first time, expressed its intention to avoid furnishing data processing equipment to contractors as Government-furnished equipment except where excess Government-owned equipment is available for such use. It concluded that lease versus purchase decisions should be based on anticipated usefulness of the equipment solely at the contractor's plant rather than on a Government-wide basis as we advocated.

We believe, however, that the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government is evident. In view of the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work being performed is exclusively or predominantly for the Government. In this regard, we recommended that the Secretary of Defense give prompt consideration to either (1) purchasing the equipment installed at Lear Siegler or (2) limiting the amounts Lear Siegler is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

The Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as Lear Siegler, where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Bureau of the Budget Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 132

B-146732, September 30, 1964

C-65-61

Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by the Bacchus Works Hercules Powder Company, Magna, Utah, Department of Defense

Our review of the leasing of electronic data processing systems by the Bacchus Works, Hercules Powder Company, Magna, Utah, has disclosed that leasing is

substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor. This equipment is used predominantly for Government work. For the equipment installed at Hercules Powder Company as of September 30, 1963, we estimated that the leasing costs will exceed the purchase costs by about \$1.3 million over a 5-year period, about \$1.1 million annually after the 5-year period, and about \$6.8 million at the end of a 10-year period. A reduction by the equipment manufacturer in the hourly extra-use rate charged for use of the machines in excess of the basic monthly rental period, effective July 1, 1964, will reduce these excess costs of leasing, but does not seriously diminish the economic advantages of purchasing the equipment. Moreover, although the Government will have paid during these periods almost all the indicated amounts in excess of the full purchase price, the Government will not own the equipment and will be required to continue payment of rental for further use.

In determining whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where it is installed. It is our view, however, that, when the Government in effect exclusively or predominately bears the cost of such equipment, the decisions affecting such costs should be based on the usefulness of the equipment throughout the Government.

The Department of Defense, in commenting on the subject of lease versus purchase, has stated that it agreed with the basic concept that the equipment should be acquired and utilized in the most economical manner. In implementation of this concept, the Department of Defense has determined that automatic data processing equipment leased by military activities, with an acquisition cost of over \$225 million, can be purchased at an economic advantage to the Government. We were informed that, through reprogramming of certain uncommitted funds, the Department planned to make available about \$201 million for the purchase of this equipment during fiscal year 1964 and that the remainder of the funds would be requested in subsequent budgets.

We believe, however, that there is a need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government. In view of the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work is performed exclusively or predominantly for the Government. In this regard, we recommended that the Secretary of Defense give prompt consideration to either (1) purchasing the equipment installed at Hercules Powder Company or (2) limiting the amounts Hercules Powder Company is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment, and the useful life should not be limited to the period of time it is anticipated the equipment will be used in its present application.

The Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractor's plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration also be given to purchasing equipment installed at contractors' plants, such as Hercules Powder Company, where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Bureau of the Budget Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require contractors to pay a reasonable charge for using this equipment in non-Government activities.

Index No. 139  
B-146732, October 5, 1964

C-65-68

Unnecessary Costs to the Government Through the Leasing of Electronic Data Processing Systems by General Dynamics/Astronautics, a Division of General Dynamics Corporation, San Diego, California, Department of the Air Force.

Our review of the leasing of electronic data processing systems by General Dynamics/Astronautics, a division of General Dynamics Corporation, San Diego, California, has disclosed that leasing is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. This equipment is used exclusively for Government work. For the equipment installed at General Dynamics/Astronautics at the time of our review, we estimated that the leasing costs will exceed purchase costs by about \$5.2 million over a 5-year period, about \$3.9 million annually after 5 years, and about \$24.9 million at the end of 10 years. A reduction by the equipment manufacturer in the hourly extra-use rate charged for time the equipment is used in excess of that covered by the basic monthly rental period, effective July 1, 1964, will reduce these excess costs of leasing, but does not seriously diminish the economic advantages of purchasing the equipment. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. We believe, however, that when the Government in effect bears the predominant cost, or as in this case the entire cost, of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The Department of Defense, in commenting on the subject of lease versus purchase, has stated that it agreed with the basic concept that automatic data processing equipment should be acquired and utilized on the basis of maximum economic advantage to the Government as a whole. In implementation of this concept, the Department of Defense has determined that automatic data processing equipment leased by military activities, with an acquisition cost of over \$225 million, can be purchased at an economic advantage to the Government. The Department informed us that, through reprogramming of certain uncommitted procurement funds, it planned to make available about \$201 million for the purchase of automatic data processing equipment during fiscal year 1964 and that the remainder of the funds would be requested in subsequent budgets. However, the Department expressed its intention to avoid furnishing data processing equipment to Government contractors as Government-furnished equipment unless the equipment is already Government owned and in an excess status.

We believe, however, that the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government is evident. In view of the substantial financial savings that can be realized through improved management of these functions, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and as defense contractors' locations where the work being performed is exclusively or predominantly for the Government. In this regard, we recommended that the Secretary of Defense give prompt consideration either (1) to purchasing the equipment installed at General Dynamics/Astronautics or (2) to limiting the amounts General Dynamics/Astronautics is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

Index No. 145  
B-146732, October 23, 1964

C-65-74

**Excessive Costs to the Government in the Sale and Leaseback of an Electronic Data Processing System by the Aerojet-General Corporation, Sacramento, California, Department of Defense**

Our review of the leasing of an electronic data processing system by the Aerojet-General Corporation, Sacramento, California, under a sale and long-term leaseback agreement disclosed that, unless the administrative agency closely monitors the charges made to Government contracts, the Government will incur excess costs of about \$356,000. Although these excess costs would be contrary to the current provisions of the Armed Services Procurement Regulation, which limit rental costs in sale and leaseback arrangements to the amount which the contractor would have received had he retained legal title to the facilities, we found no evidence that the administrative auditors had taken or planned to take any action to question the payment of this amount to the contractor. In reply to our draft report, however, the Department of Defense agreed that the leaseback provisions of the Armed Services Procurement Regulation were applicable to this lease and stated that, when the rental cost under this lease reaches the point of exceeding ownership costs, the limitations provided by the regulation would be invoked.

The contractor disagreed with our finding and stated that the excess costs were hypothetical and would only be incurred at some time in the future in the unlikely event that the equipment was not replaced prior to the expiration of the lease. However, it seems clear to us that the excess costs are not hypothetical and will be incurred unless the administrative agency closely monitors the charges made to Government contracts.

We recommended that the Secretary of Defense take appropriate action to assure that the amount of rentals Aerojet charges to Government contracts is closely monitored and that any rentals or costs that might be incurred by Aerojet in excess of ownership costs of the data processing system not be permitted for reimbursement. We recommended also that the Secretary of Defense reemphasize the need for Government contracting officials to carefully review all types of contractors' lease arrangements to assure that the Government's interests are adequately protected when decisions are made concerning lease versus purchase of data processing equipment.

Index No. 149  
B-146732, October 30, 1964

C-65-78

**Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by General Electric Company Missile and Space Division, Valley Forge, Pennsylvania, Department of Defense**

Our review of the leasing of electronic data processing systems by General Electric Company, Missile and Space Division, Valley Forge, Pennsylvania, has disclosed that leasing is substantially more costly to the Government, in the form of reimbursable costs to the contractor and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. This equipment is used primarily for Government work since about 99.8 percent of the work of the General Electric Company, Missile and Space Division, is performed under Government contracts. For the equipment installed at General Electric at the time of our review, we estimated that the leasing costs exceed purchase costs by about \$2 million over a 5-year period, about \$2 million annually after the 5-year period, and about \$12 million over a 10-year period. A reduction by one equipment manufacturer in the hourly use rate charged for use of the machines in excess of the basic monthly rental period, effective July 1, 1964, will reduce these excess costs of leasing, but does not seriously diminish the economic advantages of purchasing the equipment. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

In considering whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equip-

ment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The Department of Defense, in commenting on the subject of lease versus purchase, has stated that it agrees with the basic concept that the equipment should be acquired and utilized in the most economical manner. In implementation of this concept, the Department of Defense has determined that automatic data processing equipment leased by military activities, with an acquisition cost of over \$225 million, can be purchased at an economic advantage to the Government. The Department informed us that, through reprogramming of certain uncommitted funds, it planned to make available about \$201 million for the purchase of this equipment during fiscal year 1964, and that the remainder of the funds will be requested in subsequent budgets. The Department, however, has expressed its intention to avoid furnishing data processing equipment to contractors as Government-furnished equipment except where excess Government-owned equipment is available for such use.

We believe that the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government is evident. In view of the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work being performed is exclusively or predominantly for the Government. In this regard, we recommended that the Secretary of Defense give prompt consideration either to (1) purchasing the equipment installed at General Electric Company, Missile and Space Division, or (2) limiting the amounts General Electric is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

The Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as General Electric, where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We recommended also to the Director, Bureau of the Budget, that Bureau of the Budget Circular A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 159

B-146732, December 2, 1964

C-65-89

#### Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by Defense Electronic Products, Radio Corporation of America, Camden, New Jersey, Department of Defense

Our review of the leasing of electronic data processing systems by Defense Electronic Products, Radio Corporation of America, Camden, New Jersey, has disclosed that leasing is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor. This equipment is used predominantly for Government work, since about 99 percent of the work of Defense Electronic Products is performed under Government contracts and subcontracts. For the Equipment installed at the six Defense Electric Products plants at the time of our review, we estimated that the Government's share of the leasing costs would exceed the purchase costs by about \$3.4 million over a 5-year period, about \$2.3 million annually after 5 years, and about \$15.1 million at the end of 10 years. A reduction by one

of the equipment manufacturers in the hourly extra-use rate charged for use of the machines in excess of the basic monthly rental period, effective July 1, 1964, will reduce these excess costs of leasing, but does not seriously diminish the economic advantages of purchasing the equipment. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use. Our review disclosed also that 2 years earlier, in November 1961, the contractor had recognized the advantages of purchasing the largest of these electronic data processing systems, but its recommendation to do so was rejected by the Air Force.

In determining whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of the equipment throughout the Government.

The Department of Defense, on September 28, 1963, issued a revised Directive 4105.55 which requires that consideration be given to the relative merits of purchasing data processing equipment for use at Government installations and at contractors' plants where equipment is acquired and operated solely to process Government data at Government expense. This requirement is the same as that included in Bureau of the Budget Circular No. A-54 dated October 14, 1961, which prescribes policy guidance to the heads of executive departments and establishments on the selection and acquisition of data processing equipment. Neither of these directives applies to equipment acquired and operated by contractors, such as Defense Electronic Products, engaged predominantly in Government work.

After we, in our reports, brought the advantages inherent in the purchase of electronic data processing systems to the Department of Defense's attention, it determined that automatic data processing equipment leased by military activities, with an acquisition cost of over \$225 million, can be purchased at an economic advantage to the Government. The Department informed us that, through reprogramming of certain uncommitted procurement funds, it planned to make available about \$201 million for the purchase of automatic data processing equipment during fiscal year 1964 and that the remainder of the funds would be requested in subsequent budgets. However, the Department expressed its intention to avoid furnishing data processing equipment to Government contractors as Government-furnished equipment unless the equipment is already Government owned and in an excess status.

We believe, however, that the need for more effective and coordinated management of the procurement and utilization of data processing equipment of both Federal Government agencies and their contractors is evident.

The Department of Defense has recently drafted a proposed revision to section XV of the Armed Services Procurement Regulation which it expects will assist materially in establishing standards and criteria to ensure that the interests of the Government are adequately protected in contractors' lease-versus-purchase determinations. The instruction contemplates that the determination as to whether purchase of lease is the appropriate method of acquiring the equipment will be based upon the anticipated useful life of the equipment to the particular contractor. This criterion is the same as previously expressed by the Department and is inconsistent with our view that a determination to purchase or lease data processing equipment should be based on the economic usefulness of the equipment to the Government as a whole.

In view of the substantial financial savings that can be realized through improved management of the procurement and utilization of data processing equipment, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work is performed exclusively or predominantly for the Government. In this regard, we recommended that the Secretary of Defense give prompt consideration either (1) to purchasing the electronic data processing equipment installed at Defense Electronic Products

or (2) to limiting the amounts Defense Electronic Products is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated the equipment will be used in its present application.

With respect to Directive 4105.55, we recommended to the Secretary of Defense that this directive be amended to include a requirement that consideration also be given to purchasing equipment installed at contractors' plants, such as Defense Electronic Products, where not all of the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We recommended to the Director, Bureau of the Budget, that Bureau of the Budget Circular No. A-54 be amended to include a similar requirement.

We further recommended that both of these directives be amended to require contractors to pay reasonable charges for using this equipment in non-Government activities.

Index No. 184  
B-146732, January 19, 1965

C-65-114

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by McDonnell Aircraft Corporation, St. Louis, Missouri, Department of Defense

Our review of the leasing of electronic data processing systems by McDonnell Aircraft Corporation, St. Louis, Missouri, primarily for use in performance of Government contracts, has disclosed that this method of procurement is substantially more costly to the Government, in the form of reimbursable costs and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. For the equipment being leased from the manufacturer and installed in the above plant at the time of our review, the leasing costs exceed purchase costs by about \$1.1 million over a 5-year period, about \$2.4 million over a 6-year period, and about \$7.8 million over a 10-year period. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price, the Government would not own the equipment and would be required to continue payment of rental for further use.

A reduction by the equipment manufacturer in the hourly use rate charged for use of the machines in excess of the normal usage upon which the monthly rental was based, effective July 1, 1964, will reduce these excess costs of leasing, but does not seriously diminish the economic advantages of purchasing the equipment.

In determining whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the one location where installed. It is our view, however, that, when the Government bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of such equipment throughout the Government.

The Department of Defense, on September 28, 1963, issued a revised directive 4105.55 which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work.

The Department of Defense, in commenting on the subject of lease versus purchase, has stated that it agreed with the basic concept that the equipment should be acquired and utilized in the most economical manner. In implementation of this concept, the Department of Defense has determined that automatic data processing equipment leased by military activities, with an acquisition cost of over \$225 million, can be purchased at an economic advantage to the Government. The Department informed us that, through reprogramming of certain uncommitted funds, it planned to make available about \$201 million for the purchase of this equipment during fiscal year 1964 and that the remainder of the funds will be requested in subsequent budgets. The Department, however, has expressed its intention to avoid furnishing data processing equipment to contractors as Government-furnished equipment except where excess Government-owned equipment is available for such use.

The Department of Defense has recently drafted a proposed revision to section XV of the Armed Services Procurement Regulation which it expects will assist materially in establishing standards and criteria to ensure that the interests of the Government are adequately protected in contractors lease-versus-purchase

determinations. The instruction contemplates that the determination as to whether purchase or lease is the appropriate method of acquiring the equipment will be based upon the anticipated useful life of the equipment to the particular contractor. This criterion is the same as previously expressed by the Department and is inconsistent with our view that a determination to purchase or lease data processing equipment should be based on the economic usefulness of the equipment to the Government as a whole.

We believe that the need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government is evident. In view of the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work being performed is exclusively or predominantly for the Government. In this regard, we recommended that the Secretary of Defense give prompt consideration either (1) to purchasing the equipment installed at McDonnell, or (2) to limiting the amounts McDonnell is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment and should not be limited to the period of time it is anticipated to be used in its present application.

With respect to Department of Defense Directive 4105.55, we recommended that this directive be amended to include a requirement that consideration also be given to purchasing equipment installed at contractors' plants, such as McDonnell, where virtually all the costs of such equipment will become a part of Government contract prices. Also, we recommended that the Director, Bureau of the Budget, amend Bureau of the Budget Circular No. A-54 to include a similar requirement. In addition, we recommended that both of these directives be amended to require the contractor to pay a reasonable charge for using this equipment in its non-Government activities.

Index No. 185  
B-118734, January 25, 1965

C-65-115

#### Unnecessary Costs Resulting From Leasing Rather Than Purchasing Electronic Data Processing Equipment at Mare Island Naval Shipyard, Vallejo, California, Department of the Navy

Our review disclosed that the Department of the Navy's leasing rather than purchasing International Business Machines computers—one 705 and two 1401's—at the dates of installation at the Mare Island Naval Shipyard, Vallejo, California, resulted in unnecessary costs of about \$1,571,000 and may result in additional unnecessary costs of about \$575,000. Our review disclosed further that no consideration was given to purchasing the equipment at the time of installation. The Navy, however, had other opportunities to purchase the equipment since lessees of International Business Machines equipment can purchase electronic data processing equipment any time after the date of installation at reduced prices. Although consideration was given to purchase of the equipment in 1959 and 1963, purchase action was not initiated because of the lack of funds.

In February 1964, the Navy made substantial purchases of electronic data processing equipment other than that on lease at the shipyard even though purchase of the shipyard equipment would have produced savings sooner. The reasons for failure to purchase the equipment were (1) the Navy plans to install a new computer system at Mare Island at June 30, 1965, and (2) the Navy followed the Department of Defense policy of considering the usefulness of the system only at the location where it was installed. Considering the usefulness of these systems to the Government as a whole, savings of about \$472,000 could have been realized if the equipment had been purchased at February 29, 1964. About \$441,000 of the savings could have been realized if this equipment had been purchased by July 31, 1964.

In view of the vast requirements of the Government for electronic data processing equipment, it is neither efficient nor economical to consider only the needs of a single installation when deciding whether to purchase or lease electronic data



processing equipment. Our review indicated that the decision to treat each installation individually when making such decisions resulted from the interpretation which the Department of Defense placed upon Bureau of the Budget Circular No. A-54.

The limitations of this policy were previously reported by this Office in our report to the Congress, titled "Review of Problems Relating to Management and Administration of Electronic Data Processing Systems in the Federal Government" (B-115369, April 30, 1964). In that report we recommended to the Director of the Bureau of the Budget that the circular be revised to prescribe that, as a minimum, the method of acquisition will be that which results in the greatest financial advantage to the Government, after considering the needs of the entire department or agency rather than only the circumstances pertaining to each installation. In addition, we have recommended that the circular require that, in collaboration with the Bureau of the Budget and the General Services Administration, as appropriate, each agency give consideration to the possible use by other Government agencies of the equipment being considered after the period of expected use by the acquiring agency.

In our report to the Congress on our "Study of Financial Advantages of Purchasing Over Leasing Electronic Data Processing Equipment in the Federal Government" (B-115369, March 6, 1963), we pointed out that there was no effective coordinating machinery in the Government to give proper consideration to lease-purchase decisions from the standpoint of advantage to the Government as a whole. Our findings in this case further point up the need for the establishment of a central management office which would administer a procurement and utilization program for electronic data processing equipment at the lowest possible cost, as we recommended to the President of the United States in the above-mentioned report.

With regard to this particular case, we proposed that the Navy inquire into the firmness of the planned replacement date for the 705 and the 1401 computers and, on the basis of its findings, reappraise the savings possible through purchase of the equipment. Also, if any or all the equipment could not be purchased at a cost savings for use at Mare Island, we proposed further that the Navy determine whether the Department of Defense or other military services could make sufficient use of the equipment, after its replacement at Mare Island, to make the purchase of the equipment economically advantageous.

In response to our proposals, the Navy has advised us that its plans to replace the computers at Mare Island in June 1965 remain unchanged but that the Navy will initiate action to circularize this equipment for consideration of use by the other military services or by the Office of the Secretary of Defense in accordance with instructions issued by the Department of Defense on August 12, 1964. This instruction, which was issued after our findings had been brought to the attention of the Department of Defense, prescribes basic policies and procedures governing the continued utilization of excess and replaced automatic data processing equipment.

In view of the actions being taken by the Department of the Navy, we did not recommend any further corrective measures. We did, however, ask the Secretary of Defense to advise us of the outcome of the Navy's screening of this equipment to other potential users.

Index No. 186  
B-146732, January 27, 1965

C-65-116

Unnecessary Cost to the Government Through the Leasing of Electronic Data Processing Systems by Lockheed Missiles & Space Company, Sunnyvale, California, Department of Defense

Our review of the leasing of electronic data processing systems by Lockheed Missiles & Space Company, Sunnyvale, California, has disclosed that leasing is substantially more costly to the Government, in the form of reimbursable costs to the contractor and as elements of contract prices paid by the Government, than it would be for the Government to purchase this equipment and furnish it to the contractor for use on Government work. Because over 99.9 percent of the work of Lockheed Missiles & Space Company is performed under Government contracts, the Government assumes virtually all of the excess cost.

For the 12 selected systems installed at Lockheed at the time of our review, we estimated that the leasing costs would exceed purchase costs by about \$10 million over a 5-year period, about \$6.3 million annually after 5 years, and about \$41.4 million at the end of 10 years. A reduction by the equipment manufacturer in the hourly extra-use rate charged for use of the machines in excess of the basic monthly rental period, effective July 1, 1964, and a change in the method of com-

puting maintenance charges, effective February 1, 1964, will reduce these excess costs of leasing but does not seriously diminish the economic advantages of purchasing the equipment. Moreover, although the Government would have paid during these periods the indicated amounts in excess of the full purchase price plus maintenance costs, the Government would not own the equipment and would be required to continue payment of rental for further use.

In determining whether equipment of this nature should be leased or purchased, Government agencies and contractors have generally considered the usefulness of the equipment only at the location where installed. It is our view, however, that, when the Government in effect bears the predominant cost of such equipment, the decisions affecting such costs should be based on the usefulness of the equipment throughout the Government. For example, the contractor returned a component of one of the systems to the manufacturer in January 1963. During the 30-month period in which this component was installed at Lockheed, lease payments totaled about 97 percent of the cost to purchase and maintain this unit for the same period. This component, if owned by the Government, could have been transferred to another Government or contractor activity, rather than returned to the manufacturer when it was no longer needed at Lockheed.

In our reports, we brought the advantages inherent in the purchase of electronic data processing systems to the attention of the Department of Defense. The Department then determined that automatic data processing equipment leased by military activities, with an acquisition cost of over \$225 million, can be purchased at an economic advantage to the Government. The Department, however, expressed its intention to avoid furnishing data processing equipment to Government contractors as Government-furnished equipment unless the equipment is already Government owned and in an excess status.

We believe, however, that there is a need for more effective and coordinated management of the procurement and utilization of data processing equipment in the Federal Government. In view of the substantial financial savings that can be realized through improved management of this function, we again 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.

As an interim measure, pending action on the above recommendation, we recommended that the Secretary of Defense coordinate the acquisition and use of data processing equipment both within the military establishment and at defense contractors' locations where the work is performed exclusively or predominantly for the Government. In this regard, we recommended that the Secretary of Defense give prompt consideration to either (1) purchasing the equipment installed at Hercules Powder Company or (2) limiting the amounts Hercules Powder Company is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership. The allocation of the cost of ownership should be based upon a realistic estimate of the total useful life of the equipment, and the useful life should not be limited to the period of time it is anticipated the equipment will be used in its present application.

The Department of Defense, on September 28, 1963, issued a directive which requires that consideration be given to purchasing data processing equipment for use at Government installations and contractors' plants where the equipment is used solely on Government work. This directive does not apply, however, to contractors engaged predominantly in Government work. Therefore, we recommended that this directive be amended to include a requirement that consideration also be given to purchasing equipment installed at contractors' plants, such as Hercules Powder Company, where not all the cost of such equipment, but a substantial part of it, will become a part of Government contract prices. We also recommended to the Director, Bureau of the Budget, that Bureau of the Budget Circular No. A-54 be amended to include a similar requirement. In addition, we recommended that both of these directives be amended to require contractors to pay a reasonable charge for using this equipment in non-Government activities.

Index No. 76  
B-133149, July 15, 1964

C-65-5

Unnecessary Annual Expenditures by the Departments of the Army and the Navy for Leasing Commercial Facilities To Store Petroleum Products in the Los Angeles, California, Area, Department of Defense

Our review of the utilization of Government-owned petroleum storage facilities disclosed that 378,000 barrels of petroleum tankage were being leased unnecessarily at three commercial facilities in the Los Angeles, California, area by the Defense Fuel Supply Center, for storage of Army and Navy petroleum products, at minimum annual storage costs of \$245,950. The leasing of the facilities was unnecessary because 148,000 barrels of this tankage were excess to stated mobilization and operating needs, and the remaining 230,000-barrel requirement could be met through use of available storage capacity at Government-owned petroleum storage facilities in the area.

During our review, and for a substantial period prior thereto, there was idle petroleum storage capacity at the Government-owned petroleum storage facilities at San Pedro, California, that was adequate for the storage of the petroleum products stored in commercial facilities in the same area. After our review, additional capacity became available at the Air Force facility in Norwalk, California. Although it would be necessary to clean and reline the available tanks at the Navy San Pedro facility to accommodate the fuels stored in the commercial facilities, our review indicated that this conversion could be made at an estimated cost of \$330,679. The savings to the Government from elimination of the three commercial leases would amount to at least \$245,950 a year after recovery of the conversion costs.

After our discussion with Department of the Navy personnel, action was taken to provide the necessary funds to convert some of the available tankage at San Pedro, California, and the Navy allowed two of the commercial leases to lapse at June 30, 1963. Although elimination of leasing costs resulted in an annual savings of \$136,650 after recovery of the conversion costs amounting to about \$167,900, no action was taken by the military services to coordinate the total storage requirements in the area for all the services with the total available Government-owned petroleum storage facilities. As a result, a commercial facility was still being leased at the time of our report, to store Army gasoline at an annual cost of \$109,300.

On January 17, 1964, the Deputy Assistant Secretary of Defense (Installations and Logistics) advised us that the conversion of 120,000 barrels of the available tank capacity at San Pedro had been completed but that present operating and mobilization requirements preclude the present conversion of additional tank capacity at the San Pedro petroleum facility to accommodate the Army's storage needs. We were advised, however, that a study was being made to determine whether other Government storage at Norwalk, California, could be made available to meet the needs of departments other than the Air Force.

Subsequently, the Air Force declared 240,000 barrels of storage capacity at Norwalk excess to its needs. However, we have been informed that no decision had been made regarding the use of this excess capacity by the other services, nor, specifically, regarding use by the Army for the mobilization reserve stocks presently stored in a commercial facility in the area.

The Deputy Assistant Secretary of Defense (Installations and Logistics) advised us also that a fully coordinated Department of Defense policy was implemented as a result of our report to the Congress dated July 31, 1963 (B-133149), concerning excess tankage in the San Francisco, California, area. This policy, now incorporated into the revised Defense Supply Agency Manual, requires that a military department coordinate with the other military departments to insure that neither excess Government-owned storage nor excess commercial facilities under contract are available or suitable to satisfy specific requirements.

A recent storage utilization conference, conducted subsequent to the establishment of the Department of Defense policy, did not result in action being taken to terminate the remaining commercial lease. Therefore, there is some question whether the policy as stated in the Deputy Assistant Secretary of Defense letter has been fully effective. Accordingly, we recommended to the Secretary of Defense that the effectiveness of the implementation of the policy be further reviewed. Specifically, we recommended that further consideration be given to the necessity for leasing the commercial facility at San Pedro, California, to store automotive gasoline primarily for Army mobilization reserve requirements while there is available—and unused—tankage capacity for such storage in Government-owned petroleum facilities in the Los Angeles area.

Index No. 137  
B-146876, October 2, 1964

C-65-66

**Uneconomical Leasing of Motor Vehicles for Use in Assembly and Checkout Operations at Minuteman Missile Launch Sites and Avoidance of Congressional Controls Relating to Acquisition of Motor Vehicles, Department of the Air Force**

Leasing rather than Government purchasing of motor vehicles for use by the Boeing Company in the assembly and checkout operations at Minuteman missile launch sites under Department of the Air Force contracts will result in increased costs which, on the basis of information available at the time of our review, will amount to about \$1,852,000 for the 1,634 vehicles which Boeing originally estimated would be required. For example, we estimate that the cost of leasing a Ford Galaxie sedan for a period of 24 months was \$1,023 higher than the cost that would have been incurred if the Government had purchased the vehicle; the cost of leasing a Plymouth 9-passenger Suburban station wagon was \$1,125 higher; and the cost of leasing a Chevrolet one-half ton panel truck was \$1,141 higher. The increased costs are attributable to the fact that (1) rental charges are based on purchase prices of vehicles which are substantially higher than the purchase prices for comparable vehicles obtainable through the General Services Administration and (2) other costs, such as contractors' administration charges and profits, would not be incurred if the Government purchased the vehicles.

We found also that a means of avoiding controls established by the Congress over the numbers, types, cost, and utilization of vehicles to be obtained for use by Government personnel is provided under the lease method. The Air Force required Boeing to make available for use by Air Force and other Government personnel as many as 188 vehicles a day during the period covered by our review.

In commenting on these matters the Deputy Assistant Secretary of Defense (Supply and Services) advised us that he recognized that some cost advantages would have accrued from Government purchase of the vehicles. It was his opinion, however, that the action taken by the Air Force was the best possible at that time under the circumstances; that congressional controls pertaining to vehicles were not avoided since they do not apply to vehicles leased by a contractor and used in the execution of a Government contract; that no new policy should be undertaken by the Department of Defense on the purchase of passenger vehicles, but, in peculiar circumstances, such as described in our report, exceptions to the policy on a case-by-case basis should be made where demonstrable economic benefit to the Government could be obtained; that consideration was being given to the need for publication of special guidance to assure recognition of these situations early in the planning and procurement cycle and that potential savings should not be overlooked. We do not concur that action taken to obtain vehicles was the best possible in the circumstances, or that congressional controls relating to vehicles for use by Government personnel were not avoided.

As a more economical means of obtaining vehicles for the assembly and checkout operations at missile launch sites and other locations where there is a requirement for substantial numbers of vehicles and where the contractor does not possess and normally does not require such transportation capability in its operations, we see no reason why, with proper planning and management on the part of Government organizations concerned, vehicles should not be provided as Government-furnished equipment. In those cases where it is contemplated that contractors will purchase or hire vehicles which are to be used solely for the movement of Government personnel, we feel that justification for such acquisition should be included in the annual budget estimates pursuant to Bureau of the Budget letter of July 1, 1961, and as formerly required by 5 U.S.C. 78(d). In order to avoid delays, emergency requirements could be obtained by short-term lease until the needs have been reviewed by the Congress.

We recommended that the Secretary of Defense initiate appropriate action to provide that, where substantial numbers of motor vehicles are required for use by contractor personnel on major projects and where the contractor does not possess and normally use such transportation capability, the vehicles be acquired through direct purchase by the Government and be furnished to the contractors for use in performing the projects. We recommended also that existing regulations pertaining to the operation and maintenance of Government vehicles be modified to the extent necessary to enable contractors to meet the exigencies and special needs of such projects. Further, we recommended that, upon completion of a contractor's work on a major project, those Government-furnished vehicles suitable for retention be used to replace uneconomically replaceable vehicles included in the inventories of Government branches and that vehicles not required for replace-

ment be disposed of in accordance with established procedures. In regard to vehicles for use of Government personnel in their work on major projects, we recommended that the vehicle requirements be included in the annual budgets submitted to the Congress for review and approval.

POTENTIAL SAVINGS THROUGH USE BY DEFENSE CONTRACTORS OF GSA PROCUREMENT SCHEDULES

Index No. 157

B-146920, November 30, 1964

C-65-86

Unnecessary Cost to the Government in the Leasing of Electrical Accounting Machines by General Dynamics/Astronautics, San Diego, California, and Lockheed Missiles and Space Company, Sunnyvale, California, Department of Defense

Our review of the leasing of electrical accounting machines by General Dynamics/Astronautics, San Diego, California, and Lockheed Missiles and Space Company, Sunnyvale, California, has disclosed that additional extra-shift rental costs, amounting to over \$78,000 annually, are being incurred because the contractors are leasing this equipment under the terms and conditions of the standard commercial rental agreements instead of the more favorable terms and conditions of the General Services Administration rental agreements. Furthermore, existing Department of Defense and General Services Administration regulations do not provide for the leasing of electrical accounting machines under General Services Administration Federal Supply Schedule contracts by these contractors. Inasmuch as work at these contractor locations is performed almost exclusively under Government contracts, the additional costs will be borne by the Government. After we brought this matter to its attention, the General Services Administration initiated a revision to the Federal Procurement Regulations which would permit Government contractors, such as General Dynamics/Astronautics and Lockheed Missiles and Space Company, to utilize the General Services Administration rental agreement.

The Department of Defense has informed us that it is now considering a revision to the Armed Services Procurement Regulation which will require defense contractors to utilize, under appropriate circumstances, the General Services Administration agreements in the leasing of electrical accounting machines. The Department further advised that, should the Armed Services Procurement Regulation be revised, commercial rental agreements of the contractors involved could be terminated and the General Services Administration agreements could be obtained.

In view of the potential savings to the Government through use of the General Services Administration rental agreements, we recommended that the Secretary of Defense, in conjunction with the Administrator of General Services, take prompt action to effect appropriate revisions in the Armed Services Procurement Regulation to implement the concept of Government contractor use of the General Services Administration rental agreements. We recommended further that the Secretary of Defense take the necessary actions to effect replacement of the existing commercial electrical accounting machine leases with the General Services Administration leases at General Dynamics/Astronautics and Lockheed Missiles and Space Company and also at other qualifying contractor activities of the Department of Defense.

Index No. 192

B-132992, February 9, 1965

C-65-125

Potential Savings Through Procurement of Operating Supplies From General Services Administration Sources by Martin-Marietta Corporation, Denver Division, Denver, Colorado, Department of the Air Force

Our review of the procurement of operating supplies by Martin-Marietta Corporation, Denver Division, Denver, Colorado, has disclosed that substantial savings can be achieved in Government costs under Air Force contracts through greater utilization of General Services Administration supply sources. Under current practices, the contractor is purchasing operating supplies from commercial sources at prices higher than the prices of comparable items available to Government users through General Services Administration supply sources. During the 3-year period 1960 through 1962, Martin-Marietta's procurements through commercial sources, rather than through General Services Administration sources, resulted in additional costs to the Government of over \$422,000 for selected items reviewed. The additional costs included in the contractor's total procurements

of operating supplies, on the basis of the percentage disclosed by our review of the selected items, could amount to as much as \$1.6 million during the 3-year period.

Furthermore, existing Department of Defense and General Services Administration procurement regulations do not provide for the use by the Denver Division of Martin-Marietta of General Services Administration sources for the consumable supplies discussed in our report because the contractor is also performing a minute amount of commercial work and because the costs of such consumable supplies are not charged to Government contracts direct but are charged through the contractor's overhead.

After we brought this matter to the attention of the General Services Administration, that agency initiated a revision to the Federal Procurement Regulations which would permit Government contractors, under circumstances such as those discussed in our report, to utilize its supply sources.

We recommended to the Secretary of Defense that, in consonance with a similar review being made by the General Services Administration, he review the provisions of the Armed Services Procurement Regulation with the objective of providing a clear and unequivocal basis for the use of General Services Administration supply sources in the performance of Government work along the lines proposed by that agency.

We recommended also to the Secretary of Defense that he require contract administrators to review existing defense contracts and incorporate the necessary contract provisions so as to permit the use of General Services Administration supply sources. We further recommended to the Secretary of Defense that controls be established to assure that either General Services Administration supplies are utilized by defense contractors, where such use would result in significantly reduced costs of Government contracts, or the costs of operating supplies charged to Government contracts and reimbursed to the contractors be limited to the approximate costs which would be incurred if General Services Administration supply sources were utilized.

#### SHORT SHELF-LIFE ITEMS

Index No. 6  
B-146865, March 10, 1964

C-64-87

#### Wasteful Practices in the Management of Age-Controlled Aeronautical Spare Parts, Department of the Air Force

Our review disclosed that \$4.8 million worth of spare parts had been condemned and committed to disposal by Air Force depots without any examination to determine their serviceability. Ineffective control over the storage of age-controlled parts in warehouses and technical orders which were lacking in clarity further prevented the Air Force from obtaining the benefit of these parts while they were still serviceable. Examples of such parts would be valves containing synthetic rubber washers which tend to deteriorate if stored for prolonged periods.

These deficiencies stemmed chiefly from an unrealistically inflexible policy of the Air Force Logistics Command which required that age-controlled items whose prescribed shelf lives had expired be automatically condemned without regard to their possible remaining usefulness and from the failure of the Command to furnish clear-cut direction to field organizations responsible for management of items in this category.

After bringing these matters to the attention of officials in the Department of the Air Force, corrective action was begun, in the form of revisions to existing Air Force regulations and directives, to correct some of the deficiencies. The changes provide that disposition of age-controlled items with expired shelf lives is to be governed by the results of periodic engineering, tests of the parts. These tests have already resulted in the extension of the shelf life of age-controlled items in one large Federal stock class, valued at about \$4 million, from 42 to 60 months. In addition, an estimated \$3 million worth of condemned parts were returned to active stock in fiscal year 1963. 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.

In our opinion, the success of the Air Force program for management of age-controlled parts will largely depend on the extent to which logistics personnel at the respective Air Materiel Areas comply with the revised procedures. We, therefore, recommended that the Secretary of the Air Force take action to provide for periodic internal reviews to assure that age-controlled parts with expired shelf lives which are capable of continued retention in the active inventory are so

retained. We recommended also that the Secretary issue clarifying instructions pertaining to identifying age-controlled parts and issuing the older items in advance of those having a greater amount of remaining useful life.

Upon inquiry we were informed by the Department of Defense that the Department of the Navy maintains a sizable inventory of age-controlled parts and that it also follows the practice of automatically committing to disposal upon expiration of their shelf lives those parts which it has categorized as "consumable" items. In view of the demonstrated savings which appear realizable in the Department of the Air Force by its departure from this practice, we recommended that the Secretary of Defense consider instituting procedures in the Department of the Navy to provide for similar inspections for physical condition of consumable items prior to expiration of their shelf lives, as are now provided by the Air Force for its inventory of age-controlled parts.

## OTHER SUPPLY MANAGEMENT MATTERS

Index No. 7

B-146848, March 17, 1964

C-64-89

## Unnecessary Costs Incurred in Furnishing Ammunition for Test-Firing M14 Rifles, Department of the Army

The Government incurred unnecessary costs of about \$145,000 because the Army shipped to a contractor, for use in test-firing M14 rifles, ammunition that either had been (1) manufactured and shipped to Army depots by the rifle manufacturer, (2) unnecessarily packaged and then unpackaged by the same contractor, or (3) manufactured by a different contractor and shipped to the rifle manufacturer. Army officials were not alert to the obvious savings that could have resulted by having the contractor retain its own unpackaged ammunition for test-firing M14 rifles. As a result of our bringing this matter to its attention, the Army modified its ammunition contract with the contractor to provide for the diversion of unpackaged ammunition for test-firing M14 rifles being produced by the same contractor. Such action will result in savings to the Government of \$45,000 in cost of packaging under the current contract. The contract price was further reduced by \$40,610 when the contractor and the Army agreed to diversion of certain unpackaged ammunition that did not meet contract specifications but which was considered by the Army as being satisfactory for test-firing the rifles.

We proposed to the Secretary of Defense that he bring the matters covered in this report to the attention of management officials of the military departments and emphasize the responsibility of all individuals to be alert to situations where economies can be achieved. The Deputy Assistant Secretary of the Army (Installations and Logistics) advised us that, in accordance with our proposal, the facts of this report would be disseminated to contracting and auditing personnel throughout the Department of Defense.

Index No. 17

B-146793, March 31, 1964

C-64-99

## Unnecessary Planned Procurement of Major Assemblies for the M151 Utility Truck, Department of the Army

Our review of the Department of the Army's procurement of major assemblies for the M151 utility truck disclosed that the Army was preparing to incur unnecessary costs of \$284,000 in the procurement of spare engines and other major assemblies. The planned procurement was canceled after we brought to the attention of the Army the fact that all required major assemblies had previously been bought. Responsible Army officials either misunderstood or were unaware of the Army's policy of prohibiting any rebuild of M151 major assemblies and/or trucks and of providing for the procurement of only a limited quantity of replacement major assemblies.

The Deputy Assistant Secretary of the Army for Logistics advised us on September 30, 1963, that the Army agreed with our finding and with our proposal that the Army bring this report to the attention of its management officials and emphasize the responsibility of each individual to be fully aware of Army policies and to carry them out in an economical and efficient manner.

The Deputy Assistant Secretary of the Army stated that the lack of awareness of the M151 maintenance policy was caused primarily by the failure of the Army Tank-Automotive Center's Field Service Directorate to assure that the requirements it placed on the Center's Industrial Directorate properly reflected Army maintenance policy and appropriate urgency. He stated further that certain

organizational and procedural changes which had been initiated to correct the unsatisfactory condition were expedited when our finding became known.

The Deputy Assistant Secretary of the Army advised us of further corrective measures that have been taken to prevent the recurrence of this problem.

Index No. 22

C-64-104

B-146765, April 9, 1964

**Uneconomical Practices in the Management of Mobilization Reserve Stocks of Construction Equipment and Commercial-Type Vehicles, Department of the Navy**

Our review disclosed inadequacies in the management by the Department of the Navy of its mobilization reserve stocks of commercial vehicles and construction equipment which resulted in unnecessary costs of about \$66,400. The unnecessary costs were incurred because newly acquired vehicles that had been earmarked for operating use were shipped via mobilization storage centers instead of being shipped directly to the users, vehicles being transferred to operating use were not shipped from the nearest storage location, and usable batteries were declared excess and either given away or sold as scrap.

Our review dealt with only a sample of all transactions involving mobilization reserve stocks. In view of the deficiencies disclosed by our review, it seems likely that, if transactions for all the mobilization reserve stock had been examined, we would have found a total of unnecessary costs substantially greater than the amounts disclosed by our review.

The Navy advised us that continuing action was being taken to prevent further unnecessary disposal of usable material; however, it did not concur with the specific measures we suggested to prevent unnecessary expenditures, generally on the basis that the deficiencies were not supported by the specific examples cited. The record does not support the Navy's position on the matters included in our report.

Our findings show that there is need for a stronger sense of personal responsibility on the part of individuals who have responsibility for management of the mobilization reserve stock and who consequently are required to make decisions involving the expenditure of Government funds. We believe that the basic cause for the absence of this sense of personal responsibility is the failure of the Navy to provide for management controls to properly evaluate the performance of the individuals responsible for these decisions. Therefore, we recommended that the Secretary of the Navy (1) provide for more thorough internal audits and management reviews of these decisions at the Bureau of Yards and Docks, (2) use the results of these internal audits and management reviews in evaluating the work performance of the individuals having responsibility in this area, and (3) appropriately consider, when making personnel evaluations and management assignments, the manner in which these individuals have discharged their responsibilities and performed their duties.

Index No. 24

C-64-106

B-146874, April 13, 1964

**Unnecessary Procurement Resulting From Failure To Review Requirements for Nonrecoverable Spare Parts During Fiscal Year 1963, Department of the Air Force**

In our review of the Department of the Air Force management of nonrecoverable spare parts, we found that procurement was initiated for approximately \$13 million worth of such parts which were already in excess of current requirements. The need to reduce excess parts under contract or to be procured was not detected because the Air Force knowingly excluded nonrecoverable spare parts from its mid-fiscal-year 1963 review of supply requirements. These parts are primarily low-cost items but, nevertheless, are a significant part of the inventory. They are either consumed in use or are considered by the Air Force to be more economical to replace than to repair and, consequently, are disposed of when they become unserviceable.

Headquarters, Air Force Logistics Command, had decided not to include nonrecoverable spare parts in its semiannual requirements review in mid-fiscal-year 1963, and, as a result, the Air Force had contracted for \$6 million worth of unneeded parts and had initiated purchase requests to place an additional \$7 million worth of parts under contract. After we brought this matter to the attention of Air Force officials, action was taken to terminate all of the procurement except contracts for \$1.8 million worth of supplies which had progressed beyond the point where the contracts could be economically terminated.



The Air Force, in commenting on our report, agreed that some needed termination action had not been taken because nonrecoverable spare parts had been excluded from the requirements review. The Air Force attributed the situation to revisions in its method of computing requirements for nonrecoverable spare parts in July 1962, which resulted in temporary deficiencies until the new system was established.

We believe that it should have been apparent to the Air Force that adoption of the new management system would take some time to become operational and that meanwhile it would be necessary to determine the inventory status of the nonrecoverable spare parts by other available means in order to effect timely contract terminations and avoid losses through overprocurement. A similar lapse in inventory control by the Air Force during a transitional period, which resulted in unnecessary procurement actions, was reported by us in May 1963 in our report to the Congress on "Review of Realignment of Item Management Responsibilities in the Air Force Logistics Command Pursuant to Implementation of the Federal Cataloging Program."

The Air Force informed us also that, effective October 15, 1963, it placed in operation another part of the system for management of nonrecoverable spares which replaced the former semiannual requirements computation with one of much greater frequency. The new system should help to prevent deficiencies of the nature disclosed by our review.

In order to prevent losses to the Government which could occur while major changes in supply management practices are being instituted, we recommended that the Secretary of Defense emphasize to the military department the need for officials of their respective supply organizations to adopt adequate interim control measures which shall remain in effect during the transitional period, or until such time as the new procedures become fully operative.

Index No. 39  
B-146881, May 21, 1964

C-64-122

#### Procurement of Militarily Designed Transmitter When Commercially Designed Equivalent Was Available at Less Cost, Department of the Navy

During the period June 1958 to July 1962, the Department of the Navy purchased more than 1,100 militarily developed AN/WRT-2 radio transmitters. Our review disclosed that, at the time these purchases were being made, the Navy was aware that a commercially developed AN/URC-32 radio transceiver, with practically equal operational capabilities, was available at less than one half the cost of the AN/WRT-2 communication system. The same quantity of commercially developed transceivers could have been purchased at about \$29 million less than the cost of the militarily developed communication systems. Also, Navy plans include future procurements of 768 additional AN/WRT-2 transmitters which could result in further costs of as much as \$20 million more than the cost of a like number of equally capable AN/URC-32 transceivers.

Prior to the first large purchase of the AN/WRT-2 transmitters, Navy engineers recognized the operational similarity between this set and the AN/URC-32 transceiver and recommended that the commercial transceiver be purchased. This recommendation was not accepted.

Our findings were presented to the Department of Defense for comment. In its reply for the Department of Defense, the Navy informed us that military necessity required the more expensive transmitter because its higher power output rating would give reasonable assurance that communication requirements would be met under many adverse conditions whereas a radio with lesser power would be unable to assure communications. Navy tests and fleet experience did not bear out this claim.

We recommended that the Secretary of Defense appoint a panel of technically qualified personnel to make an independent and objective evaluation of the relative capabilities of the AN/WRT-2 and AN/URC-32 and to determine which of the equipments should be procured.

Also, we recommended that the Secretary of the Navy establish procedures to ensure that directives in which specific equipments are prescribed to meet stated requirements be revised when actual experience in the fleet demonstrates equipment capabilities to be beyond the requirements for the use prescribed. We believe that the adoption of such a policy would have the practical effect of providing more realistic guidance in the selection and procurement of Navy equipment.

Index No. 65  
B-133341, June 29, 1964

C-64-149

Unnecessary Cost Incurred in the Procurement of Aircraft Engine Ring and Vane Assemblies From the Allison Division of General Motors Corporation, Department of the Navy

Unnecessary cost of about \$310,000 were incurred by the Department of the Navy because of its failure to terminate orders for aircraft ring and vane assemblies that were excess to its needs. In August 1962, after orders for redesigned ring and vane assemblies for the J71 engines had been placed by the Aviation Supply Office, a redetermination of aircraft engine requirements by the Bureau of Naval Weapons disclosed a significant reduction in the need for the J71 engine. However, the Bureau did not promptly notify the Aviation Supply Office of the reduced requirements and the orders for the excess assemblies therefore were not terminated. Had the Aviation Supply Office been promptly notified by the Bureau, it would have been in a position to initiate timely action to terminate production of the excess assemblies and thereby prevent the unnecessary expenditure of about \$310,000 of Government funds.

A significant savings could still have been realized as late as January 1963 when we called this matter to the attention of the Aviation Supply Office. At that time, the Aviation Supply Office requested termination cost information from its prime contractor, the Allison Division of General Motors Corporation, Indianapolis, Indiana. Allison indicated that no substantial savings could be effected. The Aviation Supply Office, after reviewing the information furnished by Allison, concluded that termination would not be economical and, therefore, no termination action was taken. We found, however, that Allison had not advised the Aviation Supply Office correctly, and, as a result of our findings the Aviation Supply Office is recovering from the contractor over \$97,000 that was unnecessarily expended as a result of the incorrect termination cost information.

The Navy could have avoided the unnecessary cost of about \$310,000 in the procurement of J71 engine ring and vane assemblies through more effective coordination and communication between the Bureau of Naval Weapons and the Aviation Supply Office. The ability of the Aviation Supply Office to effectively provide aeronautical material to support aircraft engines, electronic systems, and other equipment procured by the Bureau is often dependent upon the Bureau's determinations of the need for major items. It is important that any change in requirements determined by the Bureau be communicated promptly to the Aviation Supply Office in order for the Aviation Supply Office to make sound decisions and take timely action regarding both outstanding and planned procurements.

In commenting on our findings, the Navy enumerated corrective measures which may to some extent reduce unnecessary procurement of aircraft engine parts by the Aviation Supply Office. However, we believe that the Navy has not taken the corrective action that is necessary to preclude recurrence of the situation described in our report. In this regard, the Navy has not corrected the basic cause of these unnecessary costs which is the failure to inform the Aviation Supply Office promptly of specific changes in aircraft engine requirements. We therefore recommended that the Navy establish procedures to assure that the Bureau of Naval Weapons provide the Aviation Supply Office, on a timely basis, with the results of its requirement studies to enable the Aviation Supply Office to evaluate this information and take whatever action is required in connection with outstanding and planned procurements by that office for equipments and components associated with the end-items covered in these requirement studies.

The Navy in commenting on the draft of our report indicated that adherence to its normal procedures for considering the initiation of a contract termination would in effect accomplish the objective of our suggestion that the accuracy and reliability of contractors' termination estimates be tested. In view of the Navy's comments, we did not make any further recommendation on this matter in our report. However, we will examine into the effectiveness of these procedures in the additional reviews conducted at the Aviation Supply Office.

The manner in which management officials at the Bureau of Naval Weapons and the Aviation Supply Office acted in the instances cited in our report clearly emphasizes the need for a greater sense of individual responsibility over the expenditure of Government funds. Therefore, we recommended also that the Secretary of the Navy direct that appropriate consideration be given to such actions in evaluating the responsible individuals for future promotions and assignments.

Index No. 70  
B-146914, July 6, 1964

C-64-154

**Overstatement of Requirements for Aircraft Electronic Systems Resulted in Improper Procurement Actions, Department of the Navy**

The Navy issued contracts and purchase requisitions for 333 receiver/transmitter groups, valued at about \$2,329,000, although it already had sufficient stocks of this equipment on hand to meet its needs. Our review of the Navy's plans to buy OA-917B/ASQ-17 receiver/transmitter groups for installation in new aircraft being procured in 1962 disclosed that 127 of those being procured were in excess of the Navy's needs. Action had been taken to purchase the unneeded items because the Aviation Supply Office in its computation of needs considered that the receiver/transmitter group was being worn-out and needed to be replaced more frequently than it actually was and, accordingly, the Aviation Supply Office provided for more spares than were needed. The overstatement of needs for spares resulted from errors by field installations in reporting the purposes of past issues of the receiver/transmitter group. The field installations, in reporting past issues, failed to distinguish between issues of spares to replace worn or damaged equipment and issues for initial installation in aircraft.

Since our findings indicated that issues for replacement purposes had been overstated and that as a result the quantities to be purchased in 1962 were larger than necessary, we suggested to the Aviation Supply Office that a further review of the needs for the receiver/transmitter group might disclose additional quantities that could be made available for installation in new aircraft to be procured in subsequent years. In response to our suggestion, the Aviation Supply Office made a further study of its needs and concluded that 206 additional units already in the Navy supply system could be made available for installation in aircraft being procured in fiscal years 1963 and 1964. In view of the results of its reevaluation of the Navy's needs in response to our findings, the Aviation Supply Office canceled outstanding contracts and purchase requisitions for a total of 333 units, valued at \$2,329,000.

The Navy advised us that it had studied the alternatives for correcting the relatively ineffective and inaccurate system for the classification of issues in effect at the time our review. The Navy advised us that, as a result of its studies, it had developed a new concept which was being included in the Navy Uniform Control Point Data Processing System being programed for computers. This system will become operational between February and July 1965. The principal change will be that the classification of issues as recurring or nonrecurring demands will be made by an inventory control point, such as the Aviation Supply Office, rather than by the requisitioner as under the present system. The Navy also advised us of measures it was taking to improve the system for accumulating and reporting issue data pending implementation of its new concept.

Although the Navy has repeatedly taken steps to improve the accuracy of issue data, the problem of inaccurate data has been a persistent one that has been difficult to deal with effectively. The new system the Navy proposes to institute is considerably more far-reaching than the previous steps the Navy has taken on this problem. If the Navy effectively implements this new system, we believe there is a strong likelihood that a significant improvement will be made in the accuracy of the Navy's determinations of needs for spare parts and components.

Index No. 73  
B-146872, July 14, 1964

C-65-2

**The Uneconomical Acquisition and Use of Teletypewriter Circuits and Equipment by the Army and the Air Force, Department of Defense**

The Departments of the Army and the Air Force unnecessarily expended about \$441,000 during calendar year 1962 by leasing teletypewriter circuits and equipment that were excess to their needs. Of this amount, about \$395,000 was spent unnecessarily to lease an excessive number of teletypewriter circuits and circuits with excessive capacity, while the leasing of teletypewriter machines that were not needed caused excessive costs of about \$46,000. These unnecessary expenditures resulted largely from a failure by the Defense Communications Agency to provide adequate management control over planning and filling requirements to assure that teletypewriter circuits and equipment were efficiently and economically utilized.

We had proposed to the Secretary of Defense that the leases for the unnecessary circuits and equipment be canceled. The Department of Defense has informed us that corrective actions have been initiated to reduce circuit and equip-

ment costs to the Government by over \$66,000 annually. We have been further informed that, since the completion of our review, many of the circuits included in our proposals have been placed under a service known as TELPAK at reduced costs. Also, the American Telephone and Telegraph Company has discontinued offering standby circuit arrangements under which the Army could have reduced its circuit costs, and the Department of Defense therefore does not contemplate additional cost reductions. However, the circuit and equipment costs can be further reduced by over \$60,000 annually if the Department of Defense eliminates additional unnecessary circuits not leased under TELPAK and equipment which have not, at the time of our report, been eliminated.

The Department of Defense also informed us that the Secretary of Defense issued a memorandum of July 2, 1963, which instructed the Defense Communications Agency to strengthen the controls over leasing and utilizing teletypewriter circuits and equipment. The Department feels that the instructions and established controls will accomplish in an orderly manner the objectives mentioned in our report. During subsequent reviews we will examine into the effectiveness of these controls.

We recommended that the Secretary of Defense require the Army and the Air Force to take immediate action to discontinue leasing the unnecessary teletypewriter circuits and equipment, as noted in our review, which had not been eliminated. Because there are teletypewriter circuits and equipment at many other military installations not included in our review, we also recommended that the Secretary of Defense require that studies be made to determine whether there are excesses at other locations. Also, we requested that the Secretary of Defense advise us of all actions taken by the military departments as a result of these recommendations.

Index No. 74  
B-146917, July 14, 1964

C-65-3

Overprocurement of Containers for 5-Inch, 54-Caliber Ammunition Cartridges,  
Department of the Navy

In our review of the procurement of ammunition components by the Department of the Navy, we found that during the 2 years ended June 30, 1963, the Navy Ordnance Supply Office, Mechanicsburg, Pennsylvania, purchased 81,000, 5-inch, 54-caliber cartridge containers, costing about \$698,000, that it would not need in the foreseeable future. In addition, it was planning to purchase 24,000 more containers, costing over \$237,000, in fiscal year 1964. The procurement actions were unnecessary because the quantity of containers on hand plus the quantity which would be returned to stock, determined on the basis of planned use, was more than adequate to meet total requirements. We were unable to determine why the Ordnance Supply Office made the unnecessary procurements since it could not supply us with any information to support the decisions to buy containers in such large quantities.

At an early date in our review, we discussed these overprocurements with Ordnance Supply Office officials. As a result, the planned procurement of 24,000 containers was canceled.

The Department of the Navy has agreed that an overprocurement of containers occurred and has informed us that the Ordnance Supply Office has initiated corrective action by issuing instructions to modify and strengthen pertinent procedures. Although this is a step in the right direction, there is a tendency on the part of local officials to relax their vigilance once procedures, designed to correct specific, identified weaknesses, have been prescribed. We have found that, as a consequence, the issuance of directives will not assure that wasteful practices are avoided unless supplemented by independent reviews by officials at a higher level. In the interest of accomplishing this result, we recommended that the Secretary of the Navy require that such reviews be incorporated in Navy internal audit programs. We recommended also that the Secretary of the Navy bring this case to the attention of the individuals responsible for computations of needs and procurement of ammunition items to help prevent recurrence of situations like those described in this report.

It seems evident that the substantial overprocurement of ammunition containers and the omission of significant quantities of these items from inventory reports could have been prevented if the responsible Government employees had used greater care in the performance of their assigned duties. We believe that this case illustrates the need for a greater sense of individual responsibility on the part of Government employees for economy in Government operations. There-

fore, we recommended that the Secretary of the Navy direct that appropriate consideration be given to such actions in evaluating the responsible individuals for future promotions and assignments.

Index No. 78  
B-132990, July 22, 1964

C-65-7

**Adverse Effects of Inefficient Supply Management at the United States Army Engineer Depot, Eighth United States Army, Korea, Department of the Army**

Our review at the United States Army Engineer Depot, Ascom, Korea, disclosed that the effectiveness of missile systems, communication systems, aircraft and construction equipment was impaired; \$376,000 of unneeded stock was ordered; at least \$101,000 of unnecessary procurement was in process; and inventory losses of about \$12.6 million were not adequately investigated as a result of inadequate supply management. This review was undertaken at the request of the Chairman of the Military Operations Subcommittee, Committee on Government Operations, House of Representatives, who brought to our attention certain allegations concerning unexplained disappearances of materiel from the Depot. We found that the deficiencies were due to a lack of efficient and experienced supply management personnel to manage the Depot and supervise its key operations of inventory, storage, and stock control and has resulted in a general loss of physical and accounting control of the \$45 million property for which the Depot is responsible.

Inadequate supply management resulting in generally unreliable stock records and loss of stock control have prevailed at this Depot since at least 1957. The magnitude of this condition is indicated by the fact that since January 1, 1959, inventories conducted at the Depot have necessitated monetary adjustments to accountable records in excess of \$107 million. These adjustments have involved inventory gains of about \$54 million and inventory losses of approximately \$53 million.

We suggested to the Secretary of the Army that action be taken to have the military personnel assigned to key Depot management positions, who have had no prior training or experience in supply management, replaced with personnel who are adequately trained for the positions involved. In the interim we suggested sending a team of experienced supply management personnel to the Depot to assist in reestablishing stock control and to initiate a training program to instruct personnel in proper supply procedures. We further proposed that the Secretary of the Army take appropriate disciplinary action against those individuals who approved significant inventory loss adjustments without directing timely and adequate investigations into the causes of the losses.

We were advised by the Department of the Army that it generally agreed with our findings and had taken corrective action in line with our proposals. With respect to our proposal concerning disciplinary action, the Army advised that "It must be recognized, however, that in a large organization such as the Army, it is often impossible to determine the particular individual or individuals responsible for a specific deficiency." We believe, however, that a sense of personal responsibility is essential to effect sound management, and we recommended to the Secretary of the Army that, in the revised procedures being developed and installed at the Depot, provision be made, to the extent practical, for clear and definite assignments of individual management responsibility for all phases of Depot operations. Also, many of the same deficiencies noted in our current review were previously reported by us in our March 19, 1959, report to the Congress entitled "Review of Selected Supply and Related Disposal and Procurement Activities of the Eighth United States Army, Korea" (B-132990). Despite promises of corrective action at that time, however, we found that conditions in many respects were little changed. We recommended that the Secretary of Defense follow up to assure that adequate corrective action is now taken.

Index No. 93  
B-133019, August 4, 1964

C-65-22

**Unnecessary Procurement of Certain Hi-Valu Aeronautical Parts and Components Managed by the San Antonio Air Materiel Area, Department of the Air Force**

In our review of the management of Hi-Valu aeronautical parts and components by the San Antonio Air Materiel Area of the Air Force Logistics Command, we found that San Antonio procured, or failed to take appropriate action to prevent the procurement of, unneeded Hi-Valu aeronautical parts and components costing

about \$634,000 and erroneously determined that it had a need to procure additional Hi-Valu aeronautical parts and components costing about \$579,000. Item control officers also failed to take actions to terminate outstanding procurements totaling about \$1,000,000 following determinations that needs for certain Hi-Valu aeronautical parts and components had decreased.

Following disclosure of our findings, San Antonio officials took actions with respect to the items mentioned above which resulted in the termination of the procurement of Hi-Valu items costing about \$341,000. Also, arrangements were made by these officials to make long-supply inventories of these items, valued at about \$436,000, available to the Aeronautical Systems Division for use in future aircraft production, thus eliminating the need for procurement of like items by the Aeronautical Systems Division. Actions were taken also to correct the erroneous requirements determinations that we had identified.

The deficiencies disclosed by our review primarily resulted from failures of item control officers to adhere to existing procedures and to consider all available information pertinent to the management of their items and from inadequate supervisory and management control over these personnel. The Air Force has advised us of actions taken to improve its management of aeronautical parts and components. These actions, if properly carried out, should be of benefit in eliminating the deficiencies cited in our report. However, we recommended that the Secretary of the Air Force require that periodic reviews be made at San Antonio by officials of his office to assure that corrective measures taken are adequate and that they are not subsequently abandoned. Also, we plan to review the effectiveness of these actions in our future reviews at San Antonio.

Index No. 98

C-65-27

B-146921, August 12, 1964

#### Unnecessary Costs Resulting From Noncompetitive Procurement of Military $\frac{3}{4}$ -Ton Trucks, Department of the Army.

Our review of the procurement of military  $\frac{3}{4}$ -ton trucks by the Department of the Army has disclosed that the Government has incurred unnecessary costs of about \$12.1 million because the Army did not competitively procure  $\frac{3}{4}$ -ton trucks even though it could have purchased Chrysler Motors Corporation's drawings in 1960 that would have provided information sufficient for use in competitive procurement. Army officials rejected Chrysler's offer to sell the drawings for \$224,000 because Chrysler would not furnish drawings for proprietary items and because remaining drawings offered for sale were thought to be insufficient to provide a basis for competitive procurement. However, the Army had obtained competition in the procurement of other vehicles where proprietary items were involved, and two truck manufacturers other than Chrysler advised the Army and us that they would be willing to furnish competitive quotations for production of the  $\frac{3}{4}$ -ton trucks. Such quotations would be based on using the drawings Chrysler agreed to sell and the Chrysler proprietary components.

After we brought this matter to the attention of the Army, it canceled the \$17.8 million fiscal year 1965 planned procurement of the  $\frac{3}{4}$ -ton trucks and informed us that it would not again procure the  $\frac{3}{4}$ -ton trucks except in a genuine emergency. The Army informed us also that in fiscal year 1966 a newly developed  $1\frac{1}{4}$ -ton truck will replace the  $\frac{3}{4}$ -ton truck in the forward areas. In addition, the Army plans to study the feasibility of replacing the  $\frac{3}{4}$ -ton truck used in rear areas with a competitively procured austere truck. We have found through further discussions with Army officials, however, that its plans as to the type of austere vehicle and the method of procurement are still in the early formative stages.

We suggested that, to assure maximum competition in the procurement of the austere truck to replace the  $\frac{3}{4}$ -ton truck and to simplify logistic support problems, the Secretary of the Army (1) if possible, utilize a specification setting out desired performance standards that will permit the adaptation of existing commercial-type trucks to the Army requirements, and (2) incorporate into the specifications only the essential military requirements, thus minimizing changes which would be required in the commercial model.

Index No. 104

C-65-33

B-146883, August 21, 1964

#### Unnecessary Costs Resulting From Government Production of M60 Machine Guns and Repair Parts Rather Than Procurement From the Commercial Source, Department of the Army

Our review of the Department of the Army's procurement of M60 machine guns disclosed that the Government incurred unnecessary costs of about \$845,000

because the Army produced M60 machine guns and spare parts at Springfield Armory, a Government arsenal, rather than procuring them from the established commercial source. This occurred because the Armory continued work on an order for the production of the guns after the order was canceled by the Army Weapons Command. Subsequently, the Weapons Command issued another order to the Armory for guns and shortly thereafter considered canceling this order when it recognized that its established commercial source was providing acceptable guns at a lower price. However, because the Armory had continued to produce the guns under the canceled order contrary to instructions, substantial costs had been incurred which made termination uneconomical.

The Acting Assistant Secretary of the Army (Installations and Logistics), in commenting to us on this matter, furnished the Army's justifications for and reasons why the Springfield Armory continued with production of the M60 machine guns. As disclosed in our report, however, the unnecessary costs could have been avoided had Springfield Armory terminated work when directed by the Army Weapons Command so that the Command could have placed the order subsequently with the commercial source. We believe that the improvident actions of the responsible officials in this matter should be noted in their personnel records for consideration in promotion, reassignment, and other personnel matters.

The Acting Assistant Secretary of the Army advised us that the Command has taken corrective actions, including the establishment of make-or-buy procedures, to preclude the recurrence of matters such as the one disclosed in our report.

Index No. 109

C-65-38

B-146901, August 24, 1964

Procurement of Unneeded Spare Assemblies Resulting From Negligence of the Raytheon Company, Lexington, Massachusetts, Department of the Army

A review of the procurement of 10 assemblies by the Department of the Army from the Raytheon Company disclosed that about \$1.1 million worth of spare parts had been procured for HAWK missile field maintenance test equipment which had been replaced. These spare parts were procured under cost-reimbursable contracts whereby Raytheon had undertaken broad responsibilities for development and production of the HAWK missile system, including the requirement to furnish the Army spare parts lists for this system.

The unnecessary procurement was a result of Raytheon's submission to the Army of superseded spare parts lists when Raytheon had knowledge that (1) the items on the lists were for nontactical equipment that had been superseded by new tactical equipment already on quantity procurement and (2) the spare parts lists would be used by the Army for the purpose of determining procurement needs. Furthermore, Raytheon failed to question the validity of the Army's orders even though Raytheon had knowledge that the parts had been superseded and that the orders were based on spare parts lists which were outdated. After delivery to the Army, the unneeded parts for nontactical equipment were declared excess and, for the most part, disposed of as scrap.

In commenting on our report, Raytheon attributed the submission of superseded spare parts lists and the resulting procurement to "calculated risks" taken by the Government in proceeding with accelerated production of the HAWK missile system. Raytheon avoided dealing with its failure to question the Army's procurement of these superseded spare parts and stated that it recognized no obligation with respect to this erroneous procurement. The Department of the Army agreed substantially with Raytheon's position and stated, in essence, that the procurement of unneeded parts was due to a combination of unforeseen circumstances.

Considering Raytheon's contractual responsibilities to furnish the Army information on spare parts requirements, we have concluded that Raytheon was negligent in its submission of misleading spare parts lists and in its failure to question the validity of the Army's orders that were based on these spare parts lists. We therefore consider the cost incurred to be unreasonable under the applicable contracts, and we are requesting the Secretary of Defense to have the amount of \$1,077,000 withheld from current payments due to Raytheon under defense contracts.

We recommended to the Secretary of Defense that this case be brought to the attention of officials in charge of weapons systems procurement programs to stress the need for special controls to prevent procurement of obsolete parts when production of redesigned equipment is started prior to formal approval of the design changes.

Index No. 112  
B-146917, August 28, 1964

C-65-41

Overprocurement of Ammunition by the United States Marine Corps, Department of the Navy

Our review of Marine Corps procurement programs for ammunition items disclosed that unnecessary procurements aggregating about \$4.1 million were made or planned for ammunition in excess of needs. These unnecessary procurements resulted from errors in computing the amounts needed to maintain stocks of ammunition at levels commensurate with requirements for these items and from the failure of the Marine Corps to adequately review procurement actions which had been initiated. After we discussed our findings with Marine Corps officials, uncompleted contracts and procurement actions in progress aggregating \$2.5 million were canceled or reduced. The balance of the unnecessary procurements valued at about \$1.6 million represented proximity fuzes that had already been delivered and were in long supply.

On June 17, 1964, the Assistant Secretary of Defense (Installations and Logistics), commenting on a draft of this report, advised us that the Marine Corps concurred in our findings and in the recommendations contained in our draft report. We were informed that improved procedures and controls had been initiated by the Marine Corps which were designed to prevent or quickly detect overprocurement situations and that negotiations were currently underway to transfer the long supply of proximity fuzes from the Marine Corps to the Army and Navy to fill stated needs by those services.

The actions taken or being taken should minimize recurrence of the types of overprocurements discussed in this report if responsible Headquarters, Marine Corps, officials continue to periodically review all functions related to procurement activities. However, we feel that additional independent reviews should be made of the procurement activities and practices of Headquarters, Marine Corps, to insure that unnecessary procurements of the nature disclosed during our review are precluded. We have found that statements of policy, or issuance of regulations and instructions, will not, in themselves, assure corrective action unless independent reviews are made. Accordingly, we recommended that the Secretary of the Navy provide for periodic reviews of Headquarters, Marine Corps, procurement activities in the Navy internal audit programs.

Index No. 118  
B-146848, August 31, 1964

C-65-47

Follow-Up Review of Government Production Compared to Procurement of Weapons and Related Parts, Department of the Army

The General Accounting Office has made a follow-up review of Government production compared to procurement of weapons and related parts. Our objective was to determine whether decisions to produce at Government arsenals or to procure from commercial sources are being made in the best interest of the Government.

Our follow-up review related to matters disclosed in our report to the Congress entitled "Unnecessary Costs Resulting From Government Production of M14 Rifle Repair Parts Rather Than Procurement From Commercial Sources, Department of the Army," B-146848, dated February 7, 1964. We reported that the Army Weapons Command, Rock Island, Illinois, was incurring unnecessary costs by arbitrarily placing orders for repair parts with Government arsenals without comparing costs to be incurred at the arsenals with the prices being charged by commercial sources and without considering certain other factors. As a result of our bringing this matter to the attention of the officials of the Army Weapons Command, the Command established "make or buy" committees to determine whether to place orders with Government arsenals or with commercial sources. The committees were to review all factors, such as the mission responsibility of the arsenals, relative costs, and urgency of delivery, before arriving at their "make or buy" decisions.

Our follow-up review of the actions taken by the "make or buy" committees at the Army Weapons Command, at Rock Island Arsenal, Rock Island, Illinois, and at Springfield Armory, Springfield, Massachusetts, disclosed that decisions to procure certain items from commercial sources rather than to produce the items at Government arsenals resulted in savings of \$2.1 million, exclusive of fixed overhead, during the period January 1963 through May 1964. Fixed overhead, for comparison purposes, has been eliminated because such costs would be incurred regardless of the volume of work performed at the arsenals.



In comparing the costs of producing these weapons and parts at Government arsenals with the costs of procuring them from commercial producers, we found that generally the costs at the arsenals were higher because (1) volume of production was limited, (2) general-purpose equipment was used whereas automated equipment was used by commercial firms and (3) materials and components were procured in small quantities.

On April 11, 1964, we were informed by the Acting Assistant Secretary of the Army (Installations and Logistics) that, in accordance with the recommendation in our report, the Army was developing similar "make or buy" procedures for all Army commands where both Government arsenals and commercial suppliers were capable of producing needed materiel. We were informed also that regulations covering this matter would be published in the near future. It is expected that additional savings will result as judicious decisions are made by the various "make or buy" committees.

Index No. 122  
B-146939, September 4, 1964

C-65-51

**Unnecessary Costs Resulting From the Purchase and Use of Paint Products in Uneconomical-Size Containers, Department of Defense**

The failure of Department of Defense installations to requisition paint products in the most-economical-size containers feasible is resulting in unnecessary costs of about \$330,000 annually. The Department of Defense annually uses about 15 million gallons of paint products. Of this amount, using activities request about 4 million gallons in 1-gallon cans and the equivalent of about 240,000 gallons in quart cans. Our review of requisitions for paint products in 1-gallon cans disclosed that, for about 55 percent of the quantity tested, it would have been feasible for the using activity to have requested the paint products in 5-gallon cans with resulting savings of about 10 cents a gallon. Similarly, our review of requisitions for paint products in quart cans disclosed that, for about 78 percent of the quantity tested, it would have been feasible for the using activities to have requested the paint products in 1-gallon cans with resulting savings of about 57 cents a gallon.

Our review disclosed also that the inventory manager (the Defense Industrial Supply Center) and operating activities had not established procedures and controls to assure availability and use of paint products in the most-economical-size container feasible. On the basis of our tests, we estimate that, if the maximum practicable use were made of 5-gallon cans in lieu of 1-gallon cans and 1-gallon cans in lieu of quart cans, the Department of Defense could save about \$330,000 annually.

The Department of Defense, in commenting on our findings, agreed with our conclusion that savings can be realized by ordering and using paint products in the largest size containers practicable. We were advised that, in accordance with our proposals, each military department and the Defense Supply Agency would take necessary action to inform its field activities of the possible economies which can be achieved through the use of the most-economical-size containers and that each of the military departments would direct requisitioning activities to order paint products in the largest size containers practicable. Also, we were informed that, in accordance with our proposal, the military departments would distribute our report to cognizant inventory managers, to illustrate the type of situation that can result in unnecessary costs to the Government.

Supply management responsibility for paint products was transferred to the General Services Administration on September 30, 1963, and we therefore brought our findings to the attention of that agency. The Administrator of General Services, in commenting on our findings, advised us that his agency (1) was currently stocking paint products in 1- and 5-gallon containers, (2) would continue to make available to the Department of Defense paint items in the most economical sizes, and (3) was reviewing this area with a view to improving the management of this commodity.

Index No. 126  
B-146940, September 18, 1964

C-65-55

**Uneconomical Procurement of Motor Vehicle Parts and Accessories, Department of the Navy**

The Government is incurring unnecessary costs, estimated to be at least \$200,000 annually, because purchasing officials at Navy installations procure motor vehicle parts and accessories in the open market at prices in excess of those

available under General Services Administration Federal Supply Schedule contracts. These unnecessary costs result primarily because procurement officials fail to determine prior to purchase that the parts and accessories can be purchased at lower prices under the Federal Supply Schedule contracts. For example, the Naval Supply Center, Oakland, California, purchased General Motors Corporation truck parts costing \$835.75 from an independent supplier in Concord, California. These items could have been purchased at Federal Supply Schedule contract prices for the General Motors warehouse in Oakland for \$510.14, a saving of \$325.61. The Armed Services Procurement Regulation and implementing Navy regulations permit this condition because they do not require procurement officials to obtain and use Federal Supply Schedule pricing data for evaluating prices of motor vehicle parts and accessories purchased in the open market.

In bringing our findings to the attention of the Department of Defense, we proposed that the Secretary of the Navy direct that Navy regulations be revised to provide for procurement officials to be specifically required to evaluate the reasonableness of prices offered in the open market for the purchase of motor vehicle parts and accessories in light of current prices available under Federal Supply Schedule contracts, and that purchases be made at prices no higher than those obtainable under these contracts. The Navy agreed with the basic intent of our proposal that the lowest sound price should be obtained for automotive parts and accessories procured in the open market and stated that it recognized that the use of Federal Supply Schedules to evaluate the reasonableness of prices offered in the open market is a vital pricing tool of procurement officers. The Navy stated that there was no question that savings were possible particularly where blanket purchase agreements could be negotiated with contractors' representatives at Federal Supply Schedule prices.

Because of the Department of Defense-wide applicability of our proposal, the Navy is submitting for consideration of the Armed Services Procurement Regulation Committee, a proposed revision to the Armed Services Procurement Regulation which will require procurement officers to consider Federal Supply Schedule contracts when purchasing motor vehicle parts and accessories.

The action taken by the Navy, if properly implemented, should result in substantial savings to the Government in the purchase of motor vehicle parts and accessories. Since the greatest savings can be achieved through the use of blanket purchase agreements in conjunction with Federal Supply Schedule contracts, we believe that procurement officials should be specifically required to use this method of procurement wherever possible. We therefore recommended that the Secretary of Defense direct that the Navy's proposed revision to the Armed Services Procurement Regulation be expanded to require procurement officials to enter into blanket purchase agreements for the purchase of motor vehicle parts and accessories wherever possible.

The Navy agreed also with our proposal that regular internal audits provide for consideration of this matter to assure that procurement officials are complying with these requirements.

We were advised also that, in accordance with our proposal, a review would be made of the practices followed by the other military departments in the procurement of motor vehicle parts and accessories and that the contents of our report would be brought to the attention of the Armed Services Procurement Regulation Committee and Department of Defense Personnel.

Index No. 133  
B-146931, September 30, 1964

C-65-62

#### Unnecessary Procurement of Cargo Transporters, Department of the Army

We have found that the Department of the Army unnecessarily procured 29,000 reusable steel containers (cargo transporters) at a cost of \$6,474,000 during the calendar years 1960, 1961, and 1962. This unnecessary procurement resulted because in computing requirements the agency (1) failed to determine its needs on the basis of actual usage of the containers and (2) failed to consider the total number on hand. This information was available in the records, but responsible personnel did not properly discharge their responsibility to assure that the best available information was utilized in requirements computations.

In commenting on our findings, the Department of the Army agreed that the procurements of these containers were in excess of peacetime requirements and advised us that it had canceled fiscal year 1963 procurements and had not authorized any further procurement of this equipment. It also stated, however, that the procurements were based upon requirements to meet not only peacetime

needs but mobilization needs as well and that since these total requirements had not been exceeded no overprocurement did in fact occur. Therefore, the Army did not believe it necessary to attempt fixing responsibility for the overprocurement.

However, our review disclosed that no mobilization requirement had been established for some of these containers. For the remainder, although a mobilization requirement had been established, none of the procurements discussed in our report were made to fill this requirement. Further, there is a question as to whether this requirement will materialize even if mobilization should occur. We believe, therefore, that the failure of responsible personnel to properly perform their duties resulted in this overprocurement and the fact that there may be a future requirement for some of these containers in no way lessens the significance of these deficiencies.

We recommended, that the Secretary of Defense direct the Department of the Army to inquire into the circumstances surrounding the transactions discussed in our report for the purpose of fixing responsibility for the unnecessary procurement. We also recommended that the results of this inquiry be made a matter of record and that appropriate action be taken with respect to those individuals who have failed to fulfill their responsibilities.

Index No. 166  
B-146805, December 10, 1964

C-65-96

Unnecessary Cost, Incurred in Negotiated Procurements of Batteries for Aircraft Ground Support Equipment by Rome Air Material Area, Rome, New York, Department of the Air Force

Our review disclosed that the Department of the Air Force incurred unnecessary costs of about \$67,000 in two negotiated procurements of batteries used in ground support equipment for the F-105 aircraft program because personnel of the Rome Air Material Area, Griffiss Air Force Base, Rome, New York failed to request price quotations from another supplier that had previously furnished the same battery under an advertised contract at a significantly lower unit price. If the Rome Air Material Area had solicited this other supplier in the procurement of 610 nickel cadmium batteries, it would have been able to buy the batteries for \$165 each instead of the \$274.50 each which it paid to the supplier receiving these awards.

The unnecessary costs of \$67,000 were the result of the failure of the commodity manager, the buyer, and the contracting officer, to use information on past procurements which was available in the Air Force records maintained at the Rome Air Material Area. Also, the facts and circumstances used to justify the determinations to negotiate the last two procurements of this nickel cadmium battery demonstrate the perfunctory manner in which such justifications apparently were prepared. The contracting officer concluded that it was impracticable to secure competition by means of formal advertising when in fact such method of procurement had been used previously. The stated basis for this conclusion was that the contemplated procurement was for replacement parts in support of equipment specially designed by the manufacturer and that data available were not adequate to assure that the parts or components, if supplied by other than the referenced design source, would perform the same function in the equipment as the function of the part it was to replace. However, the fact that satisfactory batteries had been obtained previously through formal advertising in a reasonable period of time was obviously not considered in arriving at this conclusion.

The Department of the Air Force, in a letter dated August 5, 1964, agreed with our findings and stated that these unnecessary costs were the result of an initial error compounded by the pressure of an abnormal workload that impeded the normal supervision of buying personnel.

We recommended to the Secretary of Defense that he consider the manner in which responsible officials have discharged their duties when making personnel evaluations and management assignments. Also, we recommended that the Secretary of Defense take the action necessary to reemphasize to procurement personnel the importance of making full use, in selecting potential suppliers, of records of past procurements as an aid to obtaining fuller competition and avoiding unnecessary costs. Further, we recommended that the Secretary of Defense take the action necessary to assure that all procurement personnel who have authority to prepare and to sign statements of determinations and findings comply with the sections of Public Law 87-653 dated September 10, 1962, which require that each determination that formal advertising is not a feasible and practical method of procurement be based on a written finding which clearly sets out the facts and circumstances permitting procurement by negotiation.

Index No. 174  
B-133245, December 23, 1964

C-65-104

**Ineffective Supply Management Causing Shortages and/Excesses of End Items and Repair Parts in Okinawa, Department of the Army**

Our selective review of Army supply management functions for which the United States Army, Ryukyu Islands, is responsible disclosed numerous instances of ineffective supply management causing shortages and excesses.

Our review disclosed that as of June 30, 1963, various types of ammunition valued at about \$4.6 million were accumulated in excess of needs and were not reported to higher headquarters for disposition instructions. For example, we found that supply officials ordered 23,278 rounds, valued at \$510,952, for the 3d Marine Division in Okinawa even though they had been previously notified that this requirement no longer existed. This ammunition was therefore excess when received in Okinawa.

As a result of our bringing this matter to the attention of responsible officials of the United States Army, Ryukyu Islands, ammunition valued at about \$836,600 that was not needed in Okinawa was shipped to fill requirements in Vietnam, Thailand, and Korea. We found that the accumulation of the remaining ammunition in excess of needs had led to unnecessary storage and transportation costs of about \$312,900.

We found also that there were shortages of about \$2.9 million worth of combat essential equipment plus an indeterminate quantity of spare parts which were needed for certain military units in the Far East in the event of hostilities, while at the same time excesses of other equipment valued at \$4.7 million were either on hand or on order. For example, our review of requirements disclosed that there was a shortage of 465 7.62-mm machine guns valued at \$243,195 and an excess of 276 2½-ton trucks valued at \$2,355,384 because supply personnel determined needs on the basis of erroneous data. As a result of our bringing this matter to the attention of responsible officials, action was taken to order about \$715,000 worth of the needed items and to report about \$737,800 worth of unneeded items as excess.

In addition, we found that requisitions for repair parts which were urgently needed by users for the maintenance of end items could not be filled for extended periods of time, although the required parts were in stock and available for issue, because inventory control was lost for periods up to 6 months during the time that logistical responsibility for these repair parts was being transferred between supply groups. As a result of our bringing this matter to the attention of responsible officials, new procedures were established, effective August 12, 1963, which were designed to improve the coordination of the transfers between the groups.

The Deputy Assistant Secretary of the Army for Logistics, in commenting to us on the matters covering shortages and excesses of items, advised us that, in accordance with our proposal, the Commanding General, United States Army, Ryukyu Islands, had taken certain corrective actions, such as making mandatory the posting of changes in customer requirements as soon as they occur and the publication of revised policies and procedures. He also advised us of organizational changes that were intended to improve supply management. In addition, he advised us that the United States Army, Pacific, had taken steps to increase surveillance of supply practices in the field and would assume centralized supply control of depot inventories in the Ryukyu Islands that would enhance supply management practices.

The Deputy Assistant Secretary of the Army for Logistics advised us also, in line with our proposals, that the matters covered in our report had been brought to the attention of officials of the United States Army, Pacific, and the United States Army, Ryukyu Islands, and that the Commanding General of the Ryukyu Islands had full authority under Army regulations and the Uniform Code of Military Justice to take action deemed appropriate against the responsible personnel. He advised us further that such actions do become a part of the individual personnel records and will be available for consideration in promotion, reassignment, and other personnel matters.

In view of the actions taken or to be taken, we did not make any further recommendations. However, in subsequent reviews of supply management of the Department of the Army, we plan to make further inquiry into the effectiveness of the actions taken.

Index No. 187  
B-146964, January 29, 1965

C-65-117

**Accumulation and Retention of Excess Missile Spare Parts Due to Inadequate Supply Management Practices of The United States Army, Europe, Department of the Army**

We have found that inadequate supply management practices of the United States Army, Europe, resulted in the accumulation and retention of substantial quantities of excess expensive, repairable spare parts for the CORPORAL missile system. Moreover, the deficient practices were of such a nature that most of the excesses were not apparent and resulted in unnecessary procurement of parts valued at \$370,000.

The conditions discussed in our report resulted to some extent from inadequate supply procedures. We believe, however, that the more significant causes of these conditions were the failure of United States Army, Europe, personnel to follow existing regulations and the failure of higher level personnel to assure that the regulations were followed.

By letter dated August 31, 1964, the Deputy Assistant Secretary of the Army (I&L) Logistics acknowledged that the deficiencies described in the report did exist at the time of our audit. He also commented on our proposals and furnished details of corrective actions that had been taken by the United States Army, Europe, since our audit.

We believe that the actions taken by the Army in response to this and prior reports should result in more efficient and economical supply support for Army equipment.

Index No. 190  
B-146965, February 2, 1965

C-65-122

**Increased Costs Due to Failure to Obtain Competition in Procurement of Electronic Parts on Qualified Products Lists at the Defense Electronics Supply Center, Dayton, Ohio, Defense Supply Agency, Department of Defense**

Increased costs estimated to be as much as \$1.5 million have been incurred annually at the Defense Electronics Supply Center, Dayton, Ohio, through the failure to obtain competition in the procurement of electronic parts in Federal Supply Class 5960 listed on Qualified Products Lists. Ineffective administration in the use of Qualified Products Lists in the procurement of electronic supply items has resulted in (1) undue reliance on use of formal advertising procedures as assurance of competition even though only one qualified bid was received and (2) awarding of sole-source negotiated contracts without an attempt being made to obtain competition.

Although the Armed Services Procurement Regulation provides that qualification requirements be questioned in instances where competition is not being obtained, there appeared to be a reluctance on the part of contracting officers to ascertain the continuing necessity for such qualification requirements. Our review showed that, in the relatively few cases where additional suppliers became qualified or the qualification requirement was waived, competitive bids were received and the prices were reduced significantly.

We suggested to the Secretary of Defense that, to obtain effective competition, (1) unnecessary qualification requirements included in military specifications be eliminated, (2) substitute methods of quality assurance be used when competition is inadequate for items appearing on Qualified Products Lists, and (3) aggressive action be taken to increase the number of sources for items included on Qualified Products Lists.

In reply, the Deputy Assistant Secretary of Defense has expressed the opinion that the substance of our suggestions is now being carried out by the Defense Supply Agency and the services. He has stated that the Defense Supply Agency, the Defense Electronics Supply Center, and the military services are now fully aware of the problems presented in our report. He has stated further that the services are actively engaged in reducing, through more critical review, the need for qualification requirements and, where this cannot be accomplished, ensuring that ample competition exists for items to be procured through the use of Qualified Products Lists.

In view of the corrective action being taken by the Department of Defense, we did not make any recommendations for further procedural improvements. However, we plan to review the measures taken by the Defense Supply Agency and the services to eliminate the unnecessary use of Qualified Products Lists and the

efforts being made to obtain effective competition where such lists are used for the procurement of electronic materiel, as well as other commodities. We recommended that consideration be given to the identified failures to comply with provisions of the Armed Services Procurement Regulation when evaluating the responsible individuals for promotion or reassignment.

Index No. 193  
B-118755, February 9, 1965

C-65-126

**Accumulation of Excesses and Unnecessary Procurement of Missile Spare Parts Because of Supply Management Deficiencies at Third United States Army Logistical Support Group Installations in Florida, Department of the Army**

In our review of supply management practices of the units of the Third United States Army Logistical Support Group in Florida, we found that, during the 15-month period ended in February 1964, deficiencies in the practices of the units had resulted in the accumulation by these units of at least \$735,000 worth of expensive missile spare parts in excess of their needs and in at least \$41,000 worth of unnecessary procurement for additional quantities of such parts by the Army Missile Command. The primary supply management deficiencies were: (1) the failure to return unserviceable parts that were not locally repairable to the depots for repair and (2) the failure to establish and maintain adequate inventory controls.

Over \$686,000 worth of the excesses were located at Homestead Air Force Base and amounted to about 27 percent of the value of the entire inventory of missile spare parts at that location. The remainder of the excess was located at Key West Naval Base. These excesses were not identified and reported to the Missile Command because adequate accounting records were not maintained and stock requirements for most items were computed in accordance with prescribed policies and procedures. As a result, these excess parts were not considered by the Missile Command as available to meet worldwide requirements, and procurements of at least \$41,000 were made which could have been prevented if the excesses in Florida had been recognized and utilized to reduce procurement needs.

The Department of the Army generally agreed with our findings pertaining to the accumulation of excesses and the inadequate inventory controls at the Logistical Support Group. The Army stated that, although the Commanding General of the Third United States Army was aware, prior to our review, that the supply operation within the Logistical Support Group was not functioning at the desired degree of effectiveness, many of the deficiencies continued to exist because of such circumstances as inexperienced military and civilian personnel, the increased workload due to reorganization, and the use of temporary facilities. The Army outlined certain corrective actions that have been taken to improve the overall supply management operation at the Logistical Support Group installations and other actions initiated on a worldwide basis that are designed to increase surveillance of supply practices at stockage points.

With regard to our proposal that disciplinary action be taken against the persons responsible for the reported deficiencies, the Army stated that investigation did not disclose neglect or malfeasance on the part of individuals and, therefore, would not justify disciplinary action under the Uniform Code of Military Justice. The Army stated further that the majority of such cases did not result from gross negligence or criminal intent, but from poor judgment, misinformation, misinterpretation, lack of experience, lack of knowledge, or circumstances beyond the control of the individual or command concerned.

We believe that the deficiencies described in our report are similar to those described in several previous reports and result from lethargy and indifference on the part of responsible personnel who lack the proper motivation to perform adequately in discharging their responsibilities. Changes in regulations and procedures cannot be expected to overcome the lack of supply discipline shown by these types of continuing deficiencies unless a greater sense of personal responsibility is instilled into the individuals assigned to carry out the procedures. One way to instill a greater sense of responsibility is by taking appropriate disciplinary action when performance does not measure up to requirements. Disciplinary action can be administered in other ways besides formal charges under the Uniform Code of Military Justice, such as the reflection of poor performance in effectiveness reports; official reprimands; and, in the case of civilian personnel, the withholding of within-grade promotions or dismissals when warranted.

We, therefore, recommended to the Secretary of the Army that positive actions be initiated to instill a greater sense of personal responsibility into the individuals assigned to carry out prescribed routine supply procedures. Such actions should include the taking of appropriate disciplinary action against the individuals

whose failure to carry out prescribed policies and procedures caused the deficiencies discussed in our report. We also recommended to the Secretary of the Army that, when new supply procedures are introduced, they be instituted in conjunction with a thorough training program and an indoctrination of responsible individuals with a clear delineation of their responsibilities.

Index No. 198  
B-146970, February 24, 1965

C-65-131

Unnecessary Costs Incurred in the Procurement of Reusable Metal Containers for the Bullpup Missile, Department of the Navy

Our review of the purchases of Bullpup missile containers disclosed that the Government has incurred unnecessary costs of about \$556,000 because of the Navy's mismanagement of the program. We found that Navy contracting officials awarded contracts to three container suppliers at an average unit price which was about 30 percent, or \$80, higher than the average unit price previously paid by the missile manufacturer for identical containers from the same suppliers. At the average unit price difference of \$80, the total difference for the quantity ordered was about \$386,000. We found also that the Government incurred unnecessary costs of about \$129,500 for the extra handling and storage of Bullpup missiles because containers were not delivered according to schedule. We found further that the Government was charged \$40,500 for the repair of defective containers. About \$22,800 of these costs were directly attributable to poor workmanship on the part of the container supplier and should not have been borne by the Government.

In commenting on our findings, the Navy advised us that the higher prices paid for missile containers appeared justified because the monthly rate of production required of the container suppliers was significantly higher than that previously required of the same suppliers under earlier contracts. Therefore, the Navy stated that its decision not to attempt to negotiate a reduction in the proposed prices to make them more comparable to prices previously paid was due to the higher production rate and the closeness of prices proposed by the container suppliers. The record does not support the Navy's position on this matter. Our review did not disclose any mitigating circumstances which justified the higher prices charged or the Navy's failure to attempt to negotiate an equitable reduction in the proposed prices.

As a result of our review, the Navy Purchasing Office has started action to collect \$102,800 from one delinquent container supplier, whose contract contained a late-delivery damage clause, for failure to deliver containers on schedule. Although the contracts of the other three delinquent suppliers do not contain a specific late-delivery clause providing for a predetermined rate of assessment for damages, these contracts do make time of delivery of the essence, and therefore actual damages for delay, to the extent ascertainable, should be recovered from the delinquent suppliers. Accordingly, we recommended that the Secretary of the Navy ascertain each delinquent supplier's proportionate amount of liability for the \$129,500 damages suffered by the Government and take appropriate action to obtain proper recovery. We recommend also that the Navy take action to recover from one of the container suppliers the improperly assumed costs of \$22,800 incurred for the refinishing of the defective containers.

Index No. 199  
B-146868, February 26, 1965

C-65-132

Loss of Revenue Resulting From the Practice of Requiring That Surplus Marine Anchors Be Sold as Scrap, Departments of Commerce, Defense, and the Navy

During the period 1960-63, the Navy disposed of about 14.3 million pounds of surplus heavy anchors (those of 8,000 pounds and over) with a requirement that the anchors be scrapped. The Government lost as much as \$471,900 in revenue as a result of this action, since the value of the anchors as scrap was less than their value as anchors.

The Navy's action in selling the heavy anchors with a scrapping requirement resulted from a recommendation from the Business and Defense Services Administration, Department of Commerce, which indicated that the sale of surplus heavy anchors in usable form must be prohibited to protect the anchor industry in the United States. In response to this recommendation, the Department of Defense directed the Navy to include the scrapping requirement in the sales

contracts. Thus, the Navy was not permitted to sell the heavy anchors at their fair market value.

In decision, B-150468, issued on July 2, 1963, this Office held that the scrapping requirement included in a contract and Invitation for Bids could not be legally justified on the basis that a possible economic dislocation might thereby be avoided. In this decision it was stated, "We must conclude that Congress intended to permit GSA and authorized executive agencies to contract by negotiation for the sale of surplus goods which, if contracted for by advertised bidding, might have an adverse economic impact on the national economy, but did not grant any agency the discretion to avoid possible economic dislocation by selling surplus below the actual fair market value, if sold by advertised bidding, or below the estimated fair market value if sold by negotiation."

Prior to that decision, a company had obtained some surplus Navy anchors under a contract containing a scrapping requirement. The Department of Justice has instituted legal proceedings against this company to recover possession of these anchors. In view of the pending litigation, the question of the legality of using the scrapping provision in sales contracts is beyond the scope of our report.

Our review disclosed that, during the period the scrapping requirement was in effect, the Navy disposed of about 1,000 heavy anchors weighing about 14.3 million pounds. Analysis of the sales price received for the heavy anchors sold during this period, with the provision that they be scrapped by the purchaser, disclosed that the Government received a return of about 1.7 cents a pound. We estimate that, had the entire 14.3 million pounds of heavy anchors been sold as whole anchors in small lots during the period 1958-63, the Government would have received as much as \$471,900 more than it received through selling these anchors with the requirement that the anchors be scrapped.

As a result of our review, the Department of Defense has advised us that its policy direction has been changed to preclude further scrapping of surplus anchors unless it is determined that sale of anchors as individual items would not result in the highest return to the Government.

The Department of Commerce advised us that it did not concur with the General Accounting Office position with regard to the sale as scrap of surplus heavy anchors. The record, however, does not support the Department of Commerce conclusions on the matters included in our report.

The Department of Defense has primary responsibility for safeguarding the Government's interest in sales of surplus personal property by the military services. Despite this responsibility for safeguarding the Government's interest, the Department of Defense revised its anchor-selling practice and directed that heavy anchors be sold with a scrapping requirement. In our opinion, the Department of Defense, in order to properly safeguard the Government's interest, should have studied and evaluated other disposal methods. The record indicates that the Department of Defense accepted the Department of Commerce scrapping recommendation without adequately investigating alternative disposal methods. We believe that, had the Department of Defense deferred the sale until the anchor market could absorb the surplus anchors at the most advantageous price to the Government, or used the "small lot sale" method of disposing of the anchors over an extended period of time, the sale of the surplus anchors would have resulted in as much as \$471,900 in additional revenue.

## DEFENSE CONTRACTS

Index No. 1  
B-133396, February 28, 1964

C-64-82

Unnecessary Costs Incurred as a Result of Awarding Without Competition a Contract for Overhaul and Modification of Aircraft Engines, Department of the Army

The Department of the Army incurred unnecessary costs of about \$193,000 in awarding a contract for overhaul and modification of aircraft engines because it did not have adequate technical data available for use in obtaining competition. If the Army had taken action to acquire the technical data at the time it was first known that there would be a continuing need for overhaul and modification of the engines, the data would have been available and could have been used to obtain competition in contracting for this work.

The Army, in a letter dated November 1, 1963, referred to its comments on our report on the follow-up review of noncompetitive procurement of aeronautical replacement spare parts within the Department of the Army (B-133396) dated



June 28, 1963, advising us of action being taken to increase competitive procurement in support of aviation. The Army stated that the emphasis being placed on increasing competition in the procurement of aeronautical repair parts applies equally to maintenance and modification services. Accordingly, the Army stated that effort would be intensified to facilitate competition by acquisition of technical data as early in the procurement process as was feasible.

Index No. 2

C-64-83

B-146854, February 28, 1964

Overpricing of CAX-12 Aerial Reconnaissance Cameras by Fairchild Camera and Instrument Corporation, Syosset, New York, under Negotiated Fixed-Price Contract AF 33(600)-38860, Department of the Air Force

Although realistic cost data were not available, the Air Force negotiated firm prices totaling \$1,636,998 for various CAX-12 cameras and components, for use by the Navy, under contract AF 33(600)-38860 with Fairchild Camera and Instrument Corporation, Syosset, New York. The Air Force did not make an adequate evaluation of the contractor's proposal and supporting data and, as a result, was not aware that the proposed prices were based on cost estimates that included substantial provisions for contingencies as well as clerical errors and that information on previously experienced costs was not adequate for developing realistic estimates of the costs of future production. Subsequent to the award of contract—38860, the Air Force purchased additional cameras and carrying cases which increased the contract price to about \$2,091,922. This price was about \$814,000, or 64 percent, greater than the costs incurred by Fairchild in performing the contract.

An adequate evaluation of Fairchild's proposal and supporting data by the Air Force would have disclosed the substantial provisions for contingencies and the clerical errors included in the contractor's cost estimates and would have disclosed also that the proposed prices were not supported by cost data adequate for the development of realistic estimates of the costs of future production. Recognition of these factors would have provided a basis for the negotiation of a contract subject to price revision as accurate cost data became available. This should have resulted in the negotiation of lower prices and in substantial savings to the Government.

In commenting on our findings, the Deputy for Procurement Management, Office of the Secretary of the Air Force, informed us by letter dated September 25, 1963, that a review of this case had been completed and that every effort would be made to obtain a refund. Fairchild informed us that, in its opinion, the profit which resulted from this contract was due primarily to efficiency of its design and manufacture and that to request a price reduction was neither fair nor equitable.

Index No. 3

C-64-84

B-146733, March 5, 1965

Overpricing of Steam Generators for Nuclear Aircraft Carrier, Department of the Navy

We submitted a report on overpricing of steam generators for nuclear aircraft carrier. These generators were purchased from Foster Wheeler Corporation, Livingston, New Jersey, under firm fixed-price subcontract 56-P-3006-P awarded by Plant Apparatus Division, Westinghouse Electric Corporation, Pittsburgh, Pennsylvania, as prime contractor under Department of the Navy cost-plus-a-fixed-fee contract NObs-72205.

Our review disclosed that the purchase price of over \$4 million was negotiated without a review by the Navy or Westinghouse of the cost estimate used by Foster Wheeler in establishing the final negotiated price. The proposed price which Foster Wheeler submitted to Westinghouse was based on estimates that contained undisclosed contingency allowances and provisions for costs that, in all likelihood, would not be incurred, and in fact were not incurred, in producing the steam generators. Westinghouse did not obtain or review Foster Wheeler's cost estimates; therefore, in negotiations, Westinghouse was not in a position to identify or take exception to any of the items included in Foster Wheeler's proposed price. The Navy approved the award made by Westinghouse without requiring Westinghouse to review or evaluate the cost estimates used by Foster Wheeler in preparing its proposed price. Had the Navy required such a review or made its own review of the cost estimates, it would have been in a sound position to negotiate a price reduction of about \$489,600 for the steam generators.

After being advised of our findings, the Navy indicated that it would make a study of this procurement and that, if this study showed that the Government

had, in fact, incurred excessive costs because of unsatisfactory negotiation and pricing of the Foster Wheeler subcontract, the Navy would make an effort to obtain an appropriate price adjustment. Notwithstanding the Navy's action, Westinghouse and Foster Wheeler have advised that they disagree with our conclusions and will oppose any Government efforts to obtain a price adjustment.

The cost-plus-a-fixed-fee contract between Westinghouse and the Navy provided that the Government would reimburse the prime contractor for the subcontract prices it negotiated in performance of the prime contract. However, the prime contractor's right to reimbursement became absolute only after the prime contractor had discharged all its duties. One significant duty imposed on Westinghouse was the obligation to establish subcontract prices which were reasonable. It is our view that Westinghouse failed to discharge its duty in this regard and we therefore issued formal exceptions in the amount of \$489,600 against the accounts of the disbursing officers who made the payments to Westinghouse.

Also, in order to emphasize the importance of obtaining evidence to substantiate the reasonableness of quoted prices and related cost estimates, we recommended to the Navy that it bring this case to the attention of its contracting officials.

Index No. 5

C-64-86

B-146845, March 6, 1964

Overpricing of Contracts Negotiated for T38A Electrical Power Systems With Westinghouse Electric Corporation, Department of the Air Force

The Government has incurred unnecessary costs of about \$190,000 because the negotiated prices for T38A electrical power systems and spare components under contracts AF 33(600)-40529, -41603, and -42266 with Westinghouse Electric Corporation, Lima, Ohio, included overstated cost estimates for material. The cost estimates proposed by Westinghouse were accepted by the Air Force. Westinghouse furnished pricing certifications on all three contracts which stated that (1) all actual or estimated costs or pricing data available had been considered in preparing the price estimate and had been made known to the contracting officer or his representative and (2) any significant changes in the above data that had occurred prior to price negotiations had been disclosed. Contrary to its pricing certifications, Westinghouse did not disclose during negotiations that the proposed material costs were not representative of the material costs it expected to incur. In fact, the contractor had procured most of the material prior to negotiations at prices lower than those included in its proposal. In its relations with the Government, the contractor has a responsibility to make a complete disclosure of the costs which it may reasonably expect to incur or in fact has incurred. The use of obsolete, inaccurate cost data to obtain excessive prices is clearly improper. The Air Force contracting officers also have a responsibility to protect the interests of the Government by reviewing the proposed prices by such methods as are necessary to assure that the prices proposed are reasonable. A pricing certification by the contractor does not relieve the contracting officers of this responsibility.

We recommended that the Department of the Air Force, in coordination with the Department of Justice, take steps to obtain a suitable refund under the contracts, consistent with maximum protection of the Government's interests in terms of the penalties that may be appropriate. We further recommended that the Secretary of the Air Force bring this case to the attention of Air Force contracting officers to illustrate the need for a complete disclosure of current cost information and pricing data by contractors during price negotiations as well as the need for adequate review of proposed prices. We recommended also that the Secretary of the Air Force require contracting officers to assure that, when assistance is requested from cognizant audit groups, the audit is made at or near the time the contract negotiations take place.

Index No. 9

C-64-91

B-146718, March 18, 1964

Overpricing of the Nuclear Frigate U.S.S. *Bainbridge* Purchased From the Bethlehem Steel Company, Quincy, Massachusetts, Department of the Navy

We reviewed the overpricing of the nuclear frigate U.S.S. *Bainbridge* purchased from Bethlehem Steel Company, Quincy, Massachusetts, by the Department of the Navy. The U.S.S. *Bainbridge* was the first, and to this date the only, nuclear-powered frigate delivered to the Navy. It was the second nuclear-powered ship built by Bethlehem which also built the nuclear-powered cruiser, the U.S.S. *Long Beach*.

Our review disclosed that the Navy contracted to pay Bethlehem about \$5 million more for the construction of the U.S.S. *Bainbridge* than was warranted on the basis of available cost data and the circumstances existing at the time of negotiations.

Construction of the U.S.S. *Bainbridge* was undertaken by Bethlehem Steel Company under a preliminary contractual arrangement (letter contract) which provided that, with certain limitations, the Government would reimburse Bethlehem for costs incurred until an appropriate price could be established and other necessary contractual arrangements could be made. In January 1962, after 3 years of price negotiations during which time numerous offers and counter-offers were made, a fixed price of \$87 million was accepted by the Navy. In substantiation of this price, Bethlehem submitted a statement to the Navy showing cost incurred to the point where construction of the ship was about 75 percent completed and estimated costs to complete the ship, which totaled about \$82 million. Thus, Bethlehem's cost statement showed that it would receive a profit of \$5 million, or 6.1 percent of cost, if its actual cost approximated its estimates.

Bethlehem's statement of actual and estimated costs included a provision for contingencies of about \$3.4 million and \$1.6 million in duplications and over-statements of costs including (1) costs for change orders that were to be priced separately, (2) excessive charges for overhead costs, and (3) overstatement of material costs. Analysis of these estimates and related data disclosed that, if Bethlehem completed the last 25 percent of the ship with a level of performance commensurate with that applicable to the first 75 percent of the ship, it would be likely to incur costs of about \$77 million or \$5 million less than indicated by the total of its cost statement.

According to the Navy, it was aware that Bethlehem's estimates to complete the *Bainbridge* were high and it had cost estimates of its own which indicated that Bethlehem's costs would be several million dollars lower than the amount shown by Bethlehem's cost estimates. Accordingly, prior to acceptance of Bethlehem's price, the Navy proposed pricing arrangements that were more flexible than the fixed-price terms proposed by Bethlehem. The Navy, however, was unable to get Bethlehem to agree to what it considered a reasonable, flexible pricing arrangement. Consequently, according to the Navy, it accepted the \$87 million price on the basis that it had no acceptable alternative. In reaching this conclusion the Navy considered (1) that the letter contract was not a suitable contractual arrangement for completion and delivery of the vessel and (2) that the ultimate cost might be higher under a cost-type arrangement since it is the Navy's view that on a cost-reimbursable basis the contractor would not have been under any incentive to have effected reductions in the completion cost of the *Bainbridge*.

Although the Navy has contended that the letter contract was not a desirable contractual form for completion and delivery of the ship, in our opinion, the Navy was not compelled to accept an excessive price in order to obtain a definitive contract. Had further negotiations been unsuccessful, the ship could have been completed under the terms of the letter contract and the price and other terms could have been settled on a quantum meruit basis; that is, the Government would pay the reasonable value of the services performed. Furthermore, the extra motivation toward efficiency and economy which fixed-price contracting normally provides was greatly diminished in this case because three-quarters of the work had already been completed on a cost reimbursable basis. Therefore, we believe that the Navy overvalued the advantages of fixed-price contracting in this case and that to obtain a fixed price it granted Bethlehem a price that included provisions for contingencies of substantial amount that would require the Government to pay for the cost of uncertain events whether or not these events occurred, as well as for costs not properly chargeable to this contract. We therefore conclude that the Navy paid Bethlehem more for this ship than was warranted on the basis of available cost data and the circumstances existing at the time of negotiations.

We recommended that the Secretary of Defense take all action that is available to him to obtain a price adjustment from the Bethlehem Steel Company for the overpricing disclosed by our report. We also recommended that the Secretary of Defense establish regulations to require that, if work is more than half completed under a letter contract, a fixed-price contract will not be used unless it can be affirmatively established that it is in the Government's interest to put the contract on a fixed-price basis and the use of a fixed price is specifically approved by the

Secretary of Defense. Had such a regulation been in effect in the instant case, we believe that the final settlement could have been made on a quantum meruit basis and that a substantially lower price would have been obtained.

Index No. 15  
B-118695, March 30, 1964.

C-64-97

**Overpricing of B-58 Electrical Power Systems Purchased From Westinghouse Electric Corporation by General Dynamics Corporation Under a Cost-Plus-a-Fixed-Fee Prime Contract, Department of the Air Force**

The Government has incurred excessive costs of about \$81,000 because the negotiated prices for major components of the B-58 electrical power systems purchased from Westinghouse Electric Corporation by General Dynamics Corporation and charged to the Air Force under a cost-plus-a-fixed-fee contract included overstated cost estimates for material, labor, and overhead. The B-58 electrical power systems were furnished by Westinghouse under General Dynamics' change order 3 of purchase order 273, issued under prime contract AF 33(600)-38975. Westinghouse Electric Corporation and General Dynamics Corporation disagreed with our findings except for the overpricing of one major part for which a refund has been made. Had General Dynamics made an adequate analysis of the cost information available at the time of the negotiations, it would have been apparent that the costs proposed for material, labor, and overhead were significantly higher than the costs Westinghouse expected to incur or, in fact, had already incurred. As a result of our findings, General Dynamics requested and Westinghouse submitted a refund of \$24,264, applicable to one of the major parts purchased.

Where competition is lacking it is the responsibility of the prime contractor in dealing with subcontractors to protect the interests of the Government by requiring current and valid cost information at the time of negotiation and reviewing the proposed prices by such methods as are necessary to assure that the prices accepted are reasonable in relation to the most current cost information available. Moreover, the Air Force contracting officials should assure themselves that the prime contractor is properly carrying out its responsibility in the award of subcontracts.

We have been advised that the Air Force is making a detailed review of pricing under change order 3 of purchase order 273 and will take the necessary corrective action as indicated by its findings. Since our findings raise questions as to the reasonableness of the pricing under purchase order 514 for later production of similar items, we believe that the Air Force review should be extended to cover the pricing under that purchase order. We requested the Secretary of the Air Force to advise us as to the results of the review and as to the action taken to obtain a suitable refund. Also, we requested him to comment on the need for a revision in administrative procedures of the Air Force or its prime contractors to avoid future overpricing.

Index No. 21  
B-146877, April 8, 1964

C-64-103

**Improper Charges to Government Cost-Type and Incentive-Type Contracts Held by Grumman Aircraft Engineering Corporation, Bethpage, New York, Department of the Navy**

Grumman Aircraft Engineering Corporation, Bethpage, New York, improperly charged Government cost-type and incentive-type contracts with \$188,000 of costs that were incurred under other contracts during the period 1958 through 1961. The other contracts were for research and development projects that were of primary interest to Grumman. Under the terms of these eight other contracts, the Government was to provide Government-owned technical data and, in all except one case, was to pay nothing or was to make a token payment of \$1. In the one case the Government contracted to pay about one-third of the cost of the project. Our review indicated that the Government had met its obligation under these contracts and that the amounts charged to the Government cost-type and incentive-type contracts represented Grumman's share of the cost of the research and development projects. Accordingly, there was no basis for charging these costs to other Government contracts.

Navy auditors reviewed various aspects of the contractor's costs for 1958 and 1959 and questioned a portion of the costs of the research and development projects totaling \$93,000 that had been improperly charged to five incentive-type contracts. However, they neglected to have corrections made for the remaining \$95,000 of these costs which had been charged to cost-type contracts. Therefore,

at the time of our review, \$95,000 of these costs remained improperly charged to Government cost-type contracts.

After Grumman's attention was called to this matter, the necessary adjustments were made.

Since the costs of the research and development projects which the Navy found improperly charged to incentive-type contracts were a part of general and administrative expenses that were distributed on a pro rata basis to all Grumman's contracts, it should have been obvious that similar costs were improperly charged to cost-type contracts. We therefore advised the Department of Defense and the Department of the Navy that it was our view that this case demonstrated a need for Navy auditors to be more thorough in challenging and obtaining correction of improper charges to cost-type and incentive-type contracts. Accordingly, we suggested that the Department of Defense advise all military audit groups that, whenever improper charges are detected on one contract or group of contracts, there is a need to review the appropriateness of similar charges to other contracts that might be affected. To further emphasize this need we also suggested that this report be distributed to appropriate military audit groups.

The Department of Defense and the Department of the Navy advised us that they fully concurred with our findings and that action had been taken to put our suggestions into effect.

Index No. 26

C-64-108

B-146747, April 17, 1964

**Unnecessary Interest Costs Incurred by the Government Because of Improper Retention of Overpayments by Burroughs Corporation, Detroit, Michigan, Department of the Army**

Our review of three fixed-price redeterminable contracts with Burroughs Corporation, Detroit, Michigan, disclosed that the Government has incurred unnecessary interest costs of over \$208,000 because the contractor improperly retained for long periods of time about \$4.9 million of payments made by the Government during the performance of these contracts. The contractor was required to make refunds when actual costs being incurred were less than the estimated costs included in billing prices. However, the contractor did not disclose that refunds were due because it had overstated its actual costs. Further, the Army was not aware that refunds were due because it accepted the contractor's cost representations without reviewing available supporting data.

In commenting on our findings, the contractor acknowledged that overpayments had been retained but contended that this action was justified. Our review of the facts, as demonstrated in our report, does not sustain this contention.

The Department of the Army, however, agreed with our findings and conclusions and advised us that, in accordance with our proposal, action had been initiated to recover from Burroughs the interest costs unnecessarily incurred by the Government. We recommended that the Department of the Army coordinate its actions with the Department of Justice to assure that it does not jeopardize any interests or rights of the Government that may be available under existing statutes.

We recommended also that the Secretary of Defense require that cost data submitted by contractors for determining whether refunds are due the Government be certified as accurate, complete, and current and that contract administrative agencies periodically check the validity of contractors' quarterly reports so that any amounts properly due the Government can be expeditiously recovered.

Index No. 29

C-64-111

B-118695, April 27, 1964

**Overpricing of B-58 Aircraft Components Under Cost-Plus-Incentive-Fee Purchase Orders Issued to Sperry Gyroscope Company Division of Sperry Rand Corporation, Great Neck, New York, by Convair, a Division of General Dynamics Corporation, Fort Worth, Texas, Department of the Air Force**

Our review of the procurement of B-58 aircraft components disclosed overpricing of cost-plus-incentive-fee purchase orders issued to Sperry Gyroscope Company, Division of Sperry Rand Corporation, Great Neck, New York, by Convair, a Division of General Dynamics Corporation, Fort Worth, Texas, under Department of the Air Force prime contracts AF 33(038)-21250 and AF 33(600)-32841.

We found that, in negotiations for primary navigation systems for B-58 airplanes, Sperry proposed and Convair accepted target costs which were overstated

by about \$3,289,000 because Sperry (1) estimated the unit prices for proposed purchased parts at prices which were higher than the prices which Sperry was already paying for the parts, (2) applied an arbitrary increase of 100 percent to the unit price estimated for each of the purchased parts proposed, and (3) then added a 10 percent provision for contingencies to the already inflated cost estimates. Unless adjusted, these overstatements will result in increased costs to the Government for target and incentive fees of about \$1,084,000.

Convair and the Air Force did not take effective steps to negotiate sound prices based on experience for the B-58 primary navigation systems. Since competition was limited, the Air Force should have required Convair to make a critical analysis of the costs proposed by Sperry. Such an analysis should have included a comparison of proposed costs with the latest available supplier's prices. Further, ordinary business prudence should have caused Convair to require Sperry to furnish current cost information since more than a year had elapsed between the time Sperry prepared its cost estimate and the time the target costs were negotiated. However, Convair accepted Sperry's proposed costs without obtaining the latest available cost data or other evidence as to the reasonableness of its estimates. Further, appropriate surveillance of Convair's subcontracts with Sperry by Air Force officials would have disclosed to them that the target costs of these purchase orders were substantially higher than warranted by cost information available prior to the time the target costs were negotiated.

We believe it is unreasonable for Sperry and Convair to benefit, and the Government to suffer, because these contractors established overstated target costs. Therefore, we recommended that the Air Force, in cooperation with the Department of Justice, take action consistent with the Government's interests to recover the amount of the overpayment in addition to such statutory penalties as may be appropriate.

In commenting on a draft of this report, neither Sperry nor Convair disagreed with the factual content of the report but contended that under the circumstances reasonable target costs had been negotiated. The Air Force withheld substantive comments pending its own investigation of our findings.

Index No. 40  
B-146886, May 21, 1964

C-64-123

**Excessive Relocation Payments to Employees Transferred From One Company Location to Another by Lockheed Missiles & Space Company, Sunnyvale, California, a Division of Lockheed Aircraft Corporation, Department of Defense and National Aeronautics and Space Administration**

Our review of employee relocation costs charged to the Government, under defense and space contracts, by the Lockheed Missiles & Space Company, Sunnyvale, California, a division of Lockheed Aircraft Corporation, disclosed unnecessary costs during a 12 month period totaling \$101,200, resulting from the company's excessive payments of daily relocation allowances to its employees. These excessive payments were caused by Lockheed's practice of paying employees transferred from one location to another a daily relocation allowance for a period greatly in excess of the period actually needed to establish a new residence.

After we presented the finding of our review to the company, Lockheed revised its relocation policy to preclude such payments in the future. The Department of Defense and the National Aeronautics and Space Administration informed us that action would be taken to eliminate any such costs included in contract prices by Lockheed's division at Sunnyvale, California, during the years 1958 through 1962. We recommended to these agencies that they examine relocation practices of other divisions of Lockheed Aircraft Corporation with a view toward eliminating any additional unnecessary cost to the Government as a result of the company's relocation policy. We deferred further collection action pending receipt of advice as to the measures taken by these agencies.

The entire subject of relocation costs is being studied by the Department of Defense and the National Aeronautics and Space Administration, and a proposed revision to regulations concerning this matter has recently been circulated to industry for comment. Pending the completion of this study, contracting and auditing personnel have been alerted to carefully examine the propriety of relocation costs charged to the Government under defense and space contracts.

Index No. 43  
B-146717, May 25, 1964

C-64-126

**Overstated Cost Estimates Included in the Initial Target Prices of Incentive Contracts AF 33(600)-36319 and AF 33(600)-38098 with the Boeing Company, Seattle, Washington for the Bomarc "A" Weapon System, Department of the Air Force**

Our examination disclosed that the initial target prices negotiated by the Air Force and the Boeing Company for the production of Bomarc "A" missiles under contracts AF 33(600)-36319 and AF 33(600)-38098 included certain proposed costs which were overstated by about \$23,034,500. The overstated initial target costs, which made available to Boeing additional profits of at least \$2,303,450, were attributable to cost estimates proposed by Boeing that (1) did not incorporate the most accurate, complete, or current cost or pricing data available at the time of negotiations even though Boeing certified that such data were used for contract -38098, (2) were not properly related to contract requirements, (3) were not based on reasonably firm designs and specifications or adequate cost data, and (4) were not adequately evaluated.

We believe that it is unreasonable for the Government to incur increased costs and for contractors to realize increased profits as a result of cost estimates which are unsupported by realistic cost or pricing data or which are based on contract requirements that are not reasonably firm at the time of price negotiations. Where realistic cost data are not available or where contract requirements are unresolved, we believe that pricing action should be deferred until realistic data become available and reasonably firm contract requirements are established.

Boeing has agreed to negotiate certain adjustments with the Air Force under contracts -36319 and -38098 to reduce a portion of the overstated initial target costs discussed in our report. The Office of the Assistant Secretary of Defense (Installations and Logistics) advised us that the Air Force agreed that substantial additional downward adjustments in the overstated initial target prices should be sought from Boeing under these contracts, but that it intended to defer negotiations for this purpose until complete Air Force audits of the contracts had been made and evaluated. We were advised that the negotiations were expected to begin in May 1964. In our opinion it would be unreasonable for the Government to bear increased costs because of any portion of the overstated cost estimates disclosed by our review and for Boeing to benefit by obtaining increased profits because of these overstated cost estimates.

We recommended that the Secretary of the Air Force take aggressive action to obtain appropriate adjustment of the overstated initial target costs discussed in our report and, in coordination with the Department of Justice before an administrative settlement of contract -38098 is reached, take steps to enforce rights which the Government may have because of the false certificate given by the contractor with respect to making known to the Air Force negotiator all available cost and pricing data for his use in evaluating Boeing's cost proposal.

We recommended also that the Secretary of Defense establish policies, and have appropriate officials establish criteria and procedures to properly implement such policies, which will provide (1) that, whenever adequate data for the development of realistic estimates of the probable cost of future production for areas of contract cost or performance are lacking, negotiation of prices be deferred for those areas until such time as sufficient and adequate data for developing realistic prices become available, (2) that, wherever an audit of a contractor's initial price proposal is appropriate, the audit be performed, whenever practicable, prior to negotiating contract prices and that, where it is impracticable to perform the audit before prices are negotiated, the audit be performed as soon as possible after the prices are negotiated, and (3) that, where it is found that prices included in the contract are not based upon the most accurate, complete, and current pricing information or experience available when the contract prices were negotiated, the contracting officer negotiate prompt adjustment of all such prices and initiate action to enforce all rights that vest in the Government because the contractor used cost or pricing data that were inaccurate, incomplete, or not current.

Index No. 44  
B-125016, June 2, 1964

C-64-127

**Unnecessary Costs to the Government for Unreasonable Delay by Collins Radio Company, Cedar Rapids, Iowa in Releasing Special Tooling, Department of the Army**

The Government has borne unnecessary costs of \$418,000 as a result of the failure of Collins Radio Company, Cedar Rapids, Iowa, to transfer Government-

owned special tooling in a timely manner to a subsequent producer of R-390A radio receivers for the Army. Late receipt of this special tooling at the subsequent producer's plant necessitated Government authorization to accelerate production in order for the contractor to meet the original contract completion date. Collins' delay in transferring tooling constituted a breach of its contract that required immediate packing and prompt delivery of the special tooling as directed by the Army.

Collins advised us that it believes that its conduct in transferring special tooling to Stewart-Warner, the subsequent producer, represented a reasonable performance of its contractual obligations under all the circumstances and that in no event should it be held responsible for the increase in contract price negotiated by Stewart-Warner for the acceleration of its delivery schedule. Collins also pointed out that the Army's contracting officer at Fort Monmouth, New Jersey, had reviewed the entire matter previously and concluded that it should be relieved of any responsibility.

We believe, however, that the facts in our report clearly demonstrate that Collins did not promptly fulfill its contractual requirements to transfer the tooling in a timely manner and therefore committed a breach of contract. Furthermore, none of the points presented by Collins, in an effort to exonerate the company of any liability in this matter, were valid as they pertain to its responsibility under the contract. We also found that the administrative contracting officer at Fort Monmouth, Mr. John J. Natale, did not include material facts demonstrating the breach of contract by Collins in his report relieving Collins of accountability for the delays in transferring the tools. We believe that his action in this matter should be made a part of his personnel record so that it may be considered in promotion and other personnel matters.

The Deputy Assistant Secretary of the Army (Installations and Logistics) advised us that the Army agrees with our finding that Collins breached its contract and, in accordance with our proposal, is taking action to recover from Collins the \$418,000 resulting from its delay to transfer the tooling as well as an additional \$46,200 for rental of the tooling during its unauthorized use.

Index No. 45

C-64-128

B-146894, June 2, 1964

#### Illegal Award of Advertised Construction Contract and Excessive Costs for Contract Modifications, Departments of the Army and Air Force

We found that the work contemplated under an advertised construction contract, for about \$12 million after modifications, awarded to The Lane Construction Corporation, Meriden, Connecticut, by the United States Army Corps of Engineers, differed so substantially in kind and quantity from that advertised that the contract must be considered as having been illegally awarded. Prior to award of the contract the Air Force decided that it required a new narrow-gauge-type runway lighting system, and a decision was made to incorporate the change through a contract change order. The contractor also knew prior to award that this significant change would be made to the lighting system.

The new narrow-gauge lighting that was subsequently added to the contract was estimated to cost \$1.2 million. The estimated cost of the remainder of the lighting system included in the work for which bids were solicited was about \$914,000. The known change in the scope of the work therefore was of such significance that it was inappropriate and illegal to award the contract in an unrevised form. To allow such a procedure would be grossly unfair to other bidders and would not afford the Government the full advantages of true competition.

Instead of awarding the contract for work significantly different from that known to be required, the contracting officials should have followed other methods available to them to assure that the Government received the best possible price. For example, they could have reissued invitation for bids after all known requirements were incorporated therein or, if time or other circumstances did not permit procurement by formal advertising, could have used competitive negotiated procurement.

The only proper method for payment under the circumstances is on the basis of the fair value of the work performed. Thus, the Army should make a study to determine the value of the work performed and recover any amounts paid to the contractor in excess of reasonable value. We requested that the results of the study be furnished to this office.

In a review of limited data available to the Government on the cost of work added to the basic contract by modifications, we also found indications of excessive



costs of about \$85,000 attributable to the contracting officer's failure to properly evaluate the contractor's cost proposals for the modifications. In making the study to determine the value of the work performed, agency officials should be particularly on the alert for excessive charges of this type.

This case illustrates that contracting officials must carefully consider all pertinent factors before bids are solicited and when negotiating prices for work to be accomplished under negotiated modifications to an advertised contract. The successful bidder has such inherent advantages that, as a practical matter, the Government is almost precluded from bringing free competition into modification negotiations. We recommended that the Secretary of Defense bring this report to the attention of contracting officials to emphasize (1) the legal requirement for including in the invitation for bids the work actually required at the time of the award and (2) the possible adverse effects of amending advertised contracts by negotiated change orders.

We believe that the actions of the Army and Air Force officials responsible for the illegal award and the unnecessary and questionable expenditures in connection with work accomplished under modifications to the basic contract showed poor judgment and/or lack of recognition of their individual responsibility for care and compliance with existing laws in managing their activity. Under these circumstances the Army and Air Force should consider the manner in which this responsibility was met in evaluating the performance of these officials in making future assignments.

Index No. 47

C-64-130

B-118663, June 9, 1964

Overstatement of Contract Target Price Negotiated With American Posch Arma Corporation, Arma Division, Garden City, New York, Department of the Air Force

Our review of the contract target price negotiated in September 1960 for Department of the Air Force fixed-price incentive contract AF 04(647)-684 with American Posch Arma Corporation, Arma Division, Garden City, New York disclosed that the negotiated target cost was overstated by \$216,153. This overstatement occurred because the contractor proposed, and the Air Force accepted, estimated costs of purchased parts that were higher than were reasonable in view of suppliers' known prices at the time of negotiations. Unless adjusted, this overstatement will result in increased costs to the Government in the form of unwarranted profits to the contractor of \$52,958.

The Air Force has agreed with our findings and has informed us that the contracting officer will, in accordance with pertinent terms of the contract, reduce the contract target price by the amount set forth in our report.

Index No. 51

C-64-134

B-133149, June 15, 1964

Excessive Prices Negotiated by the Defense Petroleum Supply Center for Storage of Petroleum in a Commercial Facility at St. Ignace, Michigan, Department of Defense

The prices negotiated by the Defense Petroleum Supply Center, Department of Defense, under contract ASP-15734 for storage of petroleum in a new commercial facility at St. Ignace, Michigan, included excessive amounts of \$67,000 for interest on the contractor's construction loan and \$223,190 for operating costs. In addition, the prices negotiated for future renewal periods are excessive because they amount to \$761,551 more than the estimated operating costs of \$933,269 for the 7 option years. These option prices represent a return or profit to the contractor of more than 77 percent of estimated operating costs. The excessive prices resulted from (1) submission by Northwestern Oil and Terminal Company to the Defense Petroleum Supply Center of estimates of interest and operating costs to be used in the negotiation of the contract prices which the company knew, or had reason to know, were excessive and (2) failure of the Defense Petroleum Supply Center negotiating and contracting officials to effectively review and evaluate the cost data furnished.

By letter dated September 27, 1963, Northwestern Oil and Terminal Company disagreed with the findings and conclusions contained in the draft of the proposed report which we submitted to the contractor for review and comment. We have carefully considered the comments and financial data submitted by the contractor and find that the record, including the information submitted by the contractor, supports our finding that the negotiated prices of contract ASP-15734 are excessive.

On October 10, 1963, the Deputy Assistant Secretary of Defense (Procurement) informed us that the Department of Defense agreed with our findings and that the Defense Supply Agency would determine whether an adequate basis exists for seeking a voluntary refund from the contractor of the excessive amounts for interest and operating costs that were included in prices already paid to the Contractor. In addition, we were informed that every effort would be made to reduce substantially the contract option prices before additional options to renew were exercised.

Index No. 54

C-64-137

B-146883, June 16, 1964

Unnecessary Costs Incurred for M61 Machine Gun Components Under Contracts With General Electric Company, Burlington, Vermont, Department of the Army

Our review of prices for M61 machine gun components under Department of the Army contracts with General Electric Company, Burlington, Vermont, disclosed that the Government incurred unnecessary costs of \$74,500. We found that the contractor (1) failed to disclose information during negotiations that a new manufacturing process had been adopted which significantly reduced the cost of manufacturing a part and (2) improperly included in the contract price an amount for items which were furnished by the Government. In addition, the Army failed to determine whether conditions had changed, during the 4 months from the time the contractor submitted its proposal until the contract modification was executed, and to obtain an updated pricing certification so that consideration could have been given to obtaining the entire quantity of another part from the lower priced vendor of the two vendors contemplated in the contractor's original proposal.

The Deputy Assistant Secretary of the Army for Logistics and the contractor, in commenting on this matter, stated that costs were excessive by only about \$29,000 but believed that there should be an offset of about \$20,000 for another item. However, we had recognized this offset in our determination of excess costs. The Deputy Assistant Secretary and the General Electric Company disagreed that the balance of \$45,000 represented excess costs because the savings resulting from the use of a lower cost subcontractor could not have been foreseen at the time the contract was modified. On the other hand, we found that, had the contracting officer inquired into whether the entire quantity could have been obtained from the lower priced vendor, consideration could have been given to either requiring the negotiated price be based on obtaining all the items from the lower priced vendor or setting aside the amount applicable to the part involved until the matter could be resolved. We recommended that the Secretary of Defense direct the Secretary of the Army to take all means necessary to effect an appropriate recovery from the General Electric Company.

The Deputy Assistant Secretary agreed with our proposal that contracting officers should be alert to changes in contractors' production methods or subcontract programs that affect costs and stated that the Army Materiel Command was disseminating briefs of all our reports to contracting officials and that copies of the reports were being furnished to the United States Army Logistics Management Center, Fort Lee, Virginia, for training purposes.

Index No. 58

C-64-141

B-146873, June 22, 1964

Overpricing of Contracts DA-20-089-ORD-8406 and DA-36-034-ORD-897 With Chrysler Corporation, Newark, Delaware, Department of the Army

Our examination of Department of the Army contracts DA-20-089-ORD-8406 and DA-36-034-ORD-897 with Chrysler Corporation, Newark, Delaware, disclosed that the Government had incurred excessive costs which we estimated to be about \$4,780,000 because an adjustment to the tentative contract prices for changes in the cost of certain components was not based on the cost of the components that had been included in the price originally. These excessive costs resulted from the failure of the contractor, the contracting officer, and the Army Audit Agency to identify accurately the costs of the components considered in negotiating the tentative contract prices.

The overpricing of these contracts had been the subject of considerable discussion between the Department of the Army and the contractor and on April 22, 1964, a reduction of \$4,500,000 to the final contract prices was negotiated.

We have been informed that the amount of \$4,500,000 to be offset against other amounts due Chrysler was arrived at after considerable negotiation between the parties but that there are no detail records available in support thereof. We are

therefore unable to identify the specific reasons why this amount differs from our computation. Although the records do not provide a basis for making a precise determination of the amount involved, we do not believe that any further action to obtain an offset of an additional amount from the contractor is warranted.

The Department of the Army advised us that action had also been taken to illustrate the specific problems involved in this report by disseminating the facts of this case to contracting and audit personnel throughout the Department of Defense.

Index No. 67

C-64-151

B-146751, June 30, 1964

**Overcharges to the Government for Change Orders Issued Under Navy Contracts Awarded to the Ingalls Shipbuilding Corporation, a Division of Litton Industries, Inc., Pascagoula, Mississippi, Department of the Navy**

We reviewed the pricing of a group of change orders issued under shipbuilding contracts awarded to the Ingalls Shipbuilding Corporation by the Navy. The amounts negotiated for these change orders, which resulted in an increase in price of the shipbuilding contracts of about \$2 million, were based on Ingalls' estimates of the costs it would incur in making the changes. Our review disclosed that the Government had been overcharged about \$170,300 and undercharged about \$9,900, or overcharged a net amount of \$160,400, because these estimates were excessive in relation to the most current and accurate cost data available prior to price negotiations or did not allow sufficient credit to the Government for cancellation of items included in the price of the shipbuilding contracts. Also, we found that the Government was overcharged an additional \$15,100 because of mathematical errors made in the pricing of these and other change orders issued under the same contracts. The Supervisor of Shipbuilding who was responsible for negotiating the prices of these changes for the Navy did not make an adequate review of Ingalls' cost estimates and supporting data and apparently was not aware of the overcharges.

Ingalls advised us that it did not believe that the Government was overcharged or that the Government was knowingly misled during negotiations. However, it did not supply details to support its views and, early in our review, declined to hold further discussions of individual cases with our auditors.

The Navy concurred in some of our findings and promised to take appropriate action to effect recovery of the amounts of the overpricing in these cases. In other cases, the Navy did not agree, principally because it considered that all change orders deleting items required under the original contract should be priced at current prices regardless of the price established for the requirement under the original contract. We do not agree with the Navy's position. When requirements are decreased it seems more reasonable to use the price in the basic contract and thereby to put the parties in the same position as the one in which they would have been if the item had been omitted from the initial contractual requirements.

In our report, we recommended that the Secretary of Defense establish guidelines to be used by contracting officers in pricing change orders which delete contract requirements. We also recommended that the Secretary of Defense (1) institute action to recover the overcharges cited in this report, (2) have an analysis made of other change orders issued under these contracts to determine which ones would, by virtue of the amounts involved, appear to merit review, and (3) have audits made of these change orders with a view toward recovery of any overpricing disclosed by the audits.

Insofar as future change orders are concerned, the Navy agreed to provide for the audit of contractors' price proposals whenever the gross value of the change exceeded \$10,000. If properly implemented, this arrangement should enable the Navy to detect the principal types of deficiencies disclosed by our review.

We also recommended that the Department of Defense inquire into the procedures followed by the other military services in negotiating change order prices to ascertain whether such procedures will provide adequate assurance that reasonable prices are obtained.

Index No. 68

C-64-152

B-146900, June 30, 1964

**Overcharges for Aircraft Products Liability Insurance Under Various Contracts Awarded to Pratt & Whitney Aircraft Division of United Aircraft Corporation, East Hartford, Connecticut, Department of the Navy**

During the years 1955 through 1961, the Pratt & Whitney Aircraft Division, United Aircraft Corporation, charged the Government about \$2.2 million of the

costs of providing aircraft products liability insurance on items sold commercially. Pratt & Whitney knew that it cost substantially less to insure products sold to the Government than to insure those sold commercially. However, it included the full cost of this insurance in a pool of general and administrative expenses which it apportioned between its Government and commercial work on the basis of the manufacturing and development costs incurred in performing such work. Consequently, during the 7-year period, Pratt & Whitney charged the Government \$3.7 million of its premium costs for aircraft products liability insurance although the portion of the premium costs actually incurred on sales to the Government amounted to only \$1.5 million. Conversely, Pratt & Whitney's commercial work on which the premium cost was \$3 million bore only \$0.8 million of these costs.

United Aircraft Corporation did not disagree with our findings and advised us that it had agreed to the disallowance of a portion of this cost in the final pricing of contracts for 1962. It stated, however, that there was no legal or equitable basis for changing the prices negotiated for the contracts involved because (1) the contracts had been finally settled and (2) the accounting method it consistently used in establishing Government contract prices resulted in charging its commercial business with certain indirect expenses which were wholly military in nature.

The Department of Defense advised us that it agreed with our findings. Further, we were advised that, as a result of our findings, the Navy had taken exception in the final pricing of contracts for 1962, to costs of \$305,000 representing aircraft products liability insurance premiums not properly chargeable to Government contracts. The Department further advised that the Navy would take similar action to the extent applicable in connection with Navy contracts at the other divisions of United Aircraft Corporation and that care would be taken to prevent such charges under any future Navy contracts with that Corporation. In addition, the Department of Defense advised that it would bring this case to the attention of audit and contracting officials to demonstrate the need for appropriate review and analysis of the principles and procedures used by contractors in apportioning overhead costs to Government contracts. With regard to recovery of the \$2.2 million overcharges for the years 1955 through 1961, the Department informed us that it believed that efforts to seek recovery of the overcharges would not be consistent with the best interests of the Government because (1) there was no legal basis for recovery and (2) the Navy, after an extensive review of Pratt & Whitney's accounting system, considered that reopening the negotiated overhead rates for those years would expose the Navy to counterclaims and offsets that would greatly outweigh the overcharges in question.

The Department has taken measures that deal with all aspects of our findings except with regard to recovery of the overcharges for the years 1955 through 1961. We are continuing our review of Government contracts held by the Pratt & Whitney Aircraft Division, United Aircraft Corporation. In connection with this review and with a view toward determining the reasonableness of the Department's position that it would not be in the Government's interest to seek recovery of the overcharges for the years 1955 to 1961, inclusive, we are examining into the claims of United Aircraft Corporation and the Department of Defense that counterclaims and offsets would outweigh the \$2.2 million overcharges.

Index No. 88

B-152600, July 31, 1964

C-65-17

Overpricing of Survival Kit Equipment Furnished by Rocket Jet Engineering Corporation, Glendale, California, to Scott Aviation Corporation, Lancaster, New York, for the F-4 Aircraft Program, Department of Defense

Our review of the pricing of survival kit components supplied by Rocket Jet Engineering Corporation, Glendale, California, to Scott Aviation Corporation, Lancaster, New York, for F-4 aircraft showed that, in sole-source procurement of these components totaling \$1.5 million, Scott Aviation repeatedly accepted sub-contract prices proposed by Rocket Jet without benefit of cost data or other evidence of the reasonableness of the prices. This review was conducted as a part of our examination of the F-4 program undertaken at the request of the Chairman of the Committee on Appropriations, House of Representatives.

If Scott Aviation had obtained information on Rocket Jet's most recent production costs before negotiating prices, it would have been in a position to negotiate a reduction of about \$208,000 in the proposed prices. Such action, after allowing for administrative charges and profit added by higher tier contractors, would have reduced the cost to the Government for these procurements by about

\$317,000. In addition, in awarding a subcontract to Rocket Jet in 1963, Scott Aviation violated Public Law 87-653, as well as the terms of a contract it held with the prime contractor, by failing not only to obtain a required pricing certification, but also to include a contract provision giving the Government the right to recover any overpricing. To the extent that Rocket Jet's price was unreasonable, and because of Scott Aviation's failure to comply with statutory and contractual requirements, we believe that recovery in behalf of the Government should be made.

Later in 1963, in connection with a subsequent order, Scott Aviation obtained cost data from Rocket Jet, including a certification that such data were complete and current. After obtaining the information, however, Scott Aviation made no review of the reliability of the cost data. Such a review would have revealed that Rocket Jet had no real support for the cost data certified and furnished to Scott Aviation and that current production costs of the items were substantially less. In our opinion, Rocket Jet's action constituted misrepresentation. We believe, therefore, that action to recover damages sustained by the Government, as a result of Rocket Jet's part in this transaction, should be considered under the legislation which imposes penalties for false claims against the Government (31 U.S.C. 231).

We informed the Secretary of Defense of our findings and proposed that competition be brought into this type of procurement at the earliest practicable date and that until this can be done the Department of Defense insist on critical reviews of proposed prices and compliance with the provisions of Public Law 87-653. We proposed also that the Secretary of Defense obtain appropriate recovery for the Government and, where misrepresentation or violation of the law is involved such action be taken only after consultation with the Department of Justice.

In commenting on our proposals, the Department of Defense advised us that, with respect to future orders for survival kits, action has been taken to obtain competition in fiscal year 1965. Moreover, if any purchases are required in the meantime, adequate cost data will be obtained and evaluated before prices are established. The Department advised also that action has been taken to recover any excessive amounts that may have been included in the prices for the survival kits, without prejudicing any action which should be taken by the Department of Justice.

Index No. 89

C-65-18

B-133143, July 31, 1964

**Excessive Prices Negotiated for Installation and Test of Radar Systems Under a Negotiated Fixed-Price Contract With Avco Corporation, Electronics Division, Cincinnati, Ohio, Department of the Air Force**

The price negotiated by the Air Force in May 1963 with Avco Corporation, Electronics Division, Cincinnati, Ohio, for installing and testing radar systems under a fixed-price order, dated October 1962, was excessive by about \$119,200 because Avco proposed and the Air Force accepted an allowance for labor that was greater than Avco could reasonably expect to incur on the basis of prior experience. Labor costs previously incurred by Avco for work of a similar nature were not adequately considered in the negotiation of this price, although recent cost experience was available in Avco's records. After our findings were brought to the attention of Air Force and Avco officials, Avco refunded \$119,200 to the Air Force—AF-64-29 \$119,200.

Avco advised us that in preparing its proposal certain circumstances had been considered, which the contractor believed would increase labor costs, and that these circumstances had apparently not been considered by us. However, our review disclosed no evidence that the circumstances cited by the contractor were considered in computing estimated costs for the proposal or were disclosed to the Air Force for consideration in establishing the contract price.

The Air Force advised us that it believed that its evaluation of Avco's proposal was adequate but that the contractor had not made its most recent cost experience known to the negotiators. Our review showed that, although the contractor's proposed price was evaluated at least three times, no attempt was made to obtain or use basic data, relative to the contractor's recent labor cost experience, which were readily available in the contractor's books and records.

In negotiating prices of Government contracts where effective competition is not present, all available data should be considered by the buyer and seller at the time of negotiation so that the prices will be fair and reasonable to both parties. It is evident that, if Avco's prior cost experience which was available at the time of negotiation had been properly considered, it would have provided a realistic basis for the negotiation of lower prices on this contract. Although in this case

the Government has received an appropriate refund, this is not an adequate substitute for establishing prices at the time of negotiations that are based on full consideration of all available data.

The Secretary of Defense has recently emphasized to the Secretaries of the military departments the importance of assuring that contractors' cost proposals are prepared on a sound basis and are reviewed in sufficient detail to support an informed opinion as to their reasonableness. The Secretary of Defense pointed out that, although contractors are responsible for submitting current, complete, and accurate proposals, the military departments are not relieved of their responsibility to adequately evaluate these proposals.

In this case, three separate evaluations were made of Avco's proposal, but no consideration was given to the contractor's most recent labor cost experience. Therefore we recommend that the Secretary of Defense, in line with his recent emphasis on this point, have this report brought to the attention of Air Force contracting officials to illustrate the importance of adequately considering contractors' most recent cost experience when negotiating prices.

Index No. 90

B-125071, July 31, 1964

C-65-19

Overpricing of Modification Kits and Spare Parts Purchased From Hughes Aircraft Company, Culver City, California, Under Negotiated Firm Fixed-Price Contracts, Department of the Air Force

In our review of the pricing of modification kits and spare parts procured during the period July 1956 through April 1960 under Department of the Air Force negotiated firm fixed-price contracts AF 04(607)-2173, AF 04(607)-2676, and AF 09(603)-33098 with Hughes Aircraft Company, Culver City, California, we found that the prices negotiated for certain modification kits and spare parts were overstated by about \$722,200 in relation to cost and pricing information that was available to the contractor prior to or during price negotiations but was not made known to Air Force contracting officials. Acceptance of the overstated prices apparently resulted from the failure of the Air Force administrative contracting officer to examine into the accuracy and currency of the cost and pricing information on which the contractor's price proposals were based.

After we discussed our findings with responsible Air Force and Hughes officials, Hughes refunded \$722,191 to the Government. Hughes informed us that changes in its pricing procedures had been made and implemented, including documentation of files, to assure that the most current data available would be used in pricing proposals.

The Air Force informed us that the Air Force Logistics and Systems Commands had completed a preliminary review of our findings and, as proposed in our preliminary report, had directed that a comprehensive review and analysis be made of the pricing of other items under contracts -2173, -2676, and -33098 with Hughes. We requested the Air Force to inform us of the results of this review and the action taken or contemplated on this matter.

Index No. 91

B-146922, August 4, 1964

C-65-20

Improper Reimbursement for Personal Property Taxes to Hoffman Electronics Corporation, El Monte, California, Under Defense Contracts and Subcontracts, Department of Defense

Our review of personal property taxes included in the prices of defense contracts and subcontracts with Hoffman Electronics Corporation, El Monte, California, disclosed that the corporation had improperly claimed and was reimbursed \$55,619 by the military departments for taxes paid to Los Angeles County. Hoffman claimed reimbursement in certain instances because a new tax had been assessed against Government-owned property, whereas the taxes included in the claim primarily related to contractor-owned property and were of a type for which provision had already been made in the contract prices. In other instances, payment of the taxes had not been protested by Hoffman, as required, which precluded the obtaining of any refund from the county when the taxes on Government property were subsequently declared invalid by the California courts. In addition to the improper reimbursement of \$55,619, Hoffman retained \$3,433 of a tax refund from Los Angeles County which should have been returned to the Government.

We brought to the attention of the Department of Defense our finding that the Government had unnecessarily borne additional costs and that Hoffman had benefited in like amounts because of its erroneous representation to the Govern-

ment of relevant facts. We proposed that the Department of Defense, in coordination with the Department of Justice, take action to obtain appropriate recovery from Hoffman.

The Department of Defense agreed with our proposals and stated that it would take appropriate action to recover these amounts.

Index No. 101  
B-146918, August 18, 1964

C-65-30

**Overstated Material Cost Estimates Included in Firm Fixed Prices Negotiated for T-37 Airplanes Produced by Cessna Aircraft Company, Wichita, Kansas, Department of the Air Force**

In our examination of four Department of the Air Force fixed-price contracts awarded to the Cessna Aircraft Company, Wichita, Kansas, for the production of T-37 airplanes, we found that the Government would have been in a sound position to negotiate prices about \$326,800 less than those that were established had it been aware of pertinent information which was available to Cessna either at the time the proposals were prepared or at the time of negotiations.

The firm fixed prices negotiated by the Air Force and Cessna for T-37 airplanes produced under contracts AF 33(600)-33891, -35569, -36776, and -38888 included material cost estimates that were overstated by about \$275,300. During price negotiations for the last three of these contracts, Cessna certified that, in the preparation of its proposals, actual prices of materials, actual labor costs, and other actual cost data had been considered in preparing the forward pricing estimates and had been made known to the Air Force negotiator for his use in evaluating the estimates and that all pricing data considered in the negotiation conferences were current. Contract -33891 was negotiated before such certificates were required for negotiated contracts. The estimates included costs for some parts in excess of contract requirements and for one part that was to be furnished by the Government without cost to the contractor. Also, in some instances the cost estimates were not based on the latest available pricing information. Cessna added about \$51,500 to the overstated cost estimates to provide for material rejections, general and administrative expenses, and profit. Had the Government been aware of the overstatements, it would have been in a sound position to negotiate prices about \$326,800 less than those established.

The Assistant Deputy for Procurement Management, Office of the Assistant Secretary of the Air Force, informed us by letter dated April 3, 1964, that the Air Force planned to obtain appropriate adjustments of the prices negotiated for these contracts. The contractor advised us that it was in agreement with the basic facts as stated in the report and that it would be glad to review the report with the Air Force. In addition, we were informed that both the Air Force and Cessna were reviewing T-37 contracts issued subsequent to those cited in this report to determine whether they included similar overstated cost estimates.

In view of the steps being taken to obtain adjustments of the prices paid Cessna for T-37 airplanes under the four contracts we examined and the review being made of other T-37 contracts, we recommended to the Secretary of the Air Force that Air Force actions to obtain appropriate price adjustments from Cessna be coordinated with the Department of Justice to assure that any interests or rights of the Government that may be available under existing statutes not be jeopardized.

Index No. 102  
B-146916, August 18, 1964

C-65-31

**Overstated Cost Estimates for Miscellaneous and Minor Outside Production Items Included in Incentive Target Prices Negotiated With the Boeing Company, Seattle, Washington, for KC-135 Airplanes, Department of the Air Force**

Our examination of the estimated costs for miscellaneous and minor outside production items included in incentive target prices proposed by the Boeing Company, Seattle, Washington, in 1960 and 1961 for KC-135 airplanes under contracts AF 33(600)-41979 and AF 33(600)-43416 disclosed that these estimated costs were overstated by about \$1,475,100 in relation to costs the contractor could reasonably expect to incur. After Boeing revised its target price proposals several times during negotiations, the Air Force negotiated overall reductions in the target prices proposed by the contractor. We found no evidence, however, (1) that the Air Force was aware of the overstated estimated costs for miscellaneous and minor outside production items disclosed by our review or (2) that the contractor, during negotiations, reduced its proposed prices because of these overstatements. Unless the contract target prices are reduced appropriately, the

Government will incur unnecessary costs of about \$541,590 in the form of unwarranted target and incentive profits to Boeing attributable to the overstated cost estimates.

Under both contracts Boeing certified that (1) all available pricing data had been considered in preparing its estimates and (2) all significant data considered in negotiations was current. However, it is evident that, in estimating target costs for miscellaneous and minor outside production items, Boeing did not give adequate consideration to all available pricing data since it did not make appropriate adjustments to the historical data used as a basis for its estimates. We believe that the target prices negotiated under contracts -41979 and -43416 would have been reduced substantially had the Air Force been aware of the overstated data used by Boeing in estimating costs for miscellaneous and minor outside production items.

We were advised by responsible contractor officials that the procedures followed by Boeing in estimating costs for other contracts for KC-135 aircraft were similar to the procedures used in preparing cost proposals for contracts -41979 and -43416. Therefore it appears that pricing deficiencies similar to those set forth in our report may exist in the target prices negotiated under these other contracts. The Air Force informed us that it had undertaken an audit and review of the costs negotiated for miscellaneous and minor items under the contracts discussed in our report and those awarded earlier and that it would inform us of the results of this review.

In commenting on our findings, Boeing acknowledged that the miscellaneous and minor item cost estimates for contract -41979 were overstated by \$180,817 because historical data on which the estimates were based included costs of items for which separate cost estimates were included in other parts of the proposals. The contractor stated that it would initiate appropriate action to process an adjustment of \$60,573 for overstated target and incentive profits under that contract. However, Boeing stated that it did not believe that any other reductions in the target prices of either contract -41979 or -43416 were appropriate.

We recommended that the Secretary of the Air Force make every effort to obtain, through or in coordination with the Department of Justice, appropriate price reductions for the overstated costs for miscellaneous and minor outside production items included in the target prices negotiated for contracts -41979 and -43416. We recommended further that, if Air Force review of target prices negotiated under other contracts for KC-135 airplanes discloses that the Government incurred additional costs as a result of similar overstatements in the target prices negotiated, appropriate refunds or contract price adjustments be obtained.

Index No. 103

C-65-32

B-146920, August 20, 1964

**Excessive Cost to the Government in Rentals of Electrical Accounting Machines by General Dynamics/Astronautics, a Division of General Dynamics Corporation, San Diego, California, Department of the Air Force**

Our review of the leasing of electrical accounting machines by General Dynamics/Astronautics, San Diego, California, has disclosed that extra-shift rentals paid for use of electrical accounting machines, during a 3-year period in which use time was manually recorded, were excessive compared with rentals based on use time as subsequently recorded by meters. Although the condition was corrected in November 1962, when the automatic time-recording meters were installed, General Dynamics did not attempt to recover excessive rentals paid prior to November 1962 until we brought this matter to its attention. We estimate that rentals paid on the basis of manually recorded use records during the period we reviewed exceeded, by about \$158,100, rentals which would have been paid on the basis of meter readings.

The contractor has advised us that, after verifying our calculations, it requested a refund of \$158,102 from the lessor of the equipment, the International Business Machines Corporation. By letter dated February 26, 1964, the Department of the Air Force informed us that the requested adjustment in rentals was refused on the basis of existing rental agreements. The Department of the Air Force has also advised that, as a result of this refusal, the Air Force is now reevaluating the matter and investigating related aspects, such as the manner in which time was manually recorded and paid for, and that we will be informed of the results of these investigations.

International Business Machines Corporation has stated that it relies upon the reports of extra-shift usage from its customers and that, until General Dynamics directly substantiates some inaccuracy in its prior reports for the 3-year



period, there does not appear to be any basis on which a refund should be volunteered.

Inasmuch as General Dynamics and International Business Machines Corporation seem uncertain as to whether a refund is in order, we recommended that the Department of Defense, in coordination with these corporations, take action to resolve the matter with due regard for the interests of the Government. We recommended also that the Department of Defense take the initiative in seeking the adoption by Department of Defense activities and contractors of a standard metering device to record use time and, at the same time, minimize burdensome clerical functions in the recording of chargeable use time.

Index No. 113

C-65-42

B-146892, August 28, 1964

Rent-Free Use of Government-Owned Facilities in Production of Commercial Aircraft Engines by Pratt & Whitney Aircraft, Division of United Aircraft Corporation, East Hartford, Connecticut, Department of the Navy

During the 9-year period 1951 through 1959, Pratt & Whitney Aircraft, Division of United Aircraft Corporation, East Hartford, Connecticut, used Government-owned facilities without the payment of rent in the production of about 10,700 piston engines which were sold to commercial customers for over \$500 million. The Navy granted Pratt & Whitney the rent-free use of these facilities under the condition that any benefits from use of the facilities realized by commercial engine production would be reflected in the prices paid by the Government for military engines. Our review disclosed that Pratt & Whitney's commercial piston engine production did realize benefits from the Government-owned facilities, but the record of the negotiation of prices paid by the Government for military engines did not identify any allowances in recognition of these benefits.

Since there is no evidence that Pratt & Whitney complied with the condition prescribed by the Navy for rent-free use of the facilities, the Navy is entitled to collect rental for use of Government-owned facilities in the production of commercial piston engines. Using a basis consistent with that used by the Navy and Pratt & Whitney to compute rental for the use of Government-owned facilities in commercial piston engine production after 1959, we estimate the rental due for the 9-year period at about \$5 million.

After our first inquiries into the arrangements under which these facilities were being used on a rent-free basis, the Navy and Pratt & Whitney entered into an agreement under which a rental was to be paid after January 1, 1960, for the use of Government-owned facilities in the production of piston engines for commercial customers. The rent paid by Pratt & Whitney for this use of Government-owned facilities during 1960, 1961, and 1962 totaled about \$819,000. No rental was requested by the Navy, however, for the preceding 9-year period during which Pratt & Whitney had used these facilities in the production of commercial piston engines without payment of rent.

The Navy had established a specific condition for Pratt & Whitney's rent-free use of Government-owned facilities during the period 1951 through 1959, but failed to take such steps as were necessary to assure that it received the proper benefits in the negotiation of engine prices. From our review of Navy records and discussions with responsible officials, it appears that the matter was simply overlooked.

Pratt & Whitney does not agree that it should pay rental for its use of Government-owned facilities in the production of commercial piston engines during the years 1951 through 1959. Further, we were advised that, under its accounting system, commercial piston engine production has been charged with certain costs applicable to the production of military engines, and therefore the Government received cost savings that outweigh the amount of rent we attribute to the use of Government-owned facilities in commercial piston engine production. In discussions with us, the Navy has not taken a final position on the matter but has indicated that it concurs in Pratt & Whitney's views that, under its accounting system, costs applicable to military engines were charged to commercial engines.

Both Pratt & Whitney and the Navy presented us data in support of their position. We examined the data presented and found that consideration had not been given to all relevant matters and that the data were therefore inconclusive. Briefly, we found that it is true that, under Pratt & Whitney's accounting system, engines produced for commercial customers were allocated a portion of costs that were solely applicable to military work; however, it is also true that engines produced for military use were charged with costs applicable to commercial work. While we have not made a complete review of all of Pratt & Whitney's

costs during the period 1951 through 1959, we have examined into specific instances cited by Pratt & Whitney and the Navy. We found that both overlooked instances in which military engines bore costs more properly applicable to commercial engines in amounts sufficient to offset the specific cost savings they claimed the Government had received under Pratt & Whitney's accounting system. Thus, while it is possible that such offsets exist, none of the data presented to us showed conclusively that the Government had received any cost savings as a result of the system of accounting used by Pratt & Whitney.

The record is clear that Pratt & Whitney was granted the rent-free use of the Government-owned facilities under a specific condition established pursuant to the contract terms. Our view did not disclose any evidence that the contractor had fulfilled this condition. We therefore recommended that the Secretary of the Navy take such action as is necessary to collect a reasonable rental from Pratt & Whitney for its use of Government-owned facilities in the production of commercial piston engines during the years 1951 through 1959. If Pratt & Whitney is able to provide any conclusive evidence that, under its accounting system, the Government received cost savings at the expense of the contractor's commercial work, the Navy can give appropriate consideration to such evidence when it is provided.

We consider that the contractual arrangements for the use of these facilities were contrary to the best interest of the Government. This type of facilities arrangement should not recur, however, since the Armed Services Procurement Regulation now requires that rent be collected for contractors' use of Government-owned facilities in commercial work.

Index No. 114

B-146884, August 31, 1964

C-65-43

**Unreasonable Charges to Government Cost-Type Contracts for Depreciation on Buildings Acquired From the Government at No Cost by Stanford Research Institute, Menlo Park, California, Department of the Army**

The Government has been charged unreasonable costs of \$246,923 because the Stanford Research Institute, Menlo Park, California, allocated to Government contracts depreciation on buildings that the Institute received at no cost. These buildings were transferred by the Government for a sum of 1 dollar to Stanford University, under the provisions of the Lanham Act, and then transferred by the University to the Institute without charge.

The Institute did not comment specifically on the depreciation charge but, in substance, stated that the buildings had not been given to the Institute by the Government but instead had been sold by Stanford University to the Institute in an entirely separate transaction. However, our review disclosed that the University and the Institute were closely related and that the transaction was essentially the same as if the Institute had dealt directly with the Government.

The Deputy Assistant Secretary of Defense (Procurement) advised us that, in his opinion, the Army's action in this case was reasonable and that it would be inappropriate to seek recoupment for these charges. This opinion was based on the results of a recent Department of Defense review of the facts and circumstances surrounding the original transfer of the buildings from the University to the Institute and the relationship between the two organizations. We were also advised, however, that action was being taken to prevent further charges for depreciation on these buildings in current and future negotiations with the Institute. In addition, we were advised that the Department of Defense had initiated a review of its relevant policy to determine the need for additional guidance in this area. Upon completion, we will be advised of the results of this review.

With respect to the amounts of the unreasonable depreciation charged to Government contracts, the General Accounting Office will not allow credit for payment of depreciation made to Stanford Research Institute in the absence of a specific determination by the contracting officer that the costs are reasonable and should be paid to the contractor. The courts have held that under the terms of such contracts, the contracting officer has the legal responsibility for determining allowable costs of performing a contract.

Index No. 119

B-146793, August 31, 1964

C-65-48

**Cost of Welding Equipment Improperly Included in Price Redetermination Proposal Under Contract With Ford Motor Company, Dearborn, Michigan, Department of the Army**

Our review of the Department of the Army's procurement of M151 utility trucks disclosed that the Government was about to incur unnecessary costs of

\$223,000 because the Ford Motor Company included the cost of contractor-owned welding equipment in its price redetermination proposal for contract DA-20-018-ORD-23240. Although the Government had no need for the equipment, the contracting officer accepted it and had it sent to a Government warehouse thereby allowing the contractor to charge the Government for the equipment. After we brought this matter to the Army's attention, action was taken to return the welding equipment to the contractor and the contractor deleted the unamortized cost of this equipment from its price proposal.

The Deputy Assistant Secretary of the Army for Logistics advised us on November 27, 1963, that the Army agreed with the factual contents of the report and acknowledged that through inadvertence the procurement officer accepted the welding equipment in question. He stated that, although mitigating factors were present, disciplinary action was taken against the procurement officer.

The Deputy Assistant Secretary stated that arrangements had been made with Ford for the return of the welding equipment. Subsequently, we found that in March costs applicable to the equipment were eliminated from Ford's price redetermination proposal and the welding equipment was returned to Ford.

We proposed to the Secretary of Defense that he bring the matters covered in this report to the attention of procurement officials of the military departments and emphasize their responsibility to assure that costs are incurred only for items needed by the Government. The Deputy Assistant Secretary of the Army for Installations and Logistics advised us that, in accordance with our proposal, the facts of this report would be disseminated to contracting and auditing personnel throughout the Department of Defense.

Index No. 124  
B-146926, September 15, 1964

C-65-53

#### Unnecessary Costs to the Government for Insurance on Government-Owned Inventories and Special Tooling Held by Contractors Under Negotiated Fixed-Price Contracts, Department of Defense

In our review of insurance costs incurred by four major contractors during 5-year periods ended in 1961, we found that the Government incurred unnecessary costs of about \$1,237,500 because the military services required these contractors to bear the risk of loss or damage to certain Government-owned parts, materials, inventories, work in process, and special tooling in their possession under fixed-price contracts. We estimate that prices negotiated with these contractors for fixed-price contracts included costs for insurance and related profit, totaling about \$1,250,000, that could have been avoided if the military services had followed the Government's established policy of self-insurance. During the 5-year periods, the amounts received by the contractors for losses on this property totaled only \$12,500. At another major contractor's plant, the Government assumed the risk of loss or damage to such property in the possession of the contractor and, as a result, avoided costs of about \$295,800 during a comparable 5-year period.

It is an established policy of long standing that the Government will bear the risk of loss or damage to its property. This policy is based on the theory that the magnitude of the Government's resources makes it more advantageous for the Government to assume its own risks rather than to insure them through private insurers at rates sufficient to pay all losses and operating expenses together with a profit for the insurer. In consonance with this policy, the Armed Services Procurement Regulation provides, generally, that the Government will bear the risk of loss or damage to its property which has been furnished to contractors under either fixed-price or cost-type contracts. The Armed Services Procurement Regulation provides also that, under cost-type contracts, the Government will acquire title to all contractor-acquired property purchased for or chargeable to the contracts and will assume the risk of loss or damage to this property. Under negotiated fixed-price contracts, although the Government obtains title to certain parts, materials, inventories, work in process, and special tooling where such contracts provide for progress payments by the Government during contract performance, the progress payments clauses provide that, unless the Government expressly assumes the risk of loss of property to which it has acquired title pursuant to these clauses, the contractor shall bear the risk of loss or damage to such property before its delivery to and acceptance by the Government. Consequently, at a contractor's plant, the Government may assume the risk of loss or damage to certain property to which it has title although the contractor may be responsible for loss or damage to other property to which the Government also has title. The Armed Services Procurement Regulation states that because

of problems of administering the contract, especially those connected with property responsibility and inventory control, the risk of loss on property to which the Government holds title because of progress payments must be on the contractor to the same extent that it would be if the contractor held title to the property.

In commenting on our findings, the Acting Deputy Assistant Secretary of Defense (Procurement) stated that he recognized the possible savings at which our report was directed but that these potential savings could not be evaluated without considering the significant services, such as inspection, safety, investigative, claims adjusting, and legal services, provided by insurers and funded out of premiums. Also, he believed that the facts of our report alone did not sufficiently support a recommendation for altering existing policy and assuming the risk of loss for property to which the Government has title pursuant to a progress payment clause in a negotiated fixed-price contract. He believed, however, that it would be useful to reexamine Department of Defense insurance policies with respect to the criteria for utilizing Government assumption of risk or private insurance.

We believe that, generally, the Government should bear the risk of loss on parts, materials, inventories, work in process, and special tooling held by contractors under negotiated fixed-price contracts where the Government has obtained title to these items pursuant to progress payments clauses in the contracts. We recommended that the Secretary of Defense take action to provide for Government assumption of risk of loss or damage to all Government-owned property of this type in the possession of contractors under negotiated fixed-price contracts unless, in individual cases, contracting officials can show that assumption by the contractor of the risk of loss on such property is less costly to the Government. We recommended also that when the Government bears the risk of loss on this property, the contractor be required to represent that no costs for insurance on such property are included in the prices established for negotiated fixed-price contracts.

Index No. 131  
B-146919, September 24, 1964

C-65-60

Unnecessary Testing Costs Included in the Prices of Klystron Tubes Purchased From Radio Engineering Laboratories, Inc., Long Island City, New York, Department of the Air Force

In our examination into the procurement of klystron tubes from Radio Engineering Laboratories, Inc., Long Island City, New York, under Department of the Air Force contracts AF 30(635)-24412 and AF 30(635)-25699, we found that the Department of the Air Force incurred unnecessary costs of about \$65,000 because the prices negotiated for klystron tubes included labor and overhead costs for testing that was neither required nor performed. Prior to the negotiation of prices with the Air Force, Radio Engineering Laboratories had determined that stabilization testing of these tubes, which were to be purchased from the tube manufacturer, was no longer required because of the improved reliability of the tubes. However, Radio Engineering Laboratories did not reduce its proposed prices for the tubes nor were the costs for testing excluded in establishing the contract price.

Radio Engineering Laboratories certified that it used current, complete, and correct cost or pricing information in preparing its proposals under contract -25699 and that the Air Force negotiator was advised of all significant changes through March 6, 1962; however, the contractor did not inform the Air Force negotiator that the testing of certain klystron tubes was no longer necessary and would not be performed under this contract. Contrary to the Armed Services Procurement Regulation, the contractor did not prepare, and the Air Force did not obtain, a pricing certificate for the proposed prices for the tubes procured as spare parts under contract -24412.

During the course of our review, representatives of the contractor confirmed our finding that the prices proposed under contract -24412 included specific amounts for factory and engineering labor and overhead costs for testing the tubes to be furnished as spare parts. They stated also that, at the time the Air Force audited the estimated prices and during the time of negotiating the prices for these spare parts, the contractor did not inform the Air Force contracting officials that it would no longer be necessary to test these tubes.

After we received the contractor's written comments on our draft of this report we met with its representatives to afford them a further opportunity to reply to our finding. These officials advised us that Radio Engineering Laboratories had notified the Air Force procurement office at Rome Air Materiel Area, Rome, New

York, that the testing was no longer necessary and the Air Force waived the requirement on December 28, 1961. Despite the waiver of this testing requirement, Radio Engineering Laboratories included testing costs in its proposed prices of the tubes. Although the Rome Air Materiel Area advised the New York Air Force Contract Management District of the waiver, contracting officials of the District were unaware of the deletion of the testing requirement and they failed to exclude the testing costs in negotiating the spare parts prices.

We believe that, at the time of negotiations, Radio Engineering Laboratories should have disclosed to the Air Force negotiators that testing of klystron tubes was no longer being performed. We believe further that a critical review of the contractor's price proposals and supporting data by Air Force contracting officials would have disclosed that the prices of klystron tubes included factory labor and overhead costs for testing that was not required. Had this information been known to Air Force negotiators, it would have furnished a sound basis for negotiating lower prices for spare parts.

We recommended that the Air Force take immediate action under the terms of the defective pricing data clauses of the contracts to recover the excess amounts included in the contract prices for the testing of klystron tubes through or in coordination with the Department of Justice to assure that any interest or rights of the Government that may be available under existing statutes are not jeopardized. We recommended, also, that this case be called to the attention of audit and procurement officials of the agency to illustrate the adverse effect to the Government of not adequately reviewing available cost information.

Index No. 134  
B-133149, September 30, 1964

C-65-63

Excessive Prices Negotiated by the Defense Fuel Supply Center for Storage of Petroleum in a Commercial Facility at Grand Forks, North Dakota, Department of Defense

The prices negotiated by the Defense Fuel Supply Center, Department of Defense, under contract ASP-17894 for storage of petroleum in a new commercial facility at Grand Forks, North Dakota, contained \$787,000 which reasonably should not have been included. Specifically, the prices negotiated for the firm 5-year period of this service contract (effective from October 1, 1959, to September 30, 1964) provided the contractor with \$625,000 in excess of targeted construction costs and included \$162,000 in payment of a termination settlement that was not a valid cost. The contractor did not disclose to the Government negotiators the known facts regarding the lower anticipated construction costs, nor did the Government negotiators exert a reasonable degree of effort to obtain valid cost estimates for the purpose of evaluating the reasonableness of the contractor's proposals.

It is not reasonable for the Government to incur additional costs and for Western Terminal Company to benefit by a corresponding amount because the contractor did not provide a current construction cost estimate and the Defense Fuel Supply Center did not obtain the complete information necessary to properly evaluate the contractor's price proposal. Further, it is not reasonable for the Government to incur additional costs in payment of the invalid termination settlement. Therefore, we recommended that the Department of Defense take all available and appropriate action to obtain recovery of the overstated and improper costs from the Western Terminal Company and that such actions be coordinated with the Department of Justice to assure that any interests or rights of the Government that may be available under existing statutes not be jeopardized.

The manner in which management officials of the Defense Fuel Supply Center acted in the negotiation of this contract clearly emphasizes the need for a greater sense of individual responsibility over the expenditure of Government funds. Therefore, we recommended that the Secretary of Defense direct that consideration be given to the facts contained in this report in evaluating the responsible individuals for appropriate personnel actions.

Index No. 135  
B-146932, October 1, 1964

C-65-64

Unnecessary Costs Incurred in the Procurement of Defective Torpedo Tubes from the Youngstown Welding and Engineering Company, Youngstown, Ohio, Department of the Navy

The Government incurred unnecessary costs of about \$214,500 in the purchase of torpedo tubes from the Youngstown Welding and Engineering Company because (1) the contractor produced defective torpedo tubes and the defects were not detected by the Navy because of inadequate inspections at the contractor's

plant prior to acceptance and at destination prior to installation aboard a Polaris submarine and (2) the Navy failed to properly protect this material during removal, packaging, crating, and shipment back to the manufacturer's plant for rework.

The Department of the Navy concurred with our finding that unnecessary costs were incurred in the purchase of defective torpedo tubes and advised us that it would initiate action to recover \$26,000 from the contractor for additional costs incurred by the Navy because of delivery of defective torpedo tubes by the contractor. The Navy stated also that a substantial portion of \$120,000 paid for repairs of damages resulting from failure to protect the tubes while they were in the custody of the Navy actually represented the cost of changes necessary to overcome the contractor's defective welds. The Navy stated further that disciplinary measures have been taken against the naval inspector responsible for inspections during the manufacturing process and that management evaluations would be made with respect to individual performance in connection with the return of the defective material.

The contractor, in commenting on our findings, stated that he more than fulfilled his obligations under this contract and that no further liabilities should exist. However, Youngstown did not furnish any additional information to disprove our findings that Youngstown manufactured and delivered defective torpedo tubes and that the Navy paid certain costs for which Youngstown should have been held liable.

We recommended that the Secretary of the Navy determine the costs incurred because of specification changes made owing to the inability of the contractor to repair defects occurring during the manufacture of the torpedo tubes and that the Secretary take appropriate action to recover these amounts from The Youngstown Welding and Engineering Company. In this connection, we recommended also that the Secretary of the Navy take all available and appropriate action, including coordination with the Department of Justice, to assure that any interests or rights of the Government that may be available under existing statutes are not jeopardized. We requested that we be advised of the action taken and the amount of the recovery effected. In addition, we recommended that the Secretary of the Navy bring the deficiencies discussed in this report to the attention of all inspectors of naval material to illustrate the adverse consequences that result from a failure to follow prescribed inspection procedures.

Index No. 141

B-146898, October 16, 1964

C-65-70

**Overcharges Included in Prices Negotiated for Change Orders Issued Under Fixed-Price Contracts Awarded to Avondale Shipyards, Inc., New Orleans, Louisiana, Department of the Navy**

A selective review of change order prices negotiated under fixed-price contracts NObs-4295 and NObs-4353 awarded to Avondale Shipyards, Inc., New Orleans, Louisiana, by the Department of the Navy disclosed overcharges to the Government totaling \$261,773. These overcharges occurred because Avondale proposed prices which (1) did not allow the Government sufficient credits for deletions or substitutions affecting prior contract requirements and (2) included costs for materials which were in excess of known costs or of known or estimated requirements. Had the Supervisor of Shipbuilding made appropriate reviews and analyses of the contractor's price proposals during change order price negotiations, he would have been in a sound position to negotiate reductions of \$261,773 (or about 18.76 percent) in the cost of these change orders.

For example, a change order was issued changing the specifications for the ships' sonar domes to withstand a force in excess of that required by the original contract specifications. Avondale proposed a price for this change on the basis of the use of high tensile steel and HY-80 steel and allowed credit on the basis of the use of A-36 steel. Appropriate review and analysis would have disclosed that the price established for the basic contract already included a cost for sonar domes based on the use of high tensile and HY-80 steel. Although this change order should have been performed at no cost to the Government, the Government was charged an additional \$79,000.

Our review covered only 108 or about 18 percent of the approximately 600 change orders negotiated during the 2 years ended June 30, 1963, under only two of the Government contracts awarded to Avondale. It appears, therefore, that the Supervisor of Shipbuilding might have identified substantial further overcharges to the Government, and obtained appropriate price adjustments, had he

performed adequate reviews and analyses of the other change order prices proposed by Avondale.

Avondale informed us that it disagreed that it had in any way overcharged the Navy, but it did not offer any explanations for the specific overcharges cited in our report. Avondale, instead, offered explanations of a general nature expressing its belief that it would be better off if contract requirements were not changed.

Index No. 142

C-65-71

B-146945, October 16, 1964

**Overpricing of Valves Purchased From the Garrett Corporation, AiResearch Manufacturing Division, Phoenix, Arizona, by General Dynamics Corporation, Astronautics Division, San Diego, California, for the Atlas Intercontinental Ballistic Missile, Department of the Air Force**

Our examination into the price negotiated by General Dynamics Corporation, Astronautics Division, San Diego, California, and The Garrett Corporation, AiResearch Manufacturing Division, Phoenix, Arizona, and approved by the Air Force, for pneumatic relief and shutoff valves for the Atlas missile disclosed that the firm fixed price was based on cost estimates for material and testing which were overstated in relation to cost data available to AiResearch at the time the proposal was submitted to General Dynamics. As a result of the overstated cost estimates, the Government has incurred increased costs of at least \$80,900 and an undetermined amount for additional fees to General Dynamics. Although General Dynamics requested AiResearch to furnish its latest experienced cost data on material and testing in order to properly evaluate the proposed costs for these items, AiResearch did not make these data available. AiResearch certified, however, that all available actual cost or pricing data had been considered in preparing the price estimate and that any significant changes in the data from the time it prepared its estimate to December 28, 1961, had been made known to the buyer. We believe that it is unreasonable for the Government to incur increased costs and for AiResearch and General Dynamics to realize increased profits or fees because the subcontractor did not disclose, and the prime contractor did not obtain, all available cost or pricing data.

AiResearch advised us that, even though it believed that the most current data reasonably available were used, it was willing to offer a refund of \$80,900 to General Dynamics. Also, General Dynamics stated that, since we had recommended that the Air Force in coordination with the Department of Justice obtain appropriate refunds under the contracts, it planned to discuss this matter further with the Air Force to determine what actions, if any, General Dynamics should take. The Air Force informed us that it had requested the Department of Justice to review this matter to determine and advise the Air Force whether there was any objection to General Dynamics' accepting the refund of \$80,900 offered by AiResearch. The Air Force informed us also that it would advise us further on this matter after the Department of Justice had completed its review. In view of the actions that are being taken, we plan no further action on this matter pending advice from the Air Force on the results of the review by the Department of Justice.

Index No. 144

C-65-73

B-146948, October 21, 1964

**Use of Private Executive Aircraft Rather Than Commercial Aircraft Resulted in Unwarranted Charges to Government Cost-Reimbursable-Type Contracts by Lockheed Missiles & Space Company, Sunnyvale, California, Department of Defense**

Our review of the use of private executive aircraft by the Lockheed Missiles & Space Company (Lockheed), Sunnyvale, California, a division of Lockheed Aircraft Corporation, Burbank, California, has disclosed that during calendar year 1962 Lockheed incurred costs of about \$1,029,000 in operating its private executive aircraft fleet when equivalent commercial air transportation was available at an estimated cost of about \$164,000. Lockheed charged all costs of operating its private executive aircraft to overhead and allocated the overhead to its various contracts. Since Lockheed operates almost exclusively under contracts with the Department of Defense and the National Aeronautics and Space Administration, the Government was charged with almost all the \$865,000 of additional costs Lockheed incurred in 1962 by operating its own fleet of aircraft instead of using commercial air transportation. It appears that additional costs of a similar nature had been incurred in earlier years inasmuch as Lockheed has had a private executive aircraft operation since 1957.

Lockheed has advised us that it does not believe that the additional costs incurred through the use of private executive aircraft instead of commercial air services represent unnecessary costs or unwarranted charges to Government contracts. In support of its view Lockheed states that maintaining its own aircraft saves executives' time and prevents delays on important Government projects by enabling it to rush materials wherever needed.

On the basis of the results of our tests, we conclude that Lockheed could have performed effectively under its Government contracts without any aircraft of its own by using commercial aircraft, chartered aircraft, and available Government-sponsored air services. We recognize, however, that Lockheed has prime responsibility for Government programs of high priority and that, despite the availability of commercial, chartered, and Government-sponsored air services, the military services might deem it beneficial for Lockheed to maintain some minimum aircraft capability of its own to meet emergencies or unusual situations. We found nothing to indicate, however, that there was any need for Lockheed to maintain an aircraft capability of the extent it had in 1962—five aircraft and 15 pilots. Further, since the majority of Lockheed's contracts with the Government are cost-reimbursable-type contracts, Lockheed in effect was functioning as an agent for the Government and was receiving a fee for this service. In operating a fleet of private executive aircraft in excess of actual needs and at considerably greater cost, Lockheed did not exercise the degree of care that was warranted by its contractual relationship with the Government. Accordingly it is our view that, with the possible exception of the cost of maintaining a minimum capability, the cost incurred by Lockheed in maintaining its own fleet of aircraft does not meet the tests of reasonableness as defined by the Armed Services Procurement Regulation and that such costs should not be accepted as valid charges to Government contracts.

We recommended that, in negotiation of the allowable overhead rate for 1962, the Air Force disallow all Lockheed's costs of operating its fleet of aircraft that are in excess of the costs that would have been incurred if maximum use had been made of commercial aircraft, chartered aircraft, and Government-sponsored air services and if a minimum capability for unusual or emergency needs had been maintained. We recommended also that the Air Force make similar reviews for prior years and seek recovery of any unwarranted charges disclosed by those reviews. We further recommended that the Air Force apply these same criteria in determining rates for 1963 and subsequent years.

Pending advice from the Air Force as to the action taken in response to our recommendations, credit in the disbursing officers' accounts will be withheld, to the extent permitted by statute, for amounts by which the costs of Lockheed's executive aircraft operation exceeded the costs for comparable commercial, chartered, and Government-sponsored aircraft services.

In addition, we recommended that the Secretary of Defense provide all military services with guidelines to be followed in determining the allowability of costs of company-operated aircraft operations to be included in prices of negotiated Government contracts, and that these guidelines be based upon the principles set forth in our report.

Index No. 147  
B-146733, October 29, 1964

C-65-76

Unwarranted Allowance for Material Price Increases to Newport News Shipbuilding and Dry Dock Company, Newport News, Virginia, for Construction of the Aircraft Carrier U.S.S. *Enterprise*, Department of the Navy

In its evaluation of the final price for fixed-price incentive contract NObs 3959 for the nuclear-powered aircraft carrier U.S.S. *Enterprise*, the Navy included an amount of \$237,000 as incentive profits that resulted from an unwarranted adjustment for increases in material prices.

Contract NObs 3959 provided that to determine incentive profit in final settlement an adjustment would be made in material costs to compensate for changes in prices from those that prevailed in November 1957, the approximate starting point of the contract. At the Navy's request, the prime contractor, Newport News Shipbuilding and Dry Dock Company, computed such an adjustment and submitted it to the Navy. Under the terms of the contract, the Navy Contract Audit Division, was charged with determining the amount of the adjustment. Despite the responsibility assigned Navy auditors under the contract terms, we found no evidence that the Navy auditors made more than a mathematical check of the contractor's computations. Further, both Newport News and the Navy should have known that a significant portion of this adjust-



ment was unwarranted because, except for steel, materials purchased or on order at January 31, 1960, were included in the target costs, established in March 1960, at actual purchase order prices and not at prices prevailing in November 1957. Since the target costs for such items were based on actual purchase prices, no adjustment to give effect to changes in prices was warranted. Consequently, the adjustment made by the Navy resulted in an unwarranted increase in incentive profit.

Neither Newport News nor the Navy concurred in our findings on the basis, principally, that in final negotiations they had not agreed on the exact cost elements to be included in the computation of incentive profit, but instead had negotiated a lump sum settlement and amended the contract accordingly. The record indicates that the lump sum price was, in essence, based upon the incentive provisions of the contract, and the price was within \$38,480, or two one-hundredths of one percent, of the amount of the Navy's evaluation of the price as determined in accordance with the incentive provisions of the contract. Since the price as determined in accordance with the incentive provisions of the contract included the unwarranted adjustment for increases in material prices, it is reasonable to assume that the Navy negotiators would have attempted to obtain a lower price and that they would have been in a strong position to obtain it, had they been aware that the price included the unwarranted adjustment.

We recommended that the Secretary of Defense take all available action to obtain appropriate recovery from Newport News.

The Navy advises that the Navy audit in this case met acceptable standards. It appears, therefore that the Navy has not been demanding enough of its auditors or has not been taking full advantage of the professional services auditors can offer. We recommended, therefore, that the Secretary of the Navy direct that the performance standards for Navy auditors be reassessed to assure that conformance to those standards will provide contracting officials with information and counsel which they need for the protection of the Government's interests in negotiating and finalizing contract prices. In addition, we recommended that the performance of individuals in relation to such standards be considered in management decisions affecting personnel actions. Also, we asked the Secretary of the Navy to advise us of the results of the review the Navy has indicated it will undertake of its procedures for assuring the free flow of all necessary information to its auditors.

Index No. 151

C-65-80

B-133307, November 19, 1964

Inventions Not Disclosed and Confirmatory Royalty-free Licenses Not Obtained Under Selected Research and Development Contracts With Certain Divisions of Thompson Ramo Wooldridge, Inc., Department of Defense

Our review of the administration of patent policies under contracts with certain divisions of Thompson Ramo Wooldridge, Inc., showed that the contractor was not complying with various patent provisions of its defense contracts and that Government administrative personnel had not established the necessary surveillance to assure compliance with contract terms. For example, at the time of our review, the contractor had failed, in violation of contract terms, to disclose to the Department of Defense 18 inventions which had been made under defense contracts up to 3½ years earlier. For some of these inventions, the contractor already had patent applications on file. In another such violation, the contractor delayed disclosures of numerous inventions to the Department of Defense for unreasonable periods of up to 4 years.

As a result of such violations, the Government's patent rights were jeopardized since it was not aware of inventions in which it had contractual rights to royalty-free use or to obtain title to the invention. Consequently, the Government may have paid royalties unnecessarily for the use of such inventions and may have lost its rights to such inventions because of intervening patents by third parties.

The Department of Defense informed us that a study group was being established to consider the matters included in this report and that our office would be promptly advised upon completion of the study. We recommended that the Department of Defense amend the patent provisions of the Armed Services Procurement Regulation to include contract clauses requiring adequate financial sanctions in the form of liquidated damages in the event of contractor failures or delays in complying with contractual patent provisions.

Index No. 153

C-65-82

B-146705, November 24, 1964

Overstated Cost Estimates Included in Target Prices Negotiated for B-52G Airplanes Produced by the Boeing Company, Wichita Branch, Wichita, Kansas, Department of the Air Force

Our examination of target prices negotiated by the Department of the Air Force and the Boeing Company, Wichita Branch, Wichita, Kansas, for the production of 140 B-52G airplanes under contracts AF 33(600)-34670 and AF 33(600)-37481 disclosed that the prices included target costs that were based on cost estimates for sustaining tooling labor, production labor, and subcontracting, which were overstated by about \$7,575,500 in the areas we examined. Unless the contract prices are adjusted to eliminate the overstated cost estimates included in the target costs negotiated for these contracts, the Government will incur increased costs of about \$1,261,000 in the form of additional profit to Boeing. After we brought our findings to their attention, the Air Force and Boeing agreed to reduce the target costs by only \$597,340, representing a reduction in the increased costs to the Government of about \$60,400.

Boeing estimated target costs for sustaining tooling labor for contracts -34670 and -37481 as though the B-52G was of the same design as earlier models, even though both Boeing and the Air Force had determined that the B-52G was essentially a new design. This method of estimating did not recognize that cost reductions experienced in the early production of a newly designed airplane are normally much greater than they are in later production. As a result, the cost estimates for sustaining tooling labor were overstated by about \$4,499,000. Also, in establishing the initial target cost with Boeing for contract -37481, the Air Force included an allowance of about \$2,479,000 to compensate Boeing for anticipated losses in labor efficiency during production of the last 39 B-52G airplanes without a sound basis for such an allowance. In addition, the target cost for contract -37481 included cost estimates for subcontracting that were overstated by about \$597,500 in relation to the latest cost information available.

We recommend that the Secretary of Defense take vigorous action to obtain for the Government appropriate reductions in the contract prices for the overstated cost estimates included in the target prices negotiated by the Air Force and Boeing for the B-52G airplanes purchased under contracts -34670 and -37481. Further, we recommended that this report be brought to the attention of responsible Government officials to stress the importance of (1) requiring contractors to document fully in writing, and to furnish to the Government's contracting officials, the bases and methods used in preparing cost estimates included in proposed prices and (2) carefully evaluating contractors' proposals and documenting clearly in writing the nature and extent of the evaluations made of the various elements of costs in relation to costs previously experienced and costs which reasonably should be expected for future production.

Index No. 154

C-65-83

B-146956, November 25, 1964

Excessive Prices for Power Pack Assemblies Purchased From Sparton Corporation, Jackson, Michigan, by Various Prime Contractors, Department of the Army

Our review of subcontracts awarded to Sparton Corporation, Jackson, Michigan, by various Government contractors disclosed that the Government incurred unnecessary costs of about \$115,600 during the 2-year period ended August 1963 because Sparton, as sole supplier of power pack assemblies to Government prime contractors, proposed prices that were based on substantially higher cost estimates than its experienced production costs warranted at the time of the price proposals. These prices, along with the prime contractors' applicable general and administrative expenses and profit, were included in the prime contractors' prices to the Government. Neither the prime contractors nor the Government contracting officers made an adequate analysis of production cost data at the time the prices were proposed. Further, the subcontractor was not required to certify that its cost data as submitted to the prime contractors were accurate, complete, and current, despite the significant amount of orders over a period of time, because the Armed Services Procurement Regulation requires this certification only for individual transactions over \$100,000 and at the discretion of contracting officers for procurements of less than \$100,000. Each of Sparton's subcontracts was for an amount under \$100,000. Moreover, the present Department of Defense policy

discourages cost analysis and the obtaining of cost data from contractors where the amount of the award is anticipated to be under \$100,000.

Sparton contends that it was not the sole-source supplier to Army prime contractors and that it had made an average profit of only 4.3 percent on Government business over a period of about 8 years. Although the Army awarded contracts to another firm for replacements, Sparton provided all the power pack assemblies to prime contractors for use in production. The prime contractors procured the assemblies from Sparton on a sole-source basis and accepted the prices quoted by Sparton without competition because the drawings that were furnished to them by the Army contained Sparton's name. Regarding overall profits, the Armed Services Procurement Regulation provides that each contract shall be priced separately and independently and that no consideration shall be given to profits or losses on other contracts.

The Deputy Assistant Secretary of Defense (procurement) advised us that the Army had initiated an audit of the subcontracts discussed in this report and that a determination would be made after completion of the audit as to whether it would be appropriate to seek a price adjustment. He advised us also that the Department of Defense, in accordance with our proposal, was revising its pricing procedures to require submissions of cost data and related pricing certifications from contractors that are expected to do a considerable amount of business with the Government over a period of time, even though individual contracts may be in amounts of less than \$100,000, so that agency contracting officials can evaluate the contractors' price proposals.

We recommended to the Secretary of the Army that every attempt be made to effect an appropriate recovery from Sparton.

Index No. 155

C-65-84

B-133251, November 25, 1964

Overstatement of Target Cost of AN/FPS-7 Radar Equipment Under Fixed-Price Incentive Contracts AF 30(635)-12300 and AF 30(635)-11072 with General Electric Company, Heavy Military Electronics Department, Syracuse, New York, Department of the Air Force

The Government may incur unnecessary costs of about \$103,000 because target costs were overstated by about \$538,000 on Department of the Air Force fixed-price incentive contracts AF 30(635)-12300 and AF 30(635)-11072 with General Electric Company, Heavy Military Electronics Department, Syracuse, New York. The major portion of the target-cost overstatements is attributable to the failure of General Electric to use the most current cost information pertaining to purchased parts and components in the negotiation of contract target costs. For example, General Electric's cost proposal for contract -12300 included estimated material costs of \$100,000 for 10 panoramic antennas, or \$10,000 each. According to Air Force records, no adjustment was made in the proposed costs for these antennas in the target price negotiations for contract -12300, although prior to the negotiations, General Electric had issued a purchase order at the price of \$2,400 each for six antennas of the same type required under the prior contract -11072. Subsequent to the negotiations, General Electric purchased the 10 antennas for contract -12300 at a unit price of \$1,920, or a total price of \$19,200. Had General Electric adjusted its proposed cost of \$10,000 per unit to the unit price of \$2,400, which became available over 2 months prior to target price negotiations, the target price negotiations, the target costs, including overhead, would have been reduced by \$93,300.

In a letter dated February 12, 1964, the Deputy Assistant Secretary of Defense (procurement) stated that the Air Force had initiated action to adjust appropriately the target costs of the contracts specified. Local Air Force officials have advised us that in March 1964 the Air Force asked the contractor to voluntarily reduce the target prices but that General Electric refused, stating that it considered the negotiated target prices fair and equitable. The local Air Force officials stated that a further effort would be made to negotiate reduced target prices on these contracts.

In a letter dated March 12, 1964, General Electric stated that it had made a review of the target costs negotiated and had concluded that the target costs of these contracts were reasonably stated and that a good job of estimating and negotiating had been done. We therefore extended our review to consider the specific points raised by the contractor. This additional work confirmed the overstatements disclosed by our earlier review, but we adjusted the overstate-

ments by minor amounts to give consideration to understatements in target costs called to our attention by the contractor.

Since the time of the negotiations discussed in this report, substantially more emphasis has been placed on the use of cost and pricing data in negotiating contract prices. This emphasis has been manifested in regulations and directives issued by the Department of Defense and the military departments and in congressional action. Public Law 87-653, effective December 1962, now requires, with certain exceptions, that contractors submit cost or pricing data and certify that the data submitted is accurate, complete, and current. We intend, in our continuing review, to evaluate the effectiveness of these actions.

The reasonableness of the cost estimates included in the negotiated target cost under incentive-type contracts has an important bearing on total costs to be incurred by the Government. An overstatement of the target cost not only increases the target profit without any sound justification but also permits the contractor to receive as additional incentive profit a share of cost underruns which result from inequitable cost-estimating practices rather than from efficiency or economy in contract performance.

We recognize the complexities involved in the preparation of a realistic price proposal for submission to the procuring agency under contracts of the magnitude of those discussed in our report, and the substantial effort required of contracting officials and their technical and advisory personnel for an adequate evaluation of the proposal. However, we believe it is unreasonable for the Government to incur increased costs in the form of profit to the contractor based on estimated costs which are inadequately supported, related to improperly analyzed or unresolved requirements, or not adjusted in accordance with changes in the scope of the work. We therefore recommended that Air Force officials continue their efforts to obtain appropriate adjustments in the target prices of the contracts.

Index No. 156  
B-133386, November 27, 1964

C-65-85

**Inventions Not Disclosed and Confirmatory Royalty-Free Licenses Not Obtained Under Selected Research and Development Contracts With Lockheed Missiles & Space Company, Division of Lockheed Aircraft Corporation, Sunnyvale, California, Department of Defense**

Our review of the administration of patent policies under research and development contracts with Lockheed Missiles & Space Company, Division of Lockheed Aircraft Corporation, Sunnyvale, California, showed that the contractor had not been complying with various patent provisions of its defense contracts and that Government administrative personnel had not established the necessary surveillance to assure compliance with contract terms. For example, at the time of our review, the contractor had failed, in violation of contract terms, to disclose to the Government 58 inventions which had been made under defense contracts up to 23 months previously. In another such violation, the contractor delayed disclosures of numerous inventions to the Department of Defense for unreasonable periods of up to 46 months.

As a result of such violations, the Government's patent rights were jeopardized since it was not aware of inventions in which it had contractual rights to royalty-free use or to obtain title. Consequently, the Government may have paid royalties unnecessarily for the use of such inventions and may have lost its rights to such inventions because of patents obtained in intervening periods by third parties.

The Department of Defense informed us that a study group had been established to consider the matters included in this report and that our office would be promptly advised upon completion of the study. We recommended that the Department of Defense amend the patent provisions of the Armed Services Procurement Regulation to include contract clauses requiring adequate financial sanctions in the form of liquidated damages in the event of contractor failures or delays in complying with contractual patent provisions.

Index No. 161  
B-133312, December 3, 1964

C-65-91

**Savings Resulting From Resale of Reusable Ammunition Containers Procured From the United Kingdom, Department of the Army**

The Army awarded a contract to the United Kingdom for 105-mm ammunition at a total contract price of about \$23.3 million, including about \$2.9 million for containers, without making provision for the resale of the reusable ammunition

containers to the United Kingdom. The Army, although it was paying the United Kingdom \$9.70 for new containers and \$8.73 for used containers, either was making no attempt to recover the containers or was selling them as scrap for about 30 cents each. After we called this matter to the Army's attention, the Army negotiated a modification to the contract with the United Kingdom for resale of the containers. As a result, the Army will net \$2.85 for each reusable container returned to the United Kingdom. On the basis of the estimated number of reusable containers yet to be recovered, the Army will realize about \$320,000 more than it would have received by selling these containers as scrap. We believe that the Army would have been in a position to negotiate a more favorable price for the reusable containers with the United Kingdom had it not waited more than 4 years to modify the contract. Furthermore, the Army would have recovered an additional \$67,000 on the 29,400 containers that were sold as scrap or are unaccounted for if they had been resold to the United Kingdom at the established net sales price of \$2.85 per container.

On July 14, 1964, we brought this matter to the attention of the Department of Defense and proposed that the Secretary of the Army take appropriate action to require that (1) Army regulations be amended to include the requirement that procurement activities, during contract negotiations, make contractual provision for maximum recovery of the value of nonexpendable property, (2) an aggressive program be undertaken to recover all available metal containers for 105-mm ammunition in Europe and return them to the United Kingdom for credit, in accordance with the terms of the contract modification, and (3) the personnel records of officials responsible for the conditions specified in this report be appropriately noted when consideration is given to promotion, reassignment, and other personnel matters.

The Deputy Assistant Secretary of the Army for Logistics advised us on September 21, 1964, that the Army agreed with our proposal that reuse of ammunition containers should be considered in effecting procurement actions and that the extension of this concept to all nonexpandable property was being studied. The Army also concurred in our proposal that an aggressive program be undertaken to recover all available containers and return them to the United Kingdom for credit. The Deputy Assistant Secretary also advised that 23,500 containers were awaiting shipment to the United Kingdom, and about 100,000 containers still holding ammunition were in depots in Europe.

With respect to our proposal that the personnel records of officials responsible for the deficiencies noted in our report be appropriately noted and considered in subsequent personnel actions, the Deputy Assistant Secretary advised that Army regulations provided adequate procedures "to assure that poor or improper performance of duty is appropriately recorded and considered in subsequent personnel actions." He further advised that the initiation of appropriate action in this connection is an inherent responsibility of command and that a copy of our draft report had been furnished the Commanding General of the United States Army, Europe.

Index No. 165  
B-146860, December 10, 1964

C-65-95

Overstated Costs Included in Price of Turbojet Engine Parts Purchased From Solar Aircraft Company, San Diego, California, by General Electric Company, West Lynn, Massachusetts, Department of the Air Force

Our review of the procurement of second-stage engine nozzles from Solar Aircraft Company, San Diego, California, disclosed that the Government will bear an additional cost of about \$65,000 for J85-GE-5 turbojet aircraft engines unless appropriate adjustment is made under Department of the Air Force fixed-price incentive contract AF 33(600)-43054 held by the prime contractor, General Electric Company, West Lynn, Massachusetts. The additional cost is the result of the acceptance, by General Electric, of the cost of second-stage engine nozzles procured from the subcontractor, Solar, on a noncompetitive basis at a fixed price which was excessive in relation to cost data available at the time the fixed price was negotiated.

Although this was a sole-source procurement, General Electric did not review Solar's prior cost information but accepted the price proposed by Solar on the basis that the price was lower than the price paid under previous purchase orders.

Solar certified that the information contained in its proposal was based upon all available actual or estimated costs as compiled from its books and records and that the information was accurate, but the subcontract prices proposed and negotiated for engine nozzles were substantially higher than warranted by cost

data available at the time of the proposal. In support of the proposed price Solar submitted a cost and price analysis which merely represented its estimate of the various elements of cost and the related profit included in the price.

In negotiating subcontract prices that will ultimately be borne by the Government, the prime contractor has a responsibility to make all reasonable effort to assure that the prices are fair. In the absence of adequate competition, it is generally necessary for the prime contractor to obtain and analyze cost or pricing data in support of prices proposed by suppliers and engage in genuine negotiations with the suppliers. In this instance, General Electric did not take this precaution. We believe, therefore, that the contractor failed to discharge its responsibility to the Government. Furthermore, we believe that a critical analysis of Solar's proposal and consideration of Solar's previous incurred costs by Air Force contracting officials would have disclosed that the proposed price was higher than warranted by Solar's prior cost experience. It does not seem proper for the Air Force to approve such prices without the knowledge that the reasonableness of the prices has been clearly demonstrated through adequate competition or that prices are fair and reasonable in relation to available cost information.

The prime contract with General Electric included a defective pricing data clause which provided for an equitable reduction in price if such price was overstated because the contractor, or any first-tier subcontractor in connection with a subcontract in excess of \$100,000, either (1) failed to disclose any significant and reasonably available cost or pricing data or (2) furnished any significant cost or pricing data which the contractor knew or reasonably should have known were false or misleading.

Since Solar's failure to disclose significant available cost data to General Electric resulted in additional cost to the Government, we recommended that the Secretary of the Air Force take immediate action under the terms of the defective pricing data clause of the prime contractor to recover the excessive portion of the price for second-stage engine nozzles furnished by Solar Aircraft Company, which was included in the contract price for turbojet aircraft engines produced by the General Electric Company. We recommended also that this case be called to the attention of procurement officials of the agency to illustrate the need to obtain current, complete, and accurate cost or pricing data in sufficient detail to support and establish the reasonableness of estimated costs included in prime contract and subcontract prices.

Index No. 167  
B-146718, December 11, 1964

C-65-97

Further Comment on Overpricing of the Nuclear Frigate U.S.S. *Bainbridge* Purchased From The Bethlehem Steel Company, Quincy, Massachusetts, Department of the Navy

In March 1964 we reported to the Congress that the Department of the Navy had contracted to pay Bethlehem Steel Company, Shipbuilding Division, Quincy, Massachusetts, about \$5 million more for the construction of the nuclear frigate, U.S.S. *Bainbridge*, than was warranted on the basis of available cost data and the circumstances existing at the time of negotiations. The circumstances follow.

The U.S.S. *Bainbridge* was started under a letter of intent to contract, commonly called a letter contract, which provided that construction work begin promptly but that the price be negotiated later. During the first three quarters of the construction period, the Navy made repeated attempts to negotiate a reasonable price including terms which would have protected Bethlehem against unexpected cost increases but would not have paid Bethlehem for such increases if they were not incurred. Bethlehem, however, rejected all offers by Navy contracting personnel.

After about 75 percent of the construction work had been completed, negotiations culminated in the tentative acceptance of a price of \$87 million by the Bureau of Ships. This agreement was tentative because all sizable Navy contracts must be approved by the Office of Naval Material before they become binding upon the Government.

Accordingly, the Bureau of Ships recommended to the Office of Naval Material that it approve the contract at a fixed price of \$87 million. Representatives of that Office reached the conclusion that the price was too high and suggested an alternative. However, the alternative was refused by Bethlehem which adamantly rejected any terms other than a fixed price of \$87 million. The Office of Naval Material was unwilling to approve acceptance of this price and referred the matter for decision to Mr. Kenneth E. BeLieu, Assistant Secretary of the Navy (Installations and Logistics). Navy files disclosed that Mr. BeLieu verbally

approved acceptance of the fixed price of \$87 million. A fixed-price contract in that amount was awarded to Bethlehem on January 11, 1962.

Subsequently, we reviewed Bethlehem's statement of costs—totaling \$82 million—and identified substantial contingencies and allowances for costs not properly chargeable to contract NObs-4239 that had been included in Bethlehem's cost statement. In this respect we found that Bethlehem's statement of actual and estimated costs included a provision for contingencies of about \$3.4 million and duplications and overstatements of costs totaling about \$1.6 million including (1) costs for change orders that were to be priced separately, (2) excessive charges for overhead costs, and (3) overstatement of material costs. Analysis of these estimates and related data disclosed that, if Bethlehem completed the last 25 percent of the ship with a level of performance commensurate with that applicable to the first 75 percent of the ship, it would be likely to incur costs of about \$77 million, or \$5 million less than indicated by the total of its cost statement. Accordingly, we recommended that the Secretary of Defense take all action available to him to obtain a price adjustment from the Bethlehem Steel Company for the overpricing of \$5 million. We recommended also that the Secretary of Defense establish regulations to require that, if work is more than half completed under a letter of intent, a fixed price contract will not be used unless it can be affirmatively established that it is in the Government's interest to put the contract on a fixed-price basis and that the use of a fixed price be approved by the Secretary of Defense.

The Department replied to our report by letter of June 1, 1964, from the Deputy Assistant Secretary of Defense (Procurement). Although the Department does not assert that the price negotiated with Bethlehem was reasonable, it does not propose to attempt recovery of \$5 million, the amount of overpricing disclosed by our review. The Department bases its position on its policy that adjustment of contract prices should not be sought unless there is a legal basis or unless the contractor has made misrepresentations which misled the Government negotiators.

The Department also does not plan to establish any special regulations governing the conversion of letters of intent to fixed-price contracts. Instead, the Department proposes to reduce the instances in which letter contracts will be used. The Department has defended its action primarily on the basis that a fixed price is preferable to the continuation of cost-reimbursable arrangements under letter contracts because of the built-in motivation to stretch out the work under a letter contract. The Department indicated that it knew of no reason to assume that this motivation could be controlled by Government monitoring of costs.

We concur in the Department's views that letter contracts should be avoided whenever possible; however, pending their complete elimination, we believe that the Department should be prepared to deal with them. Further, similar situations arise in connection with cost-type contracts of which the Department of Defense has large numbers. In this respect, we previously reported a similar case involving a cost-type contract with Brown-Raymond-Walsh for construction of military bases in Spain. In this case, conversion of a portion of the contract to a fixed-price basis after most of the work had been completed under a cost-reimbursable arrangement resulted in millions of dollars of additional costs to the Government. Therefore, after giving careful consideration to the Department's views, we concluded that further action is warranted in this case and made the following recommendations:

1. We recommended that the Secretary of Defense reconsider the application of Department of Defense policy to this case and seek appropriate recovery from Bethlehem, because Bethlehem contributed to the overpricing of contract NObs-4239 by submitting a proposal containing duplications, overstatements, and unidentified contingencies of substantial amount.

2. We recommended also that the Secretary of Defense take action to assure that Bethlehem's actions in this case receive appropriate consideration by Government procurement officers in the award and administration of any subsequent contracts.

3. In view of the substantial pricing penalty accepted by the Navy to extricate itself from the cost-reimbursable arrangement with Bethlehem in this case and with Brown-Raymond-Walsh under the Spanish base construction program, we recommended that the Secretary of Defense direct that reexamination be made of the administrative controls over costs being incurred under cost-reimbursable contracts and take such steps as are needed to make its controls adequate to assure reasonable economy and efficiency to

the Government in the performance of cost-reimbursable contracts. Such controls are needed because of the use of cost-reimbursable-type contracts by the Navy as a suitable arrangement for procurements where cost data is lacking and production costs cannot be forecast with sufficient accuracy to provide a reasonable basis for firmer pricing arrangements.

Index No. 168

C-65-98

B-133201, December 14, 1964

**Overcharges for Long-Distance Telephone Channels Leased by the Eighth United States Army, Korea, Department of the Army**

Our review of long-distance telephone channels leased by the Eighth United States Army, Korea, disclosed that since June 1962 the Government has paid to the Republic of Korea over \$161,000 more than it should have for the use of long-distance telephone channels because (1) the Ministry of Communications, Republic of Korea, failed to initiate negotiations to reduce the monthly tariff rates charged to United States military services in accordance with contract provisions and (2) Eighth United States Army personnel responsible for contract administration failed to verify that the amounts billed the Government were based upon the most economical rates available. We found that, when the Korean National Assembly passed a new telecommunications law reducing rental rates 20 percent to all subscribers, this reduction was not passed on to the United States Army.

After we brought these deficiencies to the attention of the Department of the Army, the Deputy Assistant Secretary (I. & L.)—Logistics advised us in a letter dated September 23, 1964, that in accordance with our proposals actions had been initiated to renegotiate the contract with the Ministry of Communications, Republic of Korea and that rental payments were being withheld until a fair settlement could be reached. The Deputy Assistant Secretary also stated that new procedures were being established to increase liaison and coordination between Eighth Army personnel and the Ministry of Communications. He further stated that appropriate disciplinary action would be taken in this matter in accordance with existing procedures.

In view of the corrective actions proposed and initiated, we made no further recommendations; however, we requested the Department of the Army to inform us of the results of its negotiations with the Ministry of Communications regarding the recovery of overcharges for long-distance telephone channels leased by the Eighth United States Army.

Index No. 171

C-65-101

B-125016, December 21, 1964

**Failure To Recover Unpaid Royalties Retained By Collins Radio Company, Cedar Rapids, Iowa, Department of Defense**

Our review disclosed that the Collins Radio Company, Cedar Rapids, Iowa, retained about \$406,000 in unpaid royalties under 40 of its contracts with the three military services which should have been returned to the Government.

The terms of 14 of these contracts included specific provisions for recovery of unpaid royalties, amounting to \$53,000. For instance, the price of one Army contract included about \$17,500 for payment of royalties and the contract contained a provision requiring a refund to the Government of unpaid royalties. Although no royalties were ever paid under the contract, at the time of our review Collins had retained the money for a period of over 3 years and was not making any effort to refund it to the Government.

The remaining \$353,000 represents royalties added by Collins to the price of items which either (1) were non-royalty-bearing at the time the royalty charges were made or (2) became royalty free during the period of contract performance. In addition to the fact that the contractor's obligation to pay royalties was canceled, the Government was granted royalty-free use of the patents covering more than one-third of these royalties. This right of royalty-free use by the Government and Collins was a direct result of extended antitrust actions by the Department of Justice against other companies who owned or controlled a vast number of patents. The regulations in effect at the time these contracts were executed required agency officials, in circumstances where the Government obtained royalty-free use of inventions, to enter into negotiations for voluntary reduction of royalties.

This matter was brought to the attention of the Department of Defense and the three military departments. The Department of Defense informed us that unpaid royalties would be recovered from Collins in all cases where a legal or an



equitable basis for refund existed and that action had been initiated to carry out this recovery. We recommended that all recoveries of unpaid royalties retained by Collins because of its own negligence in not refunding the related amount include interest.

We proposed that the Secretary of Defense direct the military audit agencies to examine into unpaid royalties at other major defense plants and institute recovery action where appropriate. The Secretary informed us that this proposal had been implemented. In this connection, however, we recommended that the Secretary of Defense make available copies of our report to the military auditors to illustrate the nature and significance of unpaid royalties and the circumstances under which refunds may be due the Government. In addition, we requested that the Secretary of Defense send us a report summarizing the findings of his auditors at each of the contractors' plants examined.

Index No. 175

C-65-105

B-146954, December 28, 1964

Overpricing of Buffer Amplifiers Purchased From HRB-Singer, Inc., State College, Pennsylvania, by the Boeing Company, Wichita Branch, Wichita, Kansas, for B-47 Aircraft, Department of the Air Force

In our examination of prices negotiated for buffer amplifiers for B-47 aircraft, we found that, under an Air Force prime contract, the Boeing Company, Wichita Branch, Wichita, Kansas, awarded follow-on purchase orders to HRB-Singer, Inc., State College, Pennsylvania, at prices totaling \$158,581 that were about \$86,440, or 120 percent, higher than costs recently experienced, as shown by the information available to HRB-Singer at the time the prices were established.

Although it did not obtain competition in purchasing the buffer amplifiers, Boeing accepted the prices proposed by HRB-Singer without cost information on HRB-Singer's prior production experience or other evidence to support the reasonableness of the proposed prices. For example, the proposed unit price of \$3,602 was accepted for model B4-3 buffer amplifiers on the first follow-on order, even though HRB-Singer could have determined from cost information available prior to the award of the purchase order that the unit price was \$2,663, or about 283 percent, higher than costs previously experienced in producing this item. Similarly, for the second follow-on order for B4-3 buffer amplifiers, the proposed unit price of \$1,989 was accepted even though HRB-Singer could have determined from information available prior to the time of its proposal that the unit price was \$818, or about 70 percent, higher than recently experienced costs. Had adequate information on prior costs been obtained and considered in the negotiations, Boeing would have had sound bases for negotiating more realistic prices than those which were established with HRB-Singer for these orders.

The Air Force has advised us that Boeing initiated action to obtain a refund but that HRB-Singer was adamant in its position that the purchase orders with Boeing were fixed price and not subject to price revision. We have been advised that the Air Force does not concur with the position taken by HRB-Singer and that action is being taken to assure compliance with the Armed Services Procurement Regulation and other pertinent directives in all future awards to HRB-Singer.

The position taken by HRB-Singer in refusing to make a voluntary refund is not in consonance with the position generally taken by other contractors who under similar circumstances have agreed to negotiate adjustments of the prices and have made voluntary refunds to the Government. The action outlined by the Air Force to be followed by contracting officials in future dealings with HRB-Singer should serve to emphasize the need for these officials to use all means necessary to support effective price negotiations and to avoid placing undue reliance on contractors' unverified representations, to assure reasonable pricing.

Since the time of the negotiations discussed in our report, the Armed Services Procurement Regulation has been revised to furnish additional guidance to Government contracting officials and prime contractors and to place increased emphasis on the review and evaluation of cost and pricing data furnished by contractors and subcontractors in support of proposed prices under negotiated procurements. The regulation also has been revised to direct contracting officers to withhold making awards and to refer procurement actions to higher echelons within the agency when contractors either refuse to provide necessary cost or pricing data or insist on a price or demand a profit or fee which the contracting officer considers unreasonable.

The effectiveness of these instructions, however, will depend upon the manner in which they are followed. For example, the manner in which the Air Force

contracting officials approved the orders and the Army Audit Agency auditors made their evaluation of the prices proposed by HRB-Singer for the first follow-on orders and concluded that the prices were reasonable illustrate the need for a greater sense of responsibility on the part of these individuals for adequately protecting the interests of the Government. Therefore, we recommended that the Secretary of Defense stress the need for real personal concern by each member of the procurement team that their responsibilities are carried out in a manner that will adequately protect the interests of the Government and, when making future personnel evaluations and management assignments, appropriately consider the manner in which they had discharged their responsibility and performed their duties.

Index No. 177  
B-146760, January 5, 1965

C-65-107

Unsupported Costs Included in Price of Nuclear Submarine Valves Purchased From Crane Company, Chicago, Illinois, by Westinghouse Electric Corporation, Pittsburgh, Pennsylvania, Under Cost-Plus-a-Fixed-Fee Contracts, Department of the Navy

In our examination of the procurement of 23 nuclear submarine valves from Crane Company by Westinghouse Electric Corporation under Department of the Navy cost-plus-a-fixed-fee contracts, we found that the negotiated price of \$692,045 included unsupported costs of about \$65,000. In addition, the valve prices included profit applied at a higher rate than that normally awarded by Westinghouse to other vendors. Westinghouse did not obtain or review Crane's cost estimate; therefore, at the time the prices were established, Westinghouse was not in a position to identify or take exception to any unsupported cost provisions included in Crane's proposed price or to negotiate for a lower profit rate. The Navy consented to the award made by Westinghouse without requiring Westinghouse to review or evaluate the cost estimates used by Crane in preparing its price proposal. Had the Navy required such a review, or had the Navy made its own review of the cost estimates, it would have been in a better position to effectively negotiate an appropriate price for the valves.

After being advised of our findings, the contracting parties stated that they disagreed with our conclusions and indicated that the price was reasonable because it had been established on the basis of adequate competition and was comparable to amounts previously established under price-redeterminable subcontracts. Accordingly, neither Westinghouse nor the Navy indicated that it proposed to take action to recover for the Government the amount of our findings.

As explained in detail in our report, the competition obtained in this procurement was too limited to provide assurance that the prices quoted by Crane were reasonable. In this respect, we found that only three vendors were permitted to bid and each of them could anticipate receiving some portion of the valve business over a period of time. Thus, there was little incentive for suppliers to submit their most competitive price since to do so might merely reduce subsequent prices for all three suppliers. Furthermore, the requirements were not firm and the bidders could anticipate some price revisions after their bids were submitted. Similarly, comparison of the price of the current subcontract with earlier prices could not be considered an effective means of determining the reasonableness of the current price since there were differences in the technical requirements for the valves under prior contracts and the prior prices included provisions for nonrecurring costs and costs not directly associated with the production of the valves.

We believe that the failure to obtain and analyze cost data in this case can, in a large measure, be attributed to the fact that the procurement regulation neither contained reasonable instructions as to what constituted effective price competition nor commented upon the limitations of price comparisons in evaluating prices for specialized, frequently changed military equipment. Had such instructions been in existence at the time of this procurement, it seems likely that neither Westinghouse nor the Navy would have accepted Crane's price without an analysis of its cost estimates.

The Department of Defense has recently revised the Armed Services Procurement Regulation to provide guidelines as to what constitutes price competition. However, the situations in which price comparisons are of limited value have not been discussed nor, to our knowledge, are revisions to the regulation being considered. Therefore, we recommended that the Department revise its regulation to point out the inherent dangers in relying on price comparisons under inappropriate

circumstances and to provide a clear description of the circumstances under which this price evaluation technique may be used.

Under the terms of the Navy's prime contracts with Westinghouse, a designated representative of the Comptroller of the Navy has the responsibility for the determination of allowable costs under the applicable contracts with Westinghouse and therefore the extent to which Westinghouse should be reimbursed for the subcontract prices. We understand that such a determination has not been made insofar as these contracts are concerned. Accordingly, we recommended that the Comptroller of the Navy reconsider, in final settlement, the propriety of reimbursement to Westinghouse of appropriate portions of the payments made to the Crane Company in light of the information contained in our report. Further, we requested that we be advised of such final determinations made with respect to the allowability of these costs and of the bases therefor.

Index No. 179

C-65-109

B-146829, January 6, 1965

Procurement of Defective Fuel Servicing Semitrailers and School Buses, Department of the Army

We estimate that the Government will incur unnecessary costs of at least \$167,000 for repairs because the Army accepted defective fuel servicing semitrailers and school buses costing about \$4.75 million.

Although the semitrailers, produced by Great Dane Trailers, Inc., had defects such as inadequate interior pipe coating, mislocated valves, and improperly fabricated and assembled piping systems, they were accepted by the Army. In addition, the Army Tank-Automotive Center failed to furnish to the inspection activity copies of test reports from Aberdeen Proving Ground, Maryland, that indicated defects and a need for improved manufacturing quality until substantially all the tankers had been delivered to the Government.

The school buses, produced under a contract awarded to the Ford Motor Company, did not meet contract requirements because of defects such as insufficient clearance between the steering wheel and the driver's seat, a too high windshield and dashboard cowl that obstructed the driver's vision, and congestion in the area of the brake and clutch pedals. These defects arose when Superior Coach Corporation, the manufacturer of the bus bodies, raised its commercial body to meet the military specification for ground clearance. Subsequent to the award of the contract, but prior to the inspection of the pilot model, the military specification for ground clearance was changed. This change would have eliminated the need for Superior Coach to modify its commercial body. Had the Army, Ford, and Superior recognized the solution and incorporated the change into the contract, this situation would have been avoided. Furthermore, the Army inspectors failed to make an adequate inspection of the buses before accepting them.

The Deputy Assistant Secretary of the Army for Logistics advised us that the Army agreed that the fuel tankers and buses were defective. He stated, however, that the Army's estimate of costs that may be incurred to repair the fuel tankers was much less than we had estimated. In its estimate of the unnecessary costs, the Army appears to have ignored or failed to adequately consider pertinent information indicating that the costs would be substantially higher. This could have diminished the interest of top management in the problem presented.

The Deputy Assistant Secretary stated that the Army would initiate action for recovery of the unnecessary costs from the Ford Motor Company but added that the Government had no tenable basis to seek recourse against Great Dane. Since the Army has incurred or will incur additional costs to repair the defective tankers that were not repaired by Great Dane and is also incurring additional costs to repair even those that supposedly were repaired by Great Dane, we recommended that the Secretary of the Army reconsider the position taken with relation to Great Dane and seek recovery of all unnecessary costs resulting from the production of the defective equipment.

The Army has advised us that our report will be brought to the attention of management personnel to demonstrate the importance of the adequacy of inspection and quality control functions and the need for dissemination of necessary information to all interested parties. In addition, the procedure for reporting test results has been revised to provide for direct distribution of reports by the test activity to the appropriate inspection activity for necessary action. Further, an investigation is being made to determine whether disciplinary action against Tank-Automotive Center personnel is warranted.

Index No. 180  
B-146732, January 7, 1965

C-65-110

Unnecessary Cost to the Government Due to Excessive Rentals for Electronic Data Processing Equipment at Lockheed Missiles & Space Company, Sunnyvale, California, Department of Defense

Our review of the leasing of electronic data processing equipment by the Lockheed Missiles & Space Company, Sunnyvale, California, has disclosed that rentals paid by the contractor for use of the equipment during a 20-month period were excessive because the manual time recording method used did not accurately record machine use time. This condition was subsequently corrected by the contractor through the installation of automatic timing devices on the electronic data processing equipment. On the basis of use time recorded by the contractor after automatic timers were installed, we estimate that excessive rental payments to the equipment manufacturer during the preceding 20 months amounted to about \$604,000, essentially all of which has been charged to Government contracts.

The contractor advised us that it would request an adjustment of past rentals from the equipment manufacturer. The contractor later informed us that the equipment manufacturer had declined to make a refund unless it could be substantiated on some basis other than meter readings.

In a letter dated June 3, 1964, the equipment manufacturer, in commenting on our finding, stated that it accepted and relied upon Lockheed use reports as it does for all customers in billing for any use in addition to that provided for in the basis rental period, and, until Lockheed directly substantiates some inaccuracy in its prior reports for the 20-month period, there does not appear to be any basis on which a refund should be volunteered.

In a letter dated August 27, 1964, the Deputy Assistant Secretary of Defense (Procurement) agreed that automatic timing devices are more accurate in recording machine use time and have resulted in substantial savings in rental payments. He stated also that the Air Force representatives had met with the equipment manufacturer to discuss this matter and determine whether, under the circumstances, a price adjustment would be appropriate. The Air Force was informed by the equipment manufacturer that no adjustment was warranted on the grounds that rentals were computed in full accordance with the terms of the rental agreements and because the contractor's computations were based on manual time recording which was the system in use before automatic timers were developed. The Deputy Assistant Secretary believed, therefore, that it would be inappropriate to seek an adjustment for past rental payments under these circumstances.

It is apparent, however, that, after the installation and use of the automatic timing devices, the amount of chargeable use time was significantly reduced. We believe that the rentals were paid on the basis of an inaccurate determination of use time; and, on the basis of the accepted method of meter measurement which was in effect at Lockheed, and now is in general use, a refund is justified. We recommended, therefore, that the Department of Defense, in coordination with the equipment manufacturer and Lockheed, take action to resolve the matter with due regard for the interests of the Government.

Index No. 183  
B-146761, January 19, 1965

C-65-113

Unreasonably High Prices Paid by Government Prime Contractors and Subcontractors for GG49 Gyroscopes Purchased From the Only Qualified and Approved Source, Honeywell, Incorporated, Aeronautical Division, Minneapolis, Minnesota, Department of Defense

Our examination into the pricing of selected GG49 miniature integrating gyroscope procurements negotiated with the only qualified and approved source—Honeywell, Incorporated (formerly Minneapolis-Honeywell Regulator Company), Aeronautical Division, Minneapolis, Minnesota—disclosed that Government prime contractors and subcontractors had paid prices, totaling about \$4,703,000 for the six purchase orders we examined, which were about \$1,485,000 or 46 percent higher than costs recently experienced and available to Honeywell at the time the prices were established. Prime contractors and subcontractors of the Departments of the Air Force and the Army and of the National Aeronautics and Space Administration negotiated prices with Honeywell without sufficient information on prior costs, effective price competition, or other adequate evidence to support the reasonableness of the prices negotiated. Although about 98 percent of the GG49 gyroscopes delivered by Honeywell through December 31, 1963, have been

for the Government's use, this company generally has refused to furnish cost data to the Government's prime contractors and subcontractors or permit representatives of the military departments and the National Aeronautics and Space Administration to review its records of costs previously experienced in producing these gyroscopes.

On these purchase orders, with one exception, Honeywell certified that it had considered all available actual or estimated cost or pricing data in preparing its proposed prices and, in most instances, certified that these data had been made known to the buyers for use in evaluating the proposed prices. We found, however, that the data provided the buyers were totally inadequate for use in estimating or evaluating the cost of future production because the data were either incomplete or not current. In addition, Government prime contractors and subcontractors were required by the terms of their contracts to include in purchase orders they awarded a provision for audit by agency personnel; however, agency contracting officials approved purchase orders awarded to Honeywell, even though they did not include this provision, because Honeywell would not accept purchase orders which included the right of access to its records by the contracting agency.

In the absence of effective competition, it is imperative that either the Government or the contractors purchasing for the Government be in possession of accurate, complete, and current cost or pricing data prior to the award and approval of contracts and purchase orders. Without the right of access to contractors' records, the purchaser has no effective means with which to evaluate the reasonableness of proposed prices and must rely solely on the integrity of contractors' cost certifications or other representations. In addition, no means are available to the purchaser either to confirm the validity of the certifications or to effect price adjustments for defective data, as required by Public Law 87-653.

Honeywell advised us that it believed its pricing policies had resulted in reasonable prices which were in the best interests of the Government; that the pricing policy used for the GG49 gyroscopes had resulted in a minimum investment by the Government and should, conversely, give industry the opportunity for the greatest reward in consideration of factors such as technical competence, facilities, and cost. In our opinion, our report illustrates a clear and flagrant defiance of procedures which were established to enable the agencies and contractors purchasing for the Government to obtain information necessary to evaluate the reasonableness of proposed prices. Honeywell refused to supply current cost data or permit access to its records and data so that the purchasers could review the prices of reasonableness and verify the representations which had been made that the data considered were accurate, complete, and current.

The Department of Defense and the National Aeronautics and Space Administration have advised us that their current procurement regulations, particularly since the enactment of Public Law 87-653, will minimize the recurrence of situations similar to those disclosed in our review at Honeywell's Aeronautical Division. The fact that Public Law 87-653 has been enacted to prevent the recurrence of situations similar to those discussed in our report cannot be construed to mean that this objective will be achieved automatically. Positive and aggressive action must be taken by personnel responsible for administering procurement regulations to provide assurance that the spirit and intent of Public Law 87-653 are adhered to in the award and approval of negotiated procurements.

The Department of Defense informed us that it was conducting an investigation of GG49 gyroscope procurements from Honeywell and that we would be advised further regarding the recovery of the excess costs to the Government when sufficient information was available. The National Aeronautics and Space Administration advised us that it was prepared to take a joint course of action with the Department of Defense to obtain a voluntary refund from the contractor; however, it also stated that it was prepared to pursue a separate course of action if necessary to fulfill its responsibilities. The agency also informed us that we would be advised of the action taken in seeking a voluntary refund from Honeywell.

We recommended that the Secretary of Defense and the Administrator of the National Aeronautics and Space Administration take vigorous action to obtain for the Government appropriate price adjustments for the excessive amounts paid Honeywell for GG49 gyroscopes in the purchase orders we examined as well as for other procurements of GG49 gyroscopes from Honeywell. In addition, we recommended that they require contracting officials to exert all possible efforts to obtain compliance with the measures necessary to protect the interests of the Government; that, if there is no alternative but to accede to the demands of the

contractor, appropriate disclosure of the matter be made to the Congress to keep it informed on procurement problems; and that recommendations be made for such remedial legislation as may be deemed necessary.

We further recommended that this case be brought to the attention of procurement officials to illustrate how, when procurement regulations are disregarded, the Government may be forced to accept unilateral decisions by contractors which are not in the best financial interests of the Government.

Index No. 200

C-65-133

B-146967, February 26, 1965

Improper Application by the Hallcrafters Co., Chicago, Illinois, of Government's Share of Vendor Credits for Volume Discounts Under Contracts AF 33(600)-40992, -40994, and -42414, Department of the Air Force

Our review of price adjustments extended by vendors to the Hallcrafters Co., Chicago, Illinois, for volume discounts on electronic equipment items purchased under Department of the Air Force contracts disclosed that the Government had not received its share of the credits allowed by a vendor. Subsequent to our disclosures, Hallcrafters made appropriate accounting and billing adjustments which should result in a recovery of about \$57,200 by the Government.

The Department of the Air Force concurred in our findings relating to Hallcrafters' treatment of vendors' credits and informed us that it had taken measures to minimize the recurrence of similar situations. We were advised that this case would be brought to the attention of contracting officer and audit personnel within the Department of Defense to illustrate the need for careful review of procurement and accounting practices of contractors operating under cost-reimbursement and incentive contracts. We were advised also that appropriate action would be taken in the final repricing of the fixed-price incentive contract held by Hallcrafters to ensure that the amount due the Government is fully recovered.

Although expressing basic agreement with the contents of our report, Hallcrafters objected to the tone of the report as unduly critical of the contractor and requested that we recognize in the report its long-standing reputation for integrity and excellence of performance on Government work.

In view of the proposed action by the Departments of Defense and the Air Force concerning corrective measures, we made no further recommendation. We did, however, ask that the Secretary of the Air Force advise us of the Air Force's final action on the recovery of its share of credits in the repricing of the fixed-price incentive contract.

#### DEVELOPMENT AND PROCUREMENT OF NEW TYPES OF EQUIPMENT AND SYSTEMS

Index No. 14

C-64-96

B-146885, March 23, 1964

Additional Costs Incurred in the Procurement of P6M Seaplane from Glenn L. Martin Company, Baltimore, Maryland, Department of the Navy

We submitted a report on additional costs incurred in the procurement of P6M seaplanes from the Glenn L. Martin Company, Baltimore, Maryland, by the Department of the Navy. The P6M program, which was begun in 1951 to fulfill a need for a fast jet-powered seaplane for laying mines, was terminated in August 1959 because of delays, increased costs, and unexpected difficulties experienced with the aircraft.

Our review disclosed that the Navy Bureau of Aeronautics (since reorganized as the Bureau of Naval Weapons) spent more than \$445.4 million over a 10-year period for the P6M seaplane program and did not receive a single serviceable aircraft. The Bureau ordered quantity production of 24 operational P6M-2 seaplanes before a reasonably satisfactory seaplane had been developed. The award of this production contract for the 24 operational aircraft and contracts for supporting items at a time when it was known that there were serious unsolved problems with the prototype aircraft resulted in expenditures of \$209.2 million which might have been saved if these contracts had not been awarded. Also, our review disclosed that significant cost increases were incurred by the Navy in this program because of design and engineering errors committed by the contractor as well as a failure by the contractor to adhere to the Navy's aircraft testing procedures. Under the terms of the contracts, the cost of the contractor's errors are borne exclusively by the Government.

The Martin Company by letter dated March 29, 1963, commented on a draft of our report. The Martin comments dealt generally with the difficulties anticipated and experienced in making the technical advances needed to develop an

aircraft to meet the Navy requirements for the P6M. The Martin reply did not comment on the specific findings or deficiencies related in our report.

In commenting on our findings and conclusions, the Navy agreed that serious problems with the P6M were known and that solutions were not certain when it ordered quantity production, but informed us that, in accordance with its policies and practices at the time, the Navy feels that it was justified in entering into and continuing the production program until terminated in August 1959. The Navy acknowledged, however, that, on the basis of a current assessment, it should have terminated the program at an earlier date. The Navy agreed with our proposal that in the future costly quantity production of new weapon systems should not be authorized until the contractor has given adequate evidence that a satisfactory operational product has been developed. The Navy informed us that its current programing system and new program change and review procedures established by the Office of the Secretary of Defense would assure that the objective of our proposal would be carried out.

The Navy, in commenting on the additional costs incurred by the Government because of the contractor's errors, advised us that the contractor could not be held financially responsible for such additional costs in accordance with the contract terms. The contracts provide that the contractor will not be responsible for the additional costs resulting from correction of defective work unless the defective work resulted from fraud, lack of good faith, or willful misconduct on the part of the contractor.

It is unreasonable for the Government to incur the costs resulting from errors or defective workmanship on the part of a contractor. This seems particularly true when the Government has selected that contractor for its competence in the field. Accordingly, we are of the opinion that provision should be included in development and production contracts which will place financial responsibility on the contractor for additional costs incurred due to engineering errors or design deficiencies resulting from poor performance on the part of the contractor. We recognize that a distinction must be made between additional costs incurred in development contracts when the reasons are associated with technological risks in new areas as opposed to lack of competence on the part of a manufacturer in his specialized field or a failure to apply the developed state of the art involved. Therefore, we recommended to the Secretary of Defense that the present contract clauses be revised and implemented to require the contractor to assume financial responsibility under cost-plus-a-fixed-fee development and production contracts for additional costs incurred due to performance which is less than should be expected of a skilled contractor. We recommended also that administrative procedures include realistic criteria upon which the quality of the contractor's performance can be evaluated.

Index No. 18  
B-146870, March 31, 1964

C-64-100

#### Unnecessary Costs Incurred in the Procurement of the M405 Rocket Handling Unit, Department of the Army

The Army incurred unnecessary costs of about \$7.4 million in the production of a new trailer for transporting the Honest John rocket when knowledge was available that it had design limitations and did not represent an improvement over existing Honest John ground handling equipment. The Army procured trailers of a new design at a cost of about \$10.4 million when a similar number of trailers of the type already in use would have cost only about \$3 million. This procurement occurred because the Army failed to properly consider the higher cost and the sharp increase in weight of the new trailer in relation to the benefits that could realistically be expected when it was known prior to the quantity procurement that the new trailer could not meet the original objective of its development, that is, to eliminate the requirement for a wrecker. In addition to the above procurement that took place during the 4-year period ended August 1962, current orders placed in August 1963 to produce additional new trailers at an estimated cost of \$392,000 will further increase the unnecessary procurement costs by about \$297,000.

We proposed to the Secretary of the Army that the management control of weapon systems programs be strengthened by improvements in the decision-making processes to provide for closer accountability for program decisions and program actions.

In commenting on our findings and proposals, the Deputy Assistant Secretary of the Army for Logistics generally concurred in our recommendations and stated that action had already been taken to implement them. He advised us however, that it was the Army's position that the new trailer offered sufficient tactical

advantages over the previous trailer to warrant its production. However, Army records show that the only advantage of the new trailer over the earlier one is its limited capability to perform the rocket loading function which is more adequately performed by the wrecker specifically assigned to Honest John units for this purpose. As pointed out in the Deputy Assistant Secretary's letter, the deployment of the new trailer did not eliminate the wrecker from the system as the primary vehicle for loading operations.

Subsequent to the submission of our findings to the Departments of Defense and the Army, we learned of the current plans to produce additional new trailers. We recommended that the Secretary of the Army consider canceling these plans and producing a similar quantity of the previous trailers instead.

Index No. 23  
B-149779, April 9, 1964

C-64-105

Unnecessary Costs Incurred for the Naval Radio Research Station Project at Sugar Grove, West Virginia, Department of the Navy

Our review of the Naval Radio Research Station project at Sugar Grove, West Virginia, commonly referred to as the Big Dish, disclosed that unnecessary costs were incurred by the Department of the Navy in the construction and cancellation of the radio telescope and other facilities. The unnecessary costs resulted from (1) the stated urgent military need for the project for national defense purposes which led to the decision to concurrently design and construct the project and (2) the delay of almost 2 years by the Department of Defense in deciding that the project would have to be canceled.

The project was canceled in July 1962 shortly after completion of a comprehensive scientific and engineering review and evaluation of the utility capability, and estimated costs of the project. Two of the factors that led to the decision to cancel the project were the decrease in the potential usefulness of the Big Dish because of other scientific advances, and the constant increase in the costs of the project which were estimated to range as high as \$200 million to \$300 million late in 1961. We believe that, if a similar review had been made in 1960, the project would have been canceled almost 2 years earlier, and the earlier cancellation would have saved a significant portion of the \$52 million paid or payable after fiscal year 1960. Our belief is based upon reports prepared in 1960, and earlier, by scientists within and outside the Government who reviewed specific problem areas and indicated serious doubts that the instrument, if completed, would have the desired capabilities.

The Department of Defense has taken steps that should be helpful in the management of future research and development projects. The Department has recently developed a procedure for a detailed definition of major projects to provide management with a plan from which a realistic appraisal may be made before a project is authorized for development. Also, procedures issued in 1962 provide for (1) an integrated programing system for the review and approval, on a continuing basis of proposed new programs and of changes to previously approved programs and (2) a program change control system and related progress reporting. The new procedures, if properly followed, could help to prevent unnecessary losses resulting from similar situations in the future. In view of the actions taken and planned, we made no recommendations in our report. The effectiveness of the actions taken will be tested as part of our continuing review of Department of Defense activities.

Index No. 75  
B-146915, July 15, 1964

C-65-4

Lack of Appropriate Consideration of Cost Savings Obtainable by Canceling the Procurement of Ineffective Rocket Packs for F8U Aircraft, Department of the Navy

The Navy incurred costs of \$13,300,000 for rocket packs for F8U aircraft that proved to be of limited capability and were subsequently removed from active use because of maintenance and operational problems. Our review disclosed that about \$4,000,000 of these costs might have been avoided if information available during the production period had been forwarded to the proper Navy echelon for reconsideration of the need for the weapon in light of its limited capability.

Our review of the procurement of rocket packs for F8U aircraft was limited to inquiry into the consideration the Navy gave to eliminating the rocket pack installation from the aircraft after test results in early 1958 showed that the rocket packs were ineffective for their primary mission and did not include inquiry into the reasonableness of an earlier decision to concurrently develop and produce the



rocket packs before adequate test results became available. In this respect, we previously reported that the Navy's system of concurrent development and production of aircraft and components had resulted in substantial unnecessary cost in cases where the aircraft or components did not fulfill the mission for which they had been intended. In response to one of our previously issued reports, the Navy advised us that it had adopted a new management system under which the quantities of aircraft produced in the development stage would be minimized and the losses from ineffective equipment would accordingly be reduced. In view of this new system, which was introduced subsequent to the matters discussed in this report, we did not inquire into the reasonableness of the decision to concurrently develop and produce these items but, instead, limited our review to the action taken by the Navy once test results indicated that the rocket packs were ineffective for performing their primary mission.

The Navy provided for the inclusion of rocket packs in F8U aircraft based on a Chief of Naval Operations' requirement that the aircraft have an air-to-air weapon to be used to destroy enemy aircraft. By early 1958 tests showed that the rocket pack was ineffective as an air-to-air weapon and had presented safety problems. A study in March 1958 by Chance Vought Aircraft, Incorporated, the aircraft manufacturer, showed that elimination of the rocket packs from 306 aircraft was possible and that such action would save about \$4,000,000. However, the matter was not brought to the attention of the Chief of Naval Operations, who had established the requirements for this aircraft and its weapons, and no action was taken to cancel the procurement of the rocket packs for this aircraft.

About 2 years later, in June 1960, the Navy ordered all the rocket packs disarmed and their use discontinued because of difficulties encountered in their operation and maintenance.

In commenting upon our findings, the Navy stated that it considered it unlikely that the procurement of the rocket packs could have been canceled in 1958, even if the matter had received proper consideration at that time. However, in view of the significant problems being experienced with the rocket packs, we believe it likely that the Chief of Naval Operations would have terminated the requirement for the rocket packs if he had had an opportunity in March 1958, to evaluate the pertinent data on the rocket pack's safety and effectiveness in light of its cost. In any case, it is clear there was too much informality in the handling of this matter and that, under the management system which the Navy employed in the F8U procurement, there was no procedure to provide assurance that important matters like this would be brought to the attention of management officials at the levels where such decisions should be made. Had such a system existed, the matter could have been referred to the Chief of Naval Operations, and the value of the rocket packs as a weapon could have been appropriately evaluated in relation to its costs.

When an item fails to meet the requirement for which it was designed and procured, the need for that item should be reevaluated in the light of its cost, i.e., the savings that can result through terminating its procurement. Since the period covered by our review was several years ago, we made an inquiry to determine whether in the intervening period the Navy had instituted procedures for bringing such matters to the attention of the Chief of Naval Operations. We were advised by the Navy that since that time it has become the general practice to do so. However, the Navy also advised us that the practice operated in an informal manner and that responsibilities and requirements under it had not been reduced to writing.

We believe there is a need for greater assurance that failure of costly components of weapon systems to perform their intended functions properly be brought to the attention of the Chief of Naval Operations so that he may reconsider the need for the components in the light of the decrease in their effectiveness from what was originally planned. Accordingly, we recommended that the Secretary of the Navy establish written instructions which will provide formal procedures for the accumulation and transmission of pertinent data on such matters to the proper management level and will provide the basis for fixing responsibility for seeing that the procedures are effectively put into practice.

Index No. 92

C-65-21

B-132998, August 4, 1964

Unnecessary Costs Incurred in the Procurement of Ground Speed and Distance Indicators From Douglas Aircraft Company, Inc., Department of the Navy

The Department of the Navy has incurred unnecessary costs of approximately \$200,000 as a result of the premature procurement of a production quantity of an aircraft ground speed and distance indicator for a loft bomb release computer

system before an acceptable indicator was developed and before any assurances existed that an acceptable indicator could be developed.

After receiving a contract for the production of A4D aircraft, Douglas Aircraft Company, Inc., suggested that a ground speed and distance indicator be substituted for a Government-furnished timer in the aircraft's loft bomb release computer system. It was hoped that the indicator would improve the performance of the aircraft's bombing system. The Navy concurred in this suggestion and amended the prime contract with Douglas to authorize the procurement of the indicator.

Prior to tests of the indicators procured by Douglas pursuant to this Navy authorization, the Navy issued another contract for A4D aircraft. The specifications included in this contract directed that an indicator be used in the Government-furnished bomb release computer system. Tests of the first indicators delivered to Douglas by the manufacturer (which was subsequent to the date of the second contract) disclosed that the indicator was unsatisfactory in that it did not respond properly to signals produced by another system that was to activate it. Subsequent to these adverse test results, Douglas prepared purchase orders for 194 indicators on the basis of Navy requirements set forth in the second contract. In accordance with the provisions of this contract, these purchase orders were submitted to the Navy for approval. Although there was no proven solution to the deficiency disclosed by the tests, and although the Navy knew, or should have known, of the test results, the Navy approved the procurement of the additional 194 indicators rather than required the use of the proven timer until such time as a satisfactory indicator was developed.

Subsequently, it was determined that the problem connected with the use of the indicator could not be overcome without substantial redesign effort, and Douglas therefore asked the Navy's permission to return to the use of the Navy's timer in the loft bomb release computer system of the A4D aircraft. Douglas canceled its orders for the additional 194 indicators at a cost of approximately \$200,000 to the Government.

The Navy informed us that, in the years subsequent to the events discussed in our report, the policy with respect to the introduction of changes into contracts for naval aircraft had emphasized increasingly the need for control over such changes, so as to assure as sound as possible determinations as to whether a particular proposed change is warranted. In addition, the Navy informed us that directives regarding Government approval of subcontracts now provide detailed requirements and guidance to Navy contracting officers to protect the interest of the Government. However, the Navy stated that, in order to clarify the situation, it was submitting a proposed change for the Armed Services Procurement Regulation to the effect that contracting officers would be required to assure that proposed purchases are in accordance with prudent business practices, after verifying the technical justification of the particular supplies, equipment, or services. In view of the above actions taken by the Navy, we did not make any further recommendations on this matter. The effectiveness of the actions taken will be evaluated in our subsequent examinations of Navy procurement activities.

Index No. 146

C-65-75

B-146906, October 26, 1964

#### Unnecessary Costs Incurred in Sole-Source Procurement of Portable Radar Sets, Department of the Army

Our review of sole-source procurements by the Department of the Army disclosed that the Government had incurred unnecessary costs of more than \$2.2 million in the sole-source procurement of 502 AN/PPS-4 portable radar sets. These unnecessary costs were incurred because agency officials procured the radar sets without waiting until known deficiencies in the sets had been corrected and technical data suitable for use in competitive procurement had become available. The deficiencies known prior to procurement were that the radar sets were not consistently accurate in determining the range of a target, were unable to detect a target satisfactorily, and were cumbersome to operate. After the contract for the sole-source procurement was awarded, it was necessary to stop production for 15 months while modifications were being made to correct these deficiencies. This delay unnecessarily increased the cost of the corrected units by \$356,220. In addition, we estimated that, on the basis of competitive prices obtained in a subsequent procurement, unnecessary costs of about \$1.86 million had been incurred because these sets had been procured without competition. In fact the successful bidder's price under the competitive procurement was more than 55 percent below the price paid to the sole-source producer.

The Acting Assistant Secretary of the Army (Installations and Logistics) agreed with the facts presented in the report and advised us that the report would be brought to the attention of procuring commands. He also indicated that, subsequent to the procurement in question, more extensive controls were instituted regarding procurement of new equipment that included the requirement that a summary of all objections to a proposed procurement be submitted to higher authority. This summary is to include engineer- and service-test results.

The Acting Assistant Secretary also stated that disciplinary action was not believed to be warranted because the decisions with respect to this procurement were made in accordance with the then accepted policy and that, when considered in light of the then prevailing policy, the facts presented were considered proper justification for these decisions. Officials in the Office of the Assistant Secretary of the Army (Installations and Logistics) subsequently advised us that, at the time of this procurement, there was an absence of guidance and control over the procurement of new equipment, generally, but that the Army's policy was that development and production of an item could be effectively accomplished simultaneously. Procuring officials in this instance, however, had been aware of the user and engineer objections prior to awarding this contract but had requested approval from higher authority for the award without disclosing this information. We believe, therefore, that these actions should be noted in the personnel records of responsible officials, for consideration in future promotions, reassignments, and other personnel actions.

Index No. 181

B-146774, January 13, 1965

C-65-111

#### Unnecessary Costs Incurred in the Procurement of Radar Components and Related Parts, Department of the Navy

The Department of the Navy unnecessarily procured for use in F-8 aircraft 26 AN/APQ-83 radar sets, costing over \$1 million, after the decision had been made to use an improved radar set (subsequently designated AN/APQ-94) in the aircraft. The Navy justified the procurement on the basis that the purchase would avoid storage or increased production costs of the F-8 aircraft that would result if delays in the deliveries of the new radar sets occurred and that such aircraft storage or increased production costs would be potentially greater than the costs of the AN/APQ-83 radar sets. However, on the basis of the information available at the time, the costs that could reasonably have been anticipated for storage of aircraft as a result of delays in deliveries of the AN/APQ-94's aggregated less than \$200,000. The expected delay in deliveries of the new radar sets did not occur, however, so none of the 26 AN/APQ-83 radar sets were ever installed in aircraft, and the additional storage or increased production costs were not incurred.

Although five of the components of the unneeded AN/APQ-83 radar set could be used on the improved set, AN/APQ-94, three of the components—radar set group, amplifier, and control unit—representing about 80 percent of the cost of the complete radar set, could be used only on the AN/APQ-83 radar. According to the Aviation Supply Office, there was no need for these items as complete components; however, that Office assumed control of them for disassembly and use of parts as spares in support of radar sets installed in aircraft produced under an earlier contract. Although this information was available, the Aviation Supply Office procured additional spare parts, costing about \$56,000 from commercial sources that could have been obtained by the removal of identical parts from the radar set group component. All three components usable only on the AN/APQ-83 radar were, for the most part, subsequently determined to be excess to all future Navy needs.

The matters discussed in our report were brought to the attention of the Secretary of Defense, and, at his request, the Assistant Secretary of the Navy (Financial Management) advised us of the Navy's position regarding our findings. The Navy explained that the main reason for purchasing the additional AN/APQ-83 radar sets was to prevent aircraft storage or slippage in aircraft deliveries because of possible delayed receipt of the improved radars. However, the Navy acknowledged that the ascertainable cost of storing the aircraft while awaiting receipt of the improved radar to be installed in such aircraft would have resulted in approximately \$1 million less cost to the Navy than the purchase price of the additional AN/APQ-83 radar sets. The Navy estimated that slippage in aircraft production schedules would have cost \$5.2 million. It is our view that the Navy would not have held up production of the aircraft but would have stored the air-

craft awaiting receipt of the improved radar as they did in the previous contract. However, we have not reviewed the Navy's basis for the estimated slippage cost inasmuch as the Navy's reply indicated that the storing of aircraft would have been a less costly alternative in case of delayed delivery of improved radar.

The procurement of over \$1 million worth of unneeded equipment to avoid the possibility of incurring a substantially lesser amount of aircraft storage costs, as well as the purchase by the Aviation Supply Office of about \$56,000 worth of spare parts that could have been obtained by reclamation of identical parts from the unneeded AN/APQ-83 components, represents wasteful expenditures of Government funds. It seems evident that the substantial unnecessary cost that the Government incurred could have been prevented if the Government employees responsible for procurement had used greater care in evaluating the information that was available. Accordingly, we recommended that the Secretary of the Navy require that, whenever the Navy initiates plans for the procurement of equipment solely as an insurance or contingency measure, the basis for such procurement be clearly stated in the procurement justification documents and, in those cases involving a substantial amount of funds, the justification for such procurement be evaluated by the Office of the Secretary of the Navy prior to contract award.

MAINTENANCE, REPAIR, AND OVERHAUL

Index No. 36

B-146882, May 15, 1964

C-64-119

Unnecessary Packaging Costs Incurred in the Procurement of Repair Kits From Hamilton Standard Division, United Aircraft Corporation, Windsor Locks, Connecticut, Department of the Air Force

In our review of the packaging costs of repair kits procured by the Department of the Air Force from Hamilton Standard Division, United Aircraft Corporation, Windsor Locks, Connecticut, we found that about \$344,000 of unnecessary packaging costs had been incurred by the Government. These unnecessary costs were incurred because, in some cases, the contractor improperly charged the Government for kit packaging when such packaging was not actually performed; in other cases, although packaging was performed and paid for, it was unnecessary because the parts involved were retained at Hamilton Standard's plant for use on Government overhaul work and need not have been packaged into kits. When we brought our findings to the attention of Hamilton Standard and agency officials, the Government received credits of about \$144,000 for those kits on which packaging had not been performed by the contractor.

Hamilton Standard should have adjusted the prices for those kits that were not packaged at the time the invoices were submitted to the Government for payment. Moreover, the conditions described in this report clearly indicate a lack of effective contract administration on the part of the Department of the Navy personnel at Hamilton Standard and ineffective management on the part of the Air Force activities originating the requirements and providing the funds for the procurements. These Air Force and Navy officials did not adequately protect the Government's interest in that they failed to make certain that the Government received appropriate price reductions for those kits on which packaging was not performed. Furthermore, since they were aware that, in practice, many of the parts ordered from Hamilton Standard would be used in the overhaul of Air Force equipment at the contractor's plant, action should have been taken to contract with Hamilton Standard in such a way as to defer the packaging of all kit parts until the shipping destinations were known, thereby avoiding the unnecessary costs of packaging those parts into kits that were to be retained for use in the contractor's Government overhaul operation.

The Deputy Assistant Secretary of Defense (Procurement) advised us by letter dated December 27, 1963, that corrective action had been initiated essentially in accordance with suggestions we had made. He stated that the military departments and procuring agencies were being made aware of our findings in order to illustrate the need for prompt adjustment of contract prices when the scope of work is changed. He advised also that Hamilton Standard had accepted an amendment to its current contract to the effect that parts ordered by the Government but used by the contractor on Government overhaul contracts would not be packaged into kits and that appropriate reductions would be made in the kit prices. The military departments have been directed to incorporate similar provisions in current and future contracts whenever applicable. Also, pertinent contract clauses prescribed by the Armed Services Procurement Regulation were being reviewed to assure that they adequately protect the Government's interest

in Department of Defense contracts for procurements involving packaging costs for parts, equipment, or supplies, which may be used by contractors in connection with other activities or services performed for the Government.

Index No. 56

C-64-139

B-146773, June 18, 1964

Unnecessary Costs for Rebuild of Used T97 Track for Tanks, Department of the Army

The Government has incurred unnecessary costs that we estimate to be over \$7.2 million because the Department of the Army rebuilt used T97 track for tanks instead of procuring new track. Personnel involved in the decision to rebuild the track overlooked the fact that the low-grade steel used initially would preclude economical rebuild and did not provide for timely tests of the rebuilt track. When the rebuilt track was installed on tanks, the track experienced premature failures, creating safety hazards to personnel and impairing the combat effectiveness of the Army. The Army could have procured new track at a cost of \$5.3 million and obtained the same total mileage as that obtained from the track that was rebuilt at a cost of \$12.5 million.

The Acting Assistant Secretary of the Army (Installations and Logistics) advised us on March 11, 1964, that the T97 rebuild program did not achieve the economy and effectiveness expected and that decisions made in good faith and with best intent were based on judgment which, in retrospect, was not wholly sound. We believe that the question involved is not just a matter of mere judgment but a matter of obtaining all pertinent facts upon which a reliable judgment may be made. Considering the importance of the proposed rebuild program both in terms of the cost involved and in the Army's dependence upon the rebuilt track to maintain its tanks in operating condition, we believe that it was reasonable to have expected the responsible officials to inquire more fully into the available information at the time the decision to rebuild was made and to require appropriate testing to assure the acceptability of the rebuilt track. Accordingly, we believe that the actions of Army officials responsible for these unnecessary expenditures should be made a part of their personnel records so that these actions may be considered in connection with promotion and other personnel matters.

We recommended that the Secretary of Defense bring this report to the attention of management officials within the military departments and emphasize the importance of (1) testing to assure that materiel after rebuild will meet operational requirements and (2) determining the relative costs of rebuild and new procurement, giving consideration to the effective service life of each.

Index No. 59

C-64-142

B-146891, June 22, 1964

Unecomical Contracting for Service-Station-Type Vehicle Maintenance at Olmsted Air Force Base, Pennsylvania, Department of the Air Force

Our review of vehicle maintenance contracts at Olmsted Air Force Base, Pennsylvania, disclosed that the Air Force paid unnecessarily high prices for service-station-type maintenance during a 27-month period. The charges for such maintenance, totaling \$137,000, were established in many instances by using the contract rates agreed to for skilled mechanical work, but the services that were provided required little or no mechanical skill. After we brought our findings to the attention of responsible Air Force officials at this base, contracting for service-station-type maintenance was terminated, and the work is being performed at lower cost by Air Force direct-hire personnel.

Records we examined and informal estimates made by Middletown Air Materiel Area officials indicate that the combined annual cost of service-station-type maintenance and mechanical repair work will be about \$100,000 lower under the present method of operation. A portion of this cost reduction is attributable to the reduction in certain elements of scheduled maintenance effected 3 months before discontinuing contractor-furnished maintenance. The estimated annual cost reduction, attributable solely to using Air Force direct-hire personnel instead of contractor-furnished labor, is about \$40,000. Savings to the Government of about \$80,000 at this site will result from the decision to not exercise the contract option providing for 2 additional years of contract operation.

The Air Force Logistics Command issued instructions to nine Air Materiel Areas and selected other Air Force organizations on February 7, 1963, to have service-station-type maintenance performed by Air Force personnel to the

extent that personnel are available and to contract for the remainder of work. We believe that a matter for primary consideration is whether performance of vehicle maintenance by Air Force or by contractor personnel is more economical. We therefore recommended to the Secretary of the Air Force that agency officials at each Air Force installation be held responsible for a continuing evaluation of the adequacy of their vehicle maintenance operations, in terms of the timely availability of well-maintained vehicles to using organizations at the lowest possible cost to the Government. We recommended also that the Secretary of the Air Force establish adequate procedures and a program of inspection and follow-up to see that local officials are properly discharging this responsibility.

Index No. 82  
B-146793, July 27, 1964

C-65-11

Unnecessary Procurement of Special Tooling for Production of Engines for M151 Utility Trucks, Department of the Army

Our review of the Department of the Army's procurement of major assemblies for M151 utility trucks disclosed that the Government spent up to \$269,000 buying unneeded special tooling intended for use in the manufacture of spare engines for M151 utility trucks. The action to buy additional special tooling was taken because the responsible Army officials apparently thought the need for spare engines was urgent and more tooling was needed to meet production schedules. These officials either misunderstood or were unaware that the Army's new maintenance policy for M151 trucks greatly reduced the need for spare engines. Consequently, the existing special tooling was adequate, both as to quantity and condition, to satisfy current production needs.

The Deputy Assistant Secretary of the Army for Logistics acknowledged that the procurement of the additional set of tooling was unnecessary at that time but stated that the special tooling had been beneficial to the Government and should result in savings substantially greater than its cost because it would allow competition in the procurement of the engines. We found, however, that competition existed even when only the one set of tooling was available.

The Deputy Assistant Secretary advised us that a program had been initiated by the Army Tank-Automotive Center to enlighten management officials on policies having a significant bearing upon their respective areas. We believe, however, that Government officials are responsible for knowing and implementing pertinent policies that affect their duties and that therefore the personnel records of Center personnel responsible for the conditions discussed in this report should be appropriately noted and considered in promotion, reassignment, and other personnel actions.

PAY AND ALLOWANCES

Index No. 4  
B-146867, March 5, 1964

C-64-85

Shipment of Household Goods Improperly Classified as Professional Items by Military Personnel To Avoid Payment for Excess Weight, Department of the Army

Service members transferred from one duty station to another may ship household goods at Government expense within prescribed weight allowances and may ship professional items without regard to weight limitations. When household goods exceed the applicable weight allowance, the service member is charged for the excess weight. The classification of household goods as professional books, papers, and equipment enables the member to avoid being charged for the excessive weight.

The Government has incurred unnecessary costs that we estimated at about \$250,000 a year because Army military personnel improperly claimed weight for more professional books, papers, and equipment than they actually had shipped and thereby avoided excess weight charges for shipments of household goods. We found that the improper claims for professional items were allowed because transportation officers had not examined shipments to satisfy themselves that the weights claimed were actually for professional items. Examinations were not made primarily because there were no clear definitions in the travel regulations of what should properly have been classified as professional books, papers, and equipment.

By letter dated December 4, 1963, the Assistant Secretary of Defense (Manpower) advised us that the Department of the Army had issued instructions requiring inspection of shipments and verification that professional items claimed actually qualify as professional books, papers, and equipment in those cases where

the weight of professional items claimed would affect the assessment of excess weight charges against members. The Assistant Secretary further advised that action was being taken by the Defense Traffic Management Service in order that this procedure would apply to all services.

We recommended to the Secretary of Defense that (1) the Joint Travel Regulations be amended to provide definite criteria as to what may be claimed as professional books, papers, and equipment, (2) the Secretaries of the military departments be instructed to issue regulations requiring that transportation officers prepare and forward with original bills of lading certifications regarding their inspections of the professional items to be allowed in those cases where the weight of professional items claimed would affect assessment of excessive weight charges against members, and (3) the Secretaries of the military departments be required to instruct all local commanders to take appropriate disciplinary action against personnel who make improper claims to avoid payment of charges for excess weight on shipments of household goods.

Index No. 13

C-64-95

B-146551, March 23, 1964

#### Unnecessary Per Diem Payments for Military Personnel Reporting Early for Temporary Duty Assignment, Department of the Navy

Unnecessary per diem payments, estimated at over \$600,000 annually, are made by the Department of the Navy because military personnel report to temporary duty assignments during transfers between permanent posts of duty and are paid per diem prior to the dates that the temporary duty for which the member has been assigned to that station is scheduled to begin. The manner in which responsible Navy officials administer regulations pertaining to reporting for temporary duty results in unnecessary per diem payments. In addition, contributing factors are (1) that authorized leave is not taken by Navy members who elect to report early and (2) that, in some instances, order-issuing commands establish reporting dates that are in advance of dates the temporary duty is scheduled to start. Thus, Navy members are permitted to report early either at their own discretion or at the discretion of the order-issuing commands, despite the fact that there is no need for their early arrival at the temporary duty stations.

In bringing our findings to the attention of the Department of Defense, we proposed that the Navy issue instructions to prohibit the fixing of a reporting date on transfer orders prior to the date temporary duty was to begin and to provide that payment of per diem for periods of early reporting be discontinued. The Department of Defense advised us that it did not feel that the Navy should be required to issue rigid instructions, but that it had requested the Navy to review the regulations to insure that early reporting to temporary duty stations is reduced to an absolute minimum.

On February 5, 1964, the Department of Defense furnished us a copy of a Bureau of Naval Personnel Notice issued by the Department of the Navy on January 6, 1964. This notice reiterates the Department of Defense policy of not paying per diem except under certain specific conditions to members reporting at a temporary duty station earlier than the date specified in the orders and instructs all commands issuing or delivering orders to members which involve temporary duty to make every effort to comply with this policy. While the notice issued by the Navy outlines the Department of Defense policy on the payment of per diem for early reporting at temporary duty stations and directs responsible commands to make every effort to comply with this policy, specific guidelines for uniform implementation of the policy have not been prescribed. We believe that this notice permits an undue dependence on independent judgment which may result in inconsistent and improper application. Accordingly, we recommended that the Secretary of the Navy issue definitive instructions and guidelines which will provide for uniform implementation of Department of Defense policy with respect to the payment of per diem for early reporting at temporary duty stations. We recommended also that the Secretary of the Navy direct that internal audit programs providing general guidance for Navy auditors be expanded to require attention to the possibility of unnecessary per diem payments for periods of early reporting at temporary duty stations.

We also proposed that the Secretary of Defense determine whether early reporting exists in the Army and Air Force and, if it is found, take action to have the practice discontinued. The Department advised us that it had been determined that the payment of per diem during periods of early reporting was not prevalent in either the Army or the Air Force and that adequate controls presently exist in

these services. We plan to give consideration to these matters in all services in our continuing review of operations of the military services.

Index No. 16  
B-146740, March 30, 1964

C-64-98

#### Unnecessary Per Diem Payments to Military Personnel During Construction of Nuclear-Powered Submarines, Department of the Navy

Unnecessary per diem payments were made to military personnel during construction of nuclear-powered submarines by the Department of the Navy. The Government incurred unnecessary costs of about \$6.1 million because the Bureau of Naval Personnel placed prospective crew members of nuclear-powered submarines at construction sites on temporary duty rather than permanent duty. The prospective crew members were placed on temporary duty and were allowed per diem despite available facts that showed that (1) the duty at the particular shipyard sites would be for extended periods in excess of 6 months, (2) the prospective crew members could, and in fact did, live under permanent-type duty conditions, and (3) the prospective crew members would not, and did not, incur extra living expenses as a result of their duty assignments. Per diem payments to the prospective crew members were stopped on the date the nuclear core for the ship was scheduled to be put on board, referred to as the "in service, special date." At this date these individuals were assigned to the construction site on a permanent-duty basis, as were any other prospective crew members reporting after that date, although no actual change in duty location or in living conditions occurred at that date. Prospective crew members assigned on a permanent-duty basis are entitled to receive permanent-duty allowances.

Our finding of unnecessary costs of about \$6.1 million covered per diem payments to prospective crew members assigned to construction sites of 33 nuclear-powered submarines from the date of assignment to the in service, special date. In addition, if the Navy were to continue the same policy regarding per diem payments, the prospective crews of other nuclear-powered submarines, under contract as of October 1963, which have not reached the in service, special date, would receive per diem payments which we estimate would result in unnecessary costs to the Government totaling about \$9.2 million.

We proposed to the Secretary of Defense that, irrespective of the in service, special date, the Secretary of the Navy be directed to assign prospective crew members of nuclear-powered submarines to construction sites under permanent-duty orders when the duty at that location would exceed a reasonable period, that is, 6 months. The Department of Defense advised us by letter of January 8, 1964, that it agrees with our proposal and that the Navy is taking the necessary implementation action.

The action being taken by the Navy to assign prospective crews of nuclear-powered submarines to construction sites on permanent duty when the duty at that location would exceed a reasonable period, or 6 months, should result in a saving of about \$9.2 million in per diem payments in the next 3 years. In addition, while construction of nuclear-powered surface vessels was not included in our review, prospective crews were assigned to those construction sites on the same basis as to construction sites of nuclear-powered submarines. The corrective action being taken by the Navy should also result in additional savings in per diem payments to prospective crews assigned to those construction sites.

We proposed also to the Department of Defense that the Joint Travel Regulations be revised to eliminate the reference to the in service, special date, as affecting entitlement to per diem, and to clearly indicate that, where duty is of a permanent nature, the duty be designated permanent with no per diem allowed. The Department of Defense advised us that it concurs in this proposal. The Joint Travel Regulations were revised as of February 1, 1964, to conform to our proposal.

We attempted to ascertain the justification for the policy, permitting these individuals to be placed on a per diem basis despite the knowledge that their tours of duty at the same location would greatly exceed the customary 6-month limit, as contrasted with the intent of the law and regulation to place individuals on permanent duty when their period of duty would exceed 6 months. Despite an examination of records and discussions with Navy officials, we were unable to determine the basis for the regulations which permitted the payment of per diem under these conditions. The responsible Navy officials advised us that payment of per diem was justified on the basis that such payments were permissible under the existing regulations. In our opinion, this attitude is wholly inconsistent with the fact that regulations must generally be written with some flexibility to permit reasonable administration in the handling of varying conditions encountered.



Accordingly, we recommended to the Secretary of Defense that the findings discussed in this report be brought to the attention of officials of the Department of Defense responsible for administering and approving changes to travel regulations in order to demonstrate the types of uneconomical practices that can arise where regulations are administered injudiciously.

Index No. 33

C-64-116

B-146551, May 4, 1964

Payments to Army and Air Force Reserve Officers on Annual Active Duty Training for Days on Which No Training or Necessary Travel Was Performed Department of Defense

Our review of payments to Army and Air Force Reserve officers for periods of annual active duty training disclosed that the officers were paid for days on which no training or necessary travel was performed. We estimate that these unnecessary payments totaled about \$620,000 in fiscal year 1963. This unnecessary cost was due to deficiencies in service regulations which permitted Reserve officers to be paid for days of active duty training in excess of the number required for training and necessary travel by the most economical mode of common carrier transportation available.

We were informed by the Assistant Secretary of Defense (Manpower) and the Deputy Assistant Secretary of Defense (Accounting and Audit) that the military departments had been instructed to take appropriate action in this matter.

Index No. 38

C-64-121

B-146889, May 19, 1964

Improper or Unnecessary Payments of Pay, Travel, and Other Allowances to Crew Members of the U.S.S. *Kitty Hawk*, Department of the Navy

Improper or unnecessary payments of pay, travel, and other allowances totaling about \$110,400 were made to crew members of the U.S.S. *Kitty Hawk* by the Department of the Navy during the period May 1, 1961, through June 30, 1962. These improper or unnecessary payments included about (1) \$66,500 for transporting members' dependents and household effects and for dislocation allowances paid because a home port was temporarily established on the East Coast when the Navy had already planned for the ship to be based on the West Coast, necessitating a second move of dependents and household effects, and (2) \$17,000 for per diem and \$26,500 for pay, travel, and other allowances for which claims were computed incorrectly or which were paid contrary to regulations.

Factors contributing to these unnecessary payments were (1) inadequate consideration of the possible additional cost to the Government by personnel responsible for making specific decisions, (2) submission of claims by crew members that misstated or omitted pertinent facts, (3) failure of disbursing officers to adequately examine information and documentation supporting the crew members' claims, and (4) ineffective administrative review of disbursing procedures and transactions.

The Department of the Navy commented on our findings in letters of November 15, 1963, and February 3, 1964. The Navy did not agree that the management decisions which resulted in the establishment of a temporary East Coast home port for the *Kitty Hawk* were inappropriate since the Navy felt that the initial establishment of a West Coast home port would have created inequities adversely affecting morale for the members resulting from the enforced separation from their families for extended periods or from the movement of dependents to San Diego at the risk of having the port changed and depriving them of entitlement to payment for transportation of their dependents. We recognize the importance of considering morale as well as economy in the making of decisions involving entitlement to allowances. In the instant case, however, Philadelphia was the home port for less than 2 months before a change was announced, and only a small number of the ship's crew was involved inasmuch as the designation of Philadelphia as the temporary home port permitted entitlement for reimbursement for two moves to only 183 members out of a crew of more than 1,500 members. Generally about one half of the crew members have dependents.

The Department stated further that it felt that, while its administrative reviews of travel and per diem payments had not been adequate, administrative reviews of pay and allowance had been adequate. Our findings indicate, however, that improvement is needed in both areas.

We recommended that the Secretary of the Navy take action to (1) ensure that management decisions directing permanent moves of members give consideration, to the extent possible, to economy as well as to the adverse effect on the morale of the members and their families when required to frequently relocate

their households, (2) improve the training of personnel engaged in the administrative review of military pay and allowances, particularly with respect to the effect that travel payments have on entitlements to pay and allowances, and (3) discontinue the practice of relieving members from repaying improper payments received on the basis of misstated or factually incorrect claims or of seeking relief for such members.

Index No. 48

C-64-131

B-118768, June 11, 1964

**Erroneous Payments Made for Military Pay, Leave, and Travel at Biggs Air Force Base, Texas, Department of the Air Force**

Our review of payments made for military pay, leave, and travel at Biggs Air Force Base, Texas, disclosed that ineffective administration of finance and personnel office activities was resulting in erroneous or potentially erroneous payments to service members at the rate of about \$83,600 a year. The errors disclosed by our review were attributable primarily to carelessness on the part of clerical personnel in the personnel and finance offices and inadequate supervision and review of their activities. Furthermore, we found that internal Air Force audits and inspections were not successful in fully identifying the extent of errors or in causing the unsatisfactory conditions to be corrected. Errors in payments to service members not only cause additional expense to the Government, but also have an adverse effect on morale, when action must be taken subsequently to recover amounts paid in error.

Corrective action was taken at Biggs Air Force Base as a result of our review, to revise procedures, reorganize pertinent offices, and establish an effective review function. However, deficiencies in these areas have been cited in the past in reports by various audit activities, and as a result many new directives have been issued and procedures have been initiated. Yet numerous errors continue to be made. From this we conclude that improvement of these conditions will not come about by the issuance of directives and the initiation of revised procedures, unless there is continuous attention by management to the manner in which they are applied.

From our work in the area of pay and allowances, it has become increasingly clear that the extreme complexity of the military pay system, which makes effective administration exceedingly difficult, is a basic source of many of the problems found at installation level. In April 1963 we issued a report to the Congress on the causes of overpayments of military pay and allowances (B-125037), in which we commented in considerable detail on this basic problem. The Department of Defense has advised us that a comprehensive study is being made to determine the changes required in the structure of the military compensation system and that this study is expected to be complete by June 30, 1964. We intend to evaluate the effectiveness of the actions taken, as part of our continuing interest in military pay and allowance matters.

Index No. 77

C-65-6

B-146862, July 20, 1964

**Unnecessary Costs Incurred When Privately Owned Vehicles Are Used for the Convenience of Personnel on Temporary Duty Assignments, Department of Defense**

Our review of travel time and allowances granted military and civilian personnel of the Department of Defense who use privately owned vehicles for their own convenience when performing temporary duty travel revealed that unnecessary costs estimated to be in excess of \$2 million are being incurred annually for unnecessary travel time and allowances. It is probable that unnecessary costs are similarly being incurred in connection with temporary duty travel by civilian personnel of other departments and agencies of the Government.

The provisions of the Joint Travel Regulations, which govern military personnel travel, and the Standardized Government Travel Regulations, which govern civilian personnel travel, permit the computation of travel time and allowances of personnel who use privately owned vehicles for their own convenience to be based on surface common carrier service even though commercial air service has become generally accepted and in many instances is more economical, when all costs are considered. This has resulted in workdays being authorized for travel which more reasonably and equitably should be charged as leave, in payments of excessive per diem, and occasionally, excessive allowances to civilians for transportation costs.

Our review disclosed also that Marine Corps personnel using privately owned vehicles for temporary duty travel were allowed nearly 3 times as many days for

travel, without charge to leave, as Army, Navy, and Air Force personnel for similar travel. This situation results from the fact that Marine Corps regulations, under certain conditions, allow travel time based on 250 miles a day rather than on constructive rail schedules.

We advised the Department of Defense, the Bureau of the Budget, and the United States Civil Service Commission of our findings and proposed that corrective action be taken. The agencies generally concurred in the conclusions set forth in the report and indicated that corrective measures would be taken. In the normal course of our audits we plan to review the effectiveness of the implementing actions.

Index No. 81  
B-125037, July 24, 1964

C-65-10

**Ineffective Administration of Allotments of Pay by Military Personnel, Department of the Army**

Inadequate administration of the Army allotment system results in erroneous payments of about \$2 million annually. We estimate that at least \$340,000 of this amount is lost to the Government because it is not subsequently recovered from the servicemen. In addition, the Government incurs substantial administrative costs to identify the erroneous payments, determine the causes, and take action to recover the money. The most common type of error disclosed by our review is the failure at the installations to properly make deductions from the servicemen's pay for the allotments paid at their request. The erroneous payments are primarily due to the fact that at Army installations military personnel in the personnel and finance offices who are responsible for administering the pay of servicemen, including allotments, are not properly trained, do not remain on the job long enough to benefit from their experience, are required to perform other military duties, and generally do not exercise the proper degree of care in their work.

This Office, primarily as a result of post audits of records and vouchers evidencing payment of pay and allowances, has reported over the past years to each of the military services and the Department of Defense a large volume of recurring overpayments. Our latest such report—Review of the Causes of Overpayments of Military Pay and Allowances, Department of Defense—dated April 16, 1963, covering fiscal years 1957 through 1961, pointed out that over the years payments of allotments have constituted one of the major types of overpayments. Our present review shows that there has been little or no improvement in this area.

The Assistant Secretary of the Army (Financial Management) has advised us that, in response to our proposals, the Army is studying the feasibility of greatly increasing the use of professional civilians, is testing a pay system which consolidates functions in finance offices to eliminate the divided responsibility between personnel and finance offices, and is taking other actions to improve military pay administration. We hope that these actions, which appear to be a start in the right direction, will lead to the improvements needed in the administration of allotments. On the basis of our past experience, however, we believe it is doubtful that the end results will show any real or significant change unless top management officials are able to work on this problem with continuous and concentrated effort.

Index No. 110  
B-146869, August 25, 1964

C-65-39

**Excessive Payments of Living-Quarters Allowances to Civilian Employees in Japan, Department of the Air Force**

Excessive payments of living-quarters allowances were made by the Air Force to its civilian employees in Japan because of the failure of Headquarters, United States Air Force, to authorize reduced grants of living-quarters allowances when such reductions were required or contemplated by statutory regulations. We estimate that during the calendar year 1962 the employees, as a group, received grants that were about \$125,000, or 40 percent, in excess of their estimated allowable expenses. On the other hand, our review at Army and Navy installations disclosed that local officials authorized reduced grants when it was appropriate to do so.

An example of the Air Force practice is the case of an employee who was granted a rate of \$2,700 a year on April 17, 1962, retroactive to September 1961. This rate was more than two times his estimated expenses of \$1,200 a year shown by a statement filed by him on April 12, 1962, with the responsible officials in Japan.

In administering living-quarters allowances, the Air Force granted the maximum prescribed rates for post of duty, family status, and grade to employees becoming entitled to living-quarters allowances under a flat-rate system effective from April 2, 1961. Regulations of the Secretary of State required the Air Force to reduce such maximum rates under certain circumstances set forth therein. However, Headquarters, United States Air Force, failed to authorize any reductions, although it was aware that employees were receiving excessive allowances or windfall profits.

In effect, the position of Headquarters, United States Air Force, was that employees were entitled to the maximum rates, regardless of windfall profits to the employees. This position of Headquarters, United States Air Force, showed a lack of concern for avoiding unnecessary expenditure of Government funds and was also contrary to the intent of the regulations. Moreover, granting of higher applicable maximum rates to promoted employees whose allowable expenses were substantially well covered by the rates being paid to them immediately prior to promotion was contrary to not only the intent but also the express letter of the regulations and was therefore illegal. This action, in disregard of the regulations, was authorized by Headquarters, United States Air Force, on a retroactive basis despite the knowledge that the propriety of increasing the rates under such circumstances had been questioned by this Office and by the Accounting and Finance Officer, Pacific Air Force.

In commenting on our findings on the administration of living-quarters allowances by Headquarters, United States Air Force, the Department of the Air Force agreed that immediate action should have been taken to revoke increased grants to promoted employees, but, nevertheless, maintained that the employees were legally entitled to the increased grants. Otherwise, the Department of the Air Force defended the administration of living-quarters allowances as being within the discretion of the agency as permitted by the regulations. As mentioned above, our position is that the increased payments to promote employees are illegal. As to payments to others, the position of the Air Force appears to us to show a lack of concern for conserving funds.

Under these circumstances, we think it appropriate that the Secretary of the Air Force review the actions of the responsible officials concerned and take whatever disciplinary action may be warranted.

We are notifying the Secretary of Defense that he should determine and report to us the illegal payments made and undertake collection of such amounts. We are deferring issuance of notices of exception pending receipt of advice as to the action taken.

If properly enforced, the revised living-quarters allowance system established by the Department of Defense effective April 14, 1963, should assure the grant of living-quarters allowances in substantial compliance with the regulations.

Index No. 128

B-125037, September 22, 1964

C-65-57

#### Ineffective Administration of Military Leave, Department of the Army

Failure to record leave taken and errors in computing periods of leave charged at five Army installations during calendar year 1963 resulted in erroneous accruals of leave, which could result in errors in payments amounting to \$377,000 to members upon separation from the service. On the basis of our past experience, we estimate that these errors would have resulted in \$325,000 in overpayments and \$52,000 in underpayments if we had not brought them to the attention of the Army. The morale of servicemen is adversely affected when they are called upon to refund overpayments.

These errors were due to inadequate training and supervision of service members responsible for the clerical operations involved and to the high turnover rate of these personnel. This situation has persisted over the years in spite of our numerous reports on the causes of leave errors.

Our present review showed that little or no improvement had been made in this area, and we proposed that the Secretary of the Army take action to insure effective implementation of the recommendations in our report of April 1963. We proposed further that appropriate officials at the installations involved note on servicemen's travel orders the dates and places of departure and arrival and that these endorsements be used in computing the leave that was taken in conjunction with travel to new permanent duty stations.

The Deputy Under Secretary of the Army (Personnel Management) concurred in our proposals for effecting better training, continuity of assignment, and use of travel order endorsements as a control procedure; however, he stated that the

Uniform Code of Military Justice could not be used for disciplinary action against those responsible for inefficient performance. Our proposal was not intended to restrict action to that provided for under the code. We recommended that inefficient performance of personnel in carrying out their assigned duties be noted in their personnel records for consideration in connection with assignment, promotion, and other personnel matters.

Index No. 172  
B-154092, December 22, 1964

C-65-102

#### Illegal Payments of Hazardous Duty Submarine Pay to Military Personnel Assigned to Submarine Force Command Staffs, Department of the Navy

Illegal payments of hazardous duty submarine pay of about \$1,000,000 were made during fiscal year 1963 to certain Navy personnel on duty in staff positions of Submarine Force Commands. These personnel were not crew members of submarines and seldom performed duty on board submarines.

For example, on February 12, 1962, an officer reported for duty to Commander, Submarine Squadron 4, and was assigned to the submarine U.S.S. *Thornback* for administrative purposes. During the fiscal year 1963, he performed duty on board submarines a total of 6 days, none of which was on board the submarine to which he was administratively assigned; nevertheless, he received submarine pay for the entire fiscal year in the amount of \$2,580. These payments resulted from the policy of the Chief of Naval Operations to authorize hazardous duty submarine pay to personnel assigned to staff duty with Submarine Force Commands on a continuous basis which is the same pay basis as that used for personnel who are crew members and who serve on board the submarines.

Under present statutory provisions off-board-based submarine staff members who do not perform the majority of their assigned duties on a submarine are not legally entitled to incentive pay on a continuous basis for the performance of submarine duty. In view, however, of the length of time the Navy has been paying submarine on a continuous basis to members of submarine force command staffs and, for other reasons, we will not question payments of the type involved made prior to March 1, 1965. This delay will afford an opportunity for the Department of the Navy to present the matter to the Congress with a recommendation for new legislation if deemed appropriate and to make adjustments in personnel assignments or to take such other action as may be considered advisable.

Index No. 182  
B-125037, January 14, 1965

C-65-112

#### Erroneous Payments Made for Military Pay, Leave, and Travel at Elmendorf Air Force Base, Alaska, Department of the Air Force

Our review of payments made for military pay, leave, and travel at Elmendorf Air Force Base, Alaska, disclosed that ineffective administration of finance and personnel office activities was resulting in erroneous or potentially erroneous payments of about \$212,600 a year. The errors disclosed by our review were attributable primarily to carelessness and failure of clerical personnel in the personnel and finance offices to follow established procedures, and to inadequate supervision and review of their activities. Furthermore, we found that internal Air Force audits performed by the office of the Auditor General were not successful in fully identifying the extent of errors or in causing the unsatisfactory conditions to be corrected. Unless these conditions are corrected, erroneous payments will continue to be made. Errors in payments to service members not only cause additional expense to the Government, but also have an adverse effect on morale, when action must be taken subsequently to recover amounts paid in error.

Action has been taken at Elmendorf Air Force Base to correct the errors disclosed by our review, and operating procedures have been revised in an attempt to prevent such errors in the future. Revised procedures and the issuance of directives will not improve these conditions, however, unless there is continuous attention by management to the manner in which they are applied. Deficiencies in the administration of pay and allowance functions have been cited many times in previous reports, yet numerous errors and improper payments continue to be made. For example, since our defensewide report of April 1963, "Review of Causes of Overpayments of Military Pay and Allowances" (B-125037), we have issued 19 additional reports dealing with about \$14 million of improper or potentially improper payments of military pay, leave, and travel allowances in the Department of Defense.

Our findings lead us to conclude that there must be continuous attention by all levels of management to the administration of those personnel and finance activities affecting military pay and allowances. In addition, we believe it is imperative that officials responsible for administration of these activities critically evaluate the performance of supervisors and clerical personnel assigned to them and that necessary disciplinary action be taken in cases of carelessness or inefficiency. In this connection, the Department of the Air Force has advised us that a letter has been sent to all major air commands emphasizing the official and personal responsibility of personnel engaged in the administration of leave and military pay and allowances and stressing that a continuing high error rate should be an important factor in evaluating the performance of individuals.

From our work at Elmendorf Air Force Base and other locations where we have examined into pay and allowance matters, it has become increasingly clear that the complexity of the military pay system and the profusion of leave regulations, which make effective administration exceedingly difficult, are basic sources of many of the problems found at installation level. We believe that simplification of the military pay structure and consolidation of leave regulations are required in order to provide a basis for more efficient administration of these areas of expenditures. The complexity of the military pay system and the need for simplification were discussed at length in our April 1963 report to the Congress, cited above, on the causes of overpayments of military pay and allowances.

We have been advised that the Department of Defense, with the participation of the several services, is conducting a comprehensive study to determine the changes required in the structure of the military compensation system, to determine the feasibility and desirability of incorporating certain special pay and allowances into basic pay and to determine changes required in collateral benefits. In view of the studies now under way in the Department of Defense, we did not make any specific recommendations. Our findings, however, were brought to the attention of the Congress since it is likely that congressional action will be required to effectively simplify the military pay system.

The Air Force has indicated that action has been taken to correct the deficiencies cited in our report and that management within the Air Force is placing increasing emphasis on effective compliance with procedures and regulations, particularly in the leave accounting and military pay and allowance areas. We intend to evaluate the effectiveness of the actions taken, as part of our continuing interest in military pay, leave, and travel matters.

Index No. 194  
B-132993, February 17, 1965

C-65-127

#### Erroneous Payments for Military Pay, Leave, and Travel at Ellsworth Air Force Base, South Dakota, Department of the Air Force

Our review of military pay, leave, and travel at Ellsworth Air Force Base, Rapid City, South Dakota, disclosed that ineffective administration of finance and personnel office activities was resulting in erroneous or potentially erroneous payments to service members of over \$107,000 a year. The errors disclosed in our review were attributable primarily to pressures of excessive workloads on the clerical personnel, aggravated by understaffing, and to inadequate supervision and review of their activities. In addition, we believe that the complexity of the military pay system and the profusion of leave regulations are basic sources of many of the problems at installation level.

Furthermore, we found that internal Air Force audits and reviews performed by various audit activities, including the Auditor General, were not successful in identifying the extent of errors or in causing the unsatisfactory conditions to be corrected.

Unless the conditions described in our report are corrected, erroneous payments will continue to be made. Errors in payments to service members not only cause additional expense to the Government, but also have an adverse effect on morale when action must be taken subsequently to recover amounts paid in error.

Corrective action has been taken at Ellsworth Air Force Base to establish more effective procedures and controls, alleviate personnel shortages, and otherwise improve operations in order to prevent the types of errors found in our review. However, on the basis of our experience in these matters, we do not believe that revised procedures and controls will materially improve these conditions unless there is continuous attention by management to the manner in which they are applied. Deficiencies in the administration of pay and allowance functions have been cited many times in previous reports, yet numerous errors and improper payments continue to be made.

Our findings lead us to conclude that there must be continuous attention by all levels of management to the administration of these personnel and finance activities affecting military pay and allowances. In addition, we believe it is imperative that officials responsible for administration of these activities critically evaluate the performance of supervisors and clerical personnel assigned to them and that appropriate personnel action be taken in cases of carelessness or inefficiency. In this connection, the Air Force has advised us that a letter has been sent to all major air commands emphasizing the official and personal responsibility of personnel engaged in the administration of leave and military pay and allowances and stressing that a continuing high error rate should be an important factor in evaluating the performance of individuals.

From our work at Ellsworth Air Force Base and other locations where we have examined into pay and allowance matters, it has become increasingly clear that the complexity of the military pay system and the profusion of leave regulations, which make effective administration exceedingly difficult, are basic sources of many of the problems found at installation level. We believe that simplification of the military pay structure and consolidation of leave regulations are required in order to provide a basis for more efficient administration of these areas of expenditures. The complexity of the military pay system and the need for simplification were discussed at length in our April 1963 report to the Congress on the causes of overpayments of military pay and allowances.

We have been advised that the Department of Defense, with the participation of the several military services, is conducting a comprehensive study to determine the changes required in the structure of the military compensation system, to determine the feasibility and desirability of incorporating certain special pay and allowances into basic pay, and to determine changes required in collateral benefits. In view of the studies underway in the Department of Defense, we did not make any specific recommendations. Our findings, however, were brought to the attention of the Congress because our reviews indicate that they are illustrative of conditions which exist at many installations in the Air Force and because it is likely that congressional action will be required to effectively simplify the military pay system.

Index No. 195

C-65-128

B-125037, February 19, 1965

Erroneous Payments for Military Pay, Leave, and Travel at Charleston Air Force Base, South Carolina, Department of the Air Force

Our review of military pay, leave, and travel at Charleston Air Force Base, South Carolina, disclosed that ineffective administration of finance and personnel office activities was resulting in erroneous or potentially erroneous payments of about \$134,800 a year. The errors disclosed by our review were attributable primarily to carelessness, a shortage of trained personnel which was caused in part by a high rate of turnover in personnel, and inadequate supervision and review. In addition, we believe that the complexity of the military pay system and the profusion of leave regulations are basic sources of many of the problems found at installation level.

The resident Air Force Auditor General at Charleston Air Force Base had issued four reports between January 1962 and October 1963, covering areas of military pay and travel allowances. Examination of these reports indicated that his reviews had not detected many of the various types of errors disclosed by our audit, and none of the reports dealt with military leave accounting at base level, the most significant area of deficiency we noted. Also, in view of the number of errors we found, it is evident that effective corrective action had not been taken as a result of the Auditor General's reports.

Unless the conditions described in our report are corrected, erroneous payments will continue to be made. Errors in payments to service members not only cause additional expense to the Government, but also have an adverse effect on morale, when action must be taken subsequently to recover amounts paid in error.

Officials at Charleston Air Force Base advised us that action would be taken to correct the deficiencies noted in our review. However, weaknesses in the administration of pay and allowance functions have been cited many times in previous reports, yet numerous errors and improper payments continue to be made.

Our findings lead us to conclude that there must be continuous attention by all levels of management to the administration of those personnel and finance activities affecting military pay and allowances. In addition, we believe it is imperative that officials responsible for administration of these activities critic-

ally evaluate the performance of supervisors and clerical personnel assigned to them and that appropriate personnel action be taken in cases of carelessness or inefficiency. In this connection, the Air Force has advised us that a letter has been sent to all major air commands emphasizing the official and personal responsibility of personnel engaged in the administration of leave and military pay and allowances and stressing that a continuing high error rate should be an important factor in evaluating the performance of individuals.

From our work at Charleston Air Force Base and other locations where we have examined into pay and allowance matters, it has become increasingly clear that the complexity of the military pay system and the profusion of leave regulations, which make effective administration exceedingly difficult, are basic sources of many of the problems found at installation level. We believe that simplification of the military pay structure and consolidation of leave regulations are required in order to provide a basis for more efficient administration of these areas of expenditures. The complexity of the military pay system and the need for simplification were discussed at length in our April 1963 report to the Congress on the causes of overpayments of military pay and allowances.

We have been advised that the Department of Defense, with the participation of the several military services, is conducting a comprehensive study to determine the changes required in the structure of the military compensation system, to determine the feasibility and desirability of incorporating certain special pay and allowances into basic pay, and to determine changes required in collateral benefits. In view of the studies under way in the Department of Defense, we did not make any specific recommendations. Our findings, however, were brought to the attention of the Congress because our reviews indicate that they are illustrative of conditions which exist at many installations in the Air Force and because it is likely that congressional action will be required to effectively simplify the military pay system.

Index No. 201  
B-137441, February 26, 1965

C-65-134

#### **Excess Travel Time Allowed Military Personnel Using Privately Owned Vehicles on Permanent Change of Station Travel, Department of Defense**

Our review of travel time allowed military personnel of the Department of Defense who use privately owned vehicles on permanent change of station travel revealed that unnecessary costs estimated at about \$14.8 million were incurred during fiscal year 1963. These unnecessary travel costs which approximate \$14 million annually were a result of regulations of the military services which provided that members and their dependents who used their privately owned vehicles on permanent change of station travel were allowed travel time of 1 day for each 250 miles of travel involved or fraction thereof of 125 miles or more. As a result, workdays were being authorized for travel which more reasonably should have been charged as leave.

In our draft report we advised the Department of Defense and the Bureau of the Budget that the use of 250 miles per day as a basis for computing allowable travel time was unrealistic. We proposed that the basis for computing allowable travel time for military personnel using privately owned vehicles on permanent change of station travel be increased to a minimum of 325 miles per day where the member is accompanied by dependent children under 16 years of age and to a minimum of 375 miles per day otherwise. We also proposed that Executive orders and implementing instructions governing the travel of members of the military services ordered to active duty in excess of 30 days be amended to be consistent with our recommendation covering regular military personnel.

In reply dated October 1, 1964, the Assistant Secretary of Defense for Manpower stated that the basis for computing the number of miles per day of travel time by privately owned vehicles had been under consideration since 1959. He expressed disagreement with our findings and reached the conclusion that a rate of 300 miles per day as a basis for computing allowable travel time was reasonable and stated that such rate would be made effective January 1, 1965. As a result, the extent of unnecessary costs will be decreased. However, unnecessary costs of approximately \$7 million will continue to be incurred annually since the results of our tests showed that the proposed increase in per-day mileage rates is still unrealistic.

Although this matter had been under consideration by the Department of Defense since 1959 and action was taken in September 1962 to increase the mileage requirement for civilian employees to 300 miles per day, instructions to the military services to change the mileage rate for military personnel were not issued



until October 1, 1964. On the basis of our review of military travel for fiscal year 1963, we believe that this delay in changing the daily mileage rate for regular military personnel to that established for civilian employees approximately 2 years earlier resulted in unnecessary costs estimated to be in excess of \$16 million. \*

The reply of the Assistant Secretary of Defense for Manpower has not presented any conclusive data to support his position that 300 miles per day is a reasonable rate for permanent change of station travel by privately owned vehicles. Accordingly, we recommended that the rate for such travel be increased to a minimum of 325 miles per day where the member is accompanied by dependent children under 16 years of age and to a minimum of 375 miles per day otherwise, as supported by the results of our review.

We recommended to the Director, Bureau of the Budget, that the pertinent Executive orders be amended to increase the basis for computing allowable travel time for members called to active duty in excess of 30 days to correspond with that recommended for regular military personnel. We recommended also that the Standardized Government Travel Regulations be amended to establish a basis for computing allowable travel time for civilian employees of the Government using privately owned vehicles on permanent change of station travel consistent with that recommended in the report for military personnel.

#### MANPOWER

Index No. 11

B-146824, March 19, 1964

C-64-93

#### Excessive Costs Incurred in Using Contractor-Furnished Personnel Instead of Government Personnel by the Pacific Region of the Ground Electronics Engineering Installation Agency, Air Force Logistics Command, Department of the Air Force

We submitted a report on excessive costs incurred, in using contractor-furnished personnel instead of Government personnel, by the Pacific Region of the Ground Electronics Engineering Installation Agency, Air Force Logistics Command, Department of the Air Force.

Our review disclosed that the Air Force practice of using contract technical services personnel to augment in-service manpower is costing the Government considerably more than it would cost if similar services were obtained through the use of civil service employees. We estimate that during fiscal year 1963 the cost of using contractor personnel was approximately \$230,000 greater than it would have been had Government personnel been employed at Detachment No. 2, Ground Electronics Engineering Installation Agency, Fuchu Air Force Base, Japan. This unnecessary cost would be reduced in succeeding years to the extent that the January 1964 increase in civil service salaries and earned in-grade steps of Government employees exceeds future contract price increases.

We found that the Government not only provides the facilities and supervision, but also plans and programs the work to be done by contractor-furnished personnel. On the other hand, the services provided by the contractor consist primarily of payroll functions, personnel matters, and limited training of the contractor's employees. We found also that the comparable income received by most contract technical services employees from the various contractors was less than that received by Government civil service employees and that the additional cost of using contractor-furnished personnel represented mainly profit and overhead costs of the contractors. Many of these costs would not be incurred or by necessary if civil service employees were used in positions now filled by contract technical services employees. In addition, we noted instances where contractor employees were being used to fill positions that did not require their technical background in communications and electronics.

The Ground Electronics Engineering Installation Agency has recognized that contractor-furnished employees cost the Government substantially more than would an equal number of civil service employees and has asked for authority to convert a number of contract technical services positions to civil service positions. However, the lack of manpower authorization has prevented the replacement of contractor personnel with Government personnel.

The Department of the Air Force disagreed with our position that it would be more economical to use civil service employees than contractor-furnished employees at Detachment No. 2. After considering these matters, we still conclude that the use of contractor-furnished personnel is uneconomical and that it has become a permanent means of augmenting in-service manpower. Therefore, we recommend to the Secretary of Defense that the Department of the Air Force

undertake expedient and aggressive measures to assure conversion of contract positions to civil service positions so that "in-house" capability can be developed wherever and whenever practicable.

Index No. 27  
B-146890, April 20, 1964

C-64-109

#### Improper Utilization of Trained Enlisted Personnel, Department of the Army

Our review of the utilization of trained enlisted personnel by the Department of the Army disclosed that about 35,000 trained enlisted personnel are misassigned throughout the Army, with the result that \$48.7 million in training costs is being wasted. These personnel are not utilized in duties commensurate with their military or civilian training and/or experience because of a personnel management system that generates misassignments. Although it was impossible for us to determine in each case where or when the initial improper assignments occurred, we were able to identify the primary deficiencies in the Army's personnel system that enable this situation to continue. These deficiencies are that (1) installation commanders are able to utilize personnel in any duties they deem appropriate and (2) assignments to installations are made on the basis of data that do not accurately reflect the true needs of those installations. As a result of these deficiencies personnel are assigned to installations where they are not needed and are utilized for duties other than those in the occupational specialties for which they are trained. These circumstances adversely affect the validity of the Army's training requirements so that excessive numbers are trained at substantial costs to the Government.

The Department of the Army advised us that our findings indicated a 4-percent misassignment rate and that this rate was consistent with the Army's own determinations but was not considered excessive. We believe, however, that the number of misassignments can be reduced through more effective controls as employed by the Air Force. Our recent review in this area in the Air Force showed that there were significantly fewer misassignments in the Air Force than in the Army. We believe that one reason for this situation is that Air Force installation commanders are required to utilize personnel as directed by major commands and any change in an assignment must be specifically approved by the major command.

We recommended that the Secretary of the Army revise current Army regulations to preclude installation commanders from changing the primary occupational specialty of enlisted personnel without obtaining authorization from higher commands on the basis of clear justification. In order that corrective action may be taken where practicable, we recommended also that the Secretary of the Army require installation commanders to report to higher commands all enlisted personnel who are not being utilized in their primary military occupational specialties.

Index No. 42  
B-146890, May 21, 1964

C-64-125

#### Inefficient and Uneconomical Utilization of Military Maintenance Personnel Fort Campbell, Kentucky, Department of the Army

In our review of the aircraft maintenance activities at Fort Campbell, Kentucky, we found that aircraft mechanics of the 101st Airborne Division were deprived of experience and training essential to the accomplishment of the unit's mission because they were assigned duties unrelated to their primary qualifications and because most of the aircraft maintenance work which they could have and should have performed, was performed by a commercial contractor at a cost of about \$237,000 annually. This failure of responsible officials to effectively utilize military personnel not only results in unnecessary contract costs but also undermines the basic purpose for which Strategic Army Corps units are established.

The Department of the Army, in a letter dated March 6, 1964, concurred in our recommendation that the Secretary of Defense initiate action to assure that the military maintenance companies perform at maximum capability and informed us that a special review of contracts for aircraft maintenance was being directed by the United States Continental Army Command. We were also informed that an ad hoc committee had been appointed by the Department of the Army to review the utilization of military aircraft maintenance personnel and the need for commercial contractors. Since these actions are responsive to the proposals we made to the Secretary of Defense, we made no further recommendations in our report.

Index No. 123  
B-125037, September 11, 1964

C-65-52

**Unnecessary Costs Being Incurred for the Maintenance and Payment of Allotments of Military Personnel, Department of the Army**

Excessive costs of at least \$1.4 million annually are being incurred at the Army Finance Center, for the maintenance and payment of military allotments. These costs consist of salaries and fringe benefits for 353 personnel who are in excess of the number needed to perform the allotment function effectively, out of the 945 civilian personnel assigned to this function as of December 1963. Our review of personnel records and personnel costs for March 1963 disclosed that the Army had 511 civilian personnel costing about \$2.2 million annually which we estimate were excess to its needs. Since that date, however, the Army has released 158 of the estimated 511 excess personnel in the allotment function.

The functions involved in the processing and payment of allotments at the finance centers of the Army, Navy, and Air Force are substantially the same. Despite this fact, we found that the ratio of the number of personnel employed to the number of allotment transactions processed was almost two times greater in the Army than in the other services. This is due principally to the fact that (1) the individual production in the handling and processing of allotment documents in the Army is about one-half that of the other services, (2) the Army requires considerably more people to reconcile allotment payments with related deductions in the pay accounts of the service members, and (3) the error rate in the payment of allotments is greater in the Army than in the other services. The average number of allotment transactions processed annually per employee in the Army is only 2,684 compared with 4,938 in the Navy and 5,099 in the Air Force. Also, in performing the allotment reconciliation, the Army uses 175 people to perform this function compared with 5 in the Navy and 30 in the Air Force.

The Department of Defense in commenting on our findings stated that it shares our concern for the variances of costs of operations at the finance centers and that the services have and will continue to explore all approaches which offer potential economies in the administration of the allotment systems at the finance centers and in field operations. In view of the substantial overstaffing in the allotment area at the Army Finance Center, we believe that more direct action is needed. We therefore recommended to the Secretary of the Army that a comprehensive review be made by his office of the efficiency and effectiveness of the Army's allotment function. This review should cover the areas of supervision, training, and management control over the personnel resources at the center and should have as its objective an increase in employee productivity with a consequent reduction in the number of personnel needed in the allotment function.

Index No. 129  
B-146852, September 23, 1964

C-65-58

**Impairment of Capability To Meet Mission Requirements and Waste of Funds in the D-Day Augmentation Forces of the Naval Reserve Surface Program, Department of the Navy**

Our review of the training and readiness of the Navy's Surface Program forces within the Selected Reserve disclosed that, in the event of war, the program could not accomplish, to a large extent, its specific mission of providing trained D-Day Augmentation Forces available for immediate assignment to the active fleet. Furthermore, significant portions of the \$40 million or more spent on this program each year are being wasted.

In congressional hearings the Navy has testified that it has developed, within the Reserve component, powerful forces known as the Selected Reserve and that these forces are designed to provide a capability and readiness to respond instantly in case of attack or warning and to provide rapid augmentation of the Naval Establishment through a wide range of lesser emergencies. We found, however, that in the main the immediate readiness of Surface Program forces is illusory in that these forces are principally raw recruits, high school students subject to possible deferral, and others who have not had even 1 day of active-duty experience.

We found also that the remaining reservists, who had skills acquired from prior active duty, were engaged in recruiting and training young enlistees and in administration duties and only a relatively few were maintaining or advancing their qualifications for wartime skills. Thus, the primary function of the Surface

Program has been downgraded to the training of new enlistees. This situation is particularly serious in view of the Navy's testimony that in this age of thermonuclear and intercontinental ballistic weaponry it cannot rely, as it has in the past, upon mobilization plans which provide for a long and carefully scheduled buildup of forces.

In addition, our review disclosed that many of the new enlistees were not qualified, unless minimum requirements were waived, to receive the specialized skill training authorized in the Reserve divisions to which they were attached. In some instances, they lacked even the required mental qualifications and, when sent on active duty, had to be discharged by the Regular Navy. Over 400 such reservists were discharged during 1962 after they had cost the Government about \$260,000. We also found that many of the reservists ordered to active duty were retrained without regard to the training they had received in the Reserve. As a result some \$2 million in 1962 alone was unnecessarily spent on these recruits while in Reserve drilling status.

Although the Surface Program is substantially short of meeting both its quantitative and qualitative mobilization requirements, the Navy's comments, which are recognized in the report, did not concede any inability of the program to perform its mission. The Department of Defense, however, did not concur with the Navy on this matter. The Department informed us that it had noted that there are an excessive number of unqualified personnel in the program forces and concluded that "these personnel are Ready Reserves in name only."

The Navy's use of its pay-status Reserve primarily to recruit and train new enlistees is inconsistent with the intent of the Congress to have the Reserves composed predominantly of experienced men capable of providing quick support to the active fleet. We recommended therefore, that the Secretary of Defense take the necessary action to eliminate the Pre-active-duty phase of training from the Naval Reserve Surface Program. In this connection, we believe that the Surface Program, trimmed in size but containing men with practical, shipboard experience would be considerably more useful in emergency situations than the present program with substantially larger numbers of personnel whose training and readiness capabilities are in serious doubt. Also, the revised program would eliminate the waste of many millions of dollars spent in training those reservists in drill-pay status who, upon entering on active duty, are fully retrained by the Regular Navy.

Index No. 148  
B-146947, October 30, 1964

C-65-77

#### Retention of Uneconomical Units in the Reserve Officers' Training Corps Program, Departments of the Army and Air Force

Our review of the number of officers commissioned by Army and Air Force Reserve Officers' Training Corps (ROTC) units in relation to the Government resources involved revealed that many schools, primarily those affiliated with Air Force ROTC, are producing so few officers each year that their retention in the program does not appear justified. For example, one Air Force unit, which has nine military personnel assigned to the schools, produced two officers in 1962 at a cost to the Government of \$65,700 each; whereas, the national average cost for all schools was \$6,500 per officer commissioned. At another school only one officer was produced in 1963 at a cost to the Government of \$38,700.

This condition appears to be caused by the lack of a Department of Defense policy which would lead to disestablishment of ROTC in schools which are judged to be ineffective or unnecessary for the accomplishment of objectives. We estimate that, by terminating ROTC at these schools and using alternative sources of junior officers, the Air Force could save up to \$2 million per year without reducing the total number of officers commissioned.

Officials of both the Army and the Air Force have indicated that a number of units at participating schools are ineffective and should be disestablished. Further, contractual agreements provide that either the school authorities or the military services may unilaterally discontinue ROTC units. Officials having the authority and responsibility for the establishment of ROTC in schools, however, have failed to terminate uneconomical units unless agreed to by the school. Since schools are generally reluctant to discontinue ROTC, we find that ROTC, once established in a school, generally continues even though performance is unsatisfactory.

The Deputy Assistant Secretary of Defense (Reserve Affairs) generally agreed that efforts to disestablish unproductive ROTC units have not been satisfactory.

He advised that the Army and Air Force had initiated a joint study designed to withdraw one service or the other from institutions where both services were represented and the production of officers did not warrant the current expenditure of funds.

The Deputy Assistant Secretary advised also that the Departments of the Army and Air Force were reviewing the status of ROTC units at institutions where only one service was represented, but that they did not plan to move in this area until the effect of new ROTC legislation on officer production was known. This legislation, which is designed to make the program more attractive to college students, was enacted in October 1964.

The actions described by the Deputy Assistant Secretary appear desirable; however, during our review we noted that similar studies with similar objectives conducted over the years have been relatively ineffective. We noted also that, during the period that uneconomical units were retained in the program, the military services rejected applications from new schools that might have provided better production. For these reasons, we recommended that the Secretary of Defense require (1) that units identified as uneconomical by the Joint Army and Air Force study of collocated units, be promptly disestablished, and (2) with regard to schools where only one service is represented, that the Army and Air Force identify and disestablish unproductive or unnecessary units when the effect of new legislation has been determined.

Index No. 163

C-65-93

B-132999, December 8, 1964

Overstaffing of Civilian Personnel at the Naval Ammunition Depot, Hawthorne, Nevada, Department of the Navy

Our selected review of manpower utilization at the Naval Ammunition Depot, Hawthorne, Nevada, disclosed that the Depot was staffed by at least 55 employees in excess of requirements, at an annual unnecessary cost to the Government of about \$313,000. During the course of our review, Depot officials took appropriate action to eliminate about 35 unnecessary positions, reduced the personnel complement at the Depot by 32, and assured us that further reductions of excess personnel would be made. This overstaffing existed because of the failure (1) to identify and discontinue the practice of assigning personnel to perform unessential work, (2) to identify and eliminate inefficient work procedures, and (3) to reduce the number of assigned employees as workloads decreased. For example, our review of 76 of the 116 positions in the Storage Branch of the Ordnance Department disclosed that an average of 27 employees on a full-time basis, at an estimated annual cost of \$153,000, were performing unessential restow and miscellaneous work. Restow consists of rearranging ordnance material within magazine and warehouse areas in order to consolidate like materials to get more usable storage space. Restow work is scheduled in advance along with other work performed in the Storage Branch. We found that most of the restow work was performed to absorb what would otherwise have been idle time, rather than to improve the storage of the ordnance material. The substantial overstaffing continued to exist primarily because management officials of the Bureau of Naval Weapons and the Depot failed to make systematic and comprehensive reviews to determine whether personnel resources were adequately controlled and utilized in an effective and efficient manner, and because realistic staffing guides and work measurement standards had not been established.

The Department of the Navy, in commenting on our findings, agreed that some overstaffing existed at the Depot and advised us that 47 of the 55 excess positions discussed in this report had been eliminated. However, the Navy was not completely in accord with the proposals and criticisms included in our report. The Navy stated that our review had resulted in some constructive changes and had assisted the Depot in carrying out its own program. It stated also that staffing guides, work measurement standards and procedures and techniques for evaluating manpower utilization, which we had suggested that the Navy establish at all naval ammunition depots, and at the Hawthorne Depot in particular, had been developed and put into effect. The Navy stated also that the Bureau of Naval Weapons and officials of the Depot had made periodic and appropriate reviews of manpower utilization at the Depot. We found, however, that this was not the case at the Naval Ammunition Depot, Hawthorne. The necessary guides, standards, techniques, and procedures had not been established at the Depot and such manpower reviews as were made either failed to identify conditions requiring improvement or did not result in the corrective action needed. The Navy has assured us that, during the review by the manpower utilization team

scheduled to be made at the Depot in November 1964, due consideration will be given to the findings discussed in this report with a view to eliminating overstaffing in areas where necessary reductions have not been made. The Navy has stated also that during the review determination will be made as to whether staffing guides and work measurement standards already prescribed, as well as the techniques promulgated by the Secretary of the Navy and implemented by the Bureau of Naval Weapons, are being followed.

In view of the Navy's contemplated manpower utilization review at the Depot, which will cover all the deficiencies discussed in this report, we did not make any recommendations of this matter. However, we requested that the Secretary of the Navy advise us of the findings disclosed by the review, including information as to any further reductions in personnel that resulted from the study.

Index No. 191

B-147968, February 2, 1965

C-65-123

#### Unnecessary Costs Resulting From the Use of Stateside Personnel in Civilian Positions at Naval Installations on Guam, Mariana Islands, Department of the Navy

Unnecessary costs of about \$516,000 are being incurred annually because at least 146 employees recruited from the United States occupy civilian positions on Guam that could be filled by qualified Guamanians. For the sake of convenience, we have referred to these individuals as stateside employees in this report.

These unnecessary costs consist of annual payments to stateside personnel of about \$219,000 in salary differentials, \$160,000 for home leave and transportation costs for travel of the employees and their dependents between Guam and the United States, and \$137,000 for compensation in excess of wages which would be received by local residents for the same type of work. For example, four stateside clerks were working in positions for which local civil service registers had been established. Qualified Guamanians were on these registers and could have been hired to fill these positions. The failure to hire local employees for these four clerk positions resulted in excess costs totaling about \$14,330 a year.

These unnecessary costs are being incurred because Navy management officials have not made a concerted effort to replace stateside personnel with qualified Guamanians despite a Navy policy that provides for the use of local residents of Guam in civilian positions to the maximum extent possible. This condition exists to some degree because the Navy has not established an effective program for implementing and enforcing this policy and because Navy regulations permit the continued employment of stateside employees at overseas installations in positions that could be filled by local residents at substantially less cost to the Government.

The Navy agreed that some stateside employees occupy positions on Guam that could be filled by qualified Guamanians with resultant savings in pay, leave, and travel; however, the Navy felt that our estimate of the number of such employees involved was questionable. The Navy stated that it had given considerable attention to this matter and that the failure to solve the problem was a reflection of its difficulty. The Navy stated that the observations and proposals made by our Office could be useful and may contribute ultimately to improved policies and instructions regarding the use of stateside employees at overseas locations.

Despite the stated Navy policy of using local residents to the maximum extent possible and notwithstanding that qualified Guamanians could have been utilized in positions occupied by stateside employees at substantially less cost to the Government, Navy officials retained the stateside employees in their positions rather than replace them with Guamanians. We believe that the failure to replace stateside employees is due to the reluctance of the Chief of Industrial Relations to take a firm position in implementing Navy policy of using Guamanians to the maximum extent possible. The Navy reply implies that this reluctance stems from the prevailing consensus of officials of the Navy management bureaus that to return stateside employees to positions in the United States would involve inequitable and unjust treatment of career employees and would create unacceptable disturbances in stateside activities.

In our view, there is no justification for the bureau officials to adopt such a position since, as discussed in our report, a systematic replacement program could be followed without adversely affecting the personnel involved or unduly disturbing present stateside activities.

It appears that only a limited number of positions at naval installations on Guam need be filled by employees from the United States, and, since substantial

savings can be realized by replacing certain stateside personnel with qualified Guamanians, we recommended that the Secretary of the Navy direct that:

1. The Chief of Industrial Relations, in conjunction with responsible bureaus and the Commander, Naval Forces, Marianas, develop and implement a coordinated program for replacing stateside personnel with Guamanians to the maximum practicable extent.

2. The Commander, Naval Forces, Marianas, establish and implement a program to train and develop Guamanians to replace stateside employees in positions requiring higher levels of skill and responsibility.

## COMBAT READINESS OF EQUIPMENT

Index No. 32

C-64-115

B-132990, April 30, 1964

**Impairment of Combat Capability and Unnecessary Costs Due to Inefficient and Uneconomical Supply and Maintenance Practices for Communications and Electronic Equipment Within Certain Units of the Eighth United States Army, Korea, Department of the Army**

Our review of supply and maintenance practices within the Eighth United States Army, Korea, disclosed that the capability of certain units within the Eighth Army to perform sustained combat during fiscal year 1963 was seriously impaired because significant quantities of required communications and electronic equipment had been inoperable for periods up to 150 days. This condition existed because (1) responsible personnel at all levels, from the using units to the depot, failed to fulfill their supply management responsibilities to stock the necessary parts, (2) maintenance personnel were misassigned and were lax in repairing material, and (3) unit commanders failed to aggressively comply with instructions of the Commanding General of the Eighth Army to correct known supply and maintenance deficiencies.

While repair-part shortages were causing equipment to be inoperable, other materiel valued at over \$2.5 million was prematurely or needlessly ordered from supply sources in the United States and Japan. Orders for materiel valued at \$343,000 were canceled as a result of our review, materiel valued at \$838,000 was returned to the United States at unnecessary handling and transportation costs of about \$187,000, and the remainder was delivered to fill future needs as they develop. Further, some using units were retaining parts no longer needed although other units needed the same parts, and new batteries in storage and used batteries were being disposed of even though they were still usable. These supply management deficiencies are attributable to the laxity of supply personnel in performing their assigned duties.

In January 1964, the Deputy Assistant Secretary of the Army (I. & L.), Logistics, provided us with comments of the Department of the Army and of the Eighth Army. He acknowledged the existence of the deficiencies cited and advised us that, in accordance with our proposals, the following actions were being taken by the Eighth Army: (1) unannounced command maintenance management inspections were being conducted of all Eighth Army units on a maximum 4-hour-notice basis, and all found unsatisfactory are reinspected within 60 days, (2) unannounced alerts were being conducted to test the operational readiness of signal equipment, (3) aggressive action was being taken to provide adequate follow-up on all deficiencies identified during maintenance inspections, and (4) command action had been taken to eliminate from Korea all military personnel not properly carrying out their assigned functions, including supply and maintenance responsibilities.

In addition, the Deputy Assistant Secretary of the Army stated that, worldwide, the Department of the Army had established specifically assigned materiel readiness responsibilities for officers at all echelons of command. This should provide a basis for more closely equating an officer's performance and subsequent efficiency rating with his effectiveness in accomplishing his assigned overall materiel readiness responsibilities.

Index No. 60

C-64-143

B-146896, June 22, 1964

**Combat Readiness of Aircraft of the 1st and 2d Armored Divisions Impaired by Inadequate Maintenance at Fort Hood, Texas, Department of the Army**

Our review of the combat readiness of the aircraft of the armored divisions at Fort Hood, Texas, revealed that the aircraft were not being maintained as they could and should have been maintained and that, as a result and to the extent

that aircraft are used in combat, the combat readiness of these divisions was impaired.

At the time of the preparations of the 1st Armored Division for emergency deployment during the Cuban crisis, most of the division aircraft required extensive maintenance to correct numerous deficiencies and shortcomings, many affecting safety of flight. Most of these deficiencies and shortcomings should have been identified and corrected as part of normal daily operations prior to the emergency. Deployment occurred intermittently during a 26-day period. For various reasons, not all the maintenance was performed before deployment and in one instance this contributed to the crash and complete loss of a \$200,000 aircraft. Our review of the 2d Armored Division, a Strategic Army Corps unit in an alert status of advanced operational readiness, disclosed that its aircraft were not in any better condition of combat readiness than those of the 1st Armored Division.

We identified ineffective daily inspections, inadequately trained personnel, the failure to perform maintenance when defects were recognized, and the lack of repair parts as the primary causes of the numerous deficiencies and shortcomings. These causes were the results of the failure of personnel to perform the work to which they were assigned and the failure of divisional authority to assure that the work was being accomplished and that the skills and knowledge of maintenance personnel were being developed.

In commenting on our draft report, the Army stated that it could not accept our evaluation of the condition of the aircraft which it believed was based largely on a misunderstanding. The Army felt that a decision by the Commander of the 1st Armored Division to assure himself of a minimum of 50 hours' flying time for each aircraft before departing from Fort Hood left the impression that serious deficiencies were being corrected, when in fact they were not, and further that the circumstances and conditions that existed in both the 1st and 2d Armored Divisions were not unusual. We believe, however, that our review has clearly disclosed that the aircraft should not have been in an impaired condition in the first place because most or all of the deficiencies and shortcomings should have been, but were not, detected and corrected in the normal course of day-to-day operations. Furthermore, we believe that it was clearly the intention of the Army that this be done.

The Army concurred with our proposals that involved a need for improved procedures, but did not concur with our proposal for disciplinary action against responsible individuals. In the last several years, we have reported on a number of instances of ineffective readiness that could have been prevented. As far as we know, the Army has not in any of these instances identified or disciplined any individual who may have been responsible. Instead, the Army has consistently stated that changed or improved regulations would correct or better the ineffective readiness. While we believe that improving regulations and procedures is important and necessary, we believe also that it is equally important that the Army enforce these regulations by taking disciplinary action in those cases where day-to-day maintenance work is not being effectively performed.

We, therefore, recommended to the Secretary of Defense that he direct the Army to take more effective action in identifying and disciplining those individuals personally responsible for failing to properly maintain Army equipment in accordance with their assigned responsibilities.

Index No. 62

C-64-146

B-146902, June 24, 1964

**Cancellation and Curtailment of Specialized Rotary Wing Pilot Training Courses Because Helicopters were Grounded for Lack of Serviceable Engines, Department of the Army**

Our review of the specialized rotary wing pilot training program in the Department of the Army disclosed that, during fiscal years 1962 and 1963, many training courses necessary for the attainment of required skills were either canceled or curtailed at the Aviation School, Fort Rucker, Alabama, because 22 UH-1A aircraft, valued at \$6,500,000 were grounded up to 60 percent of the time for lack of serviceable engines. A major cause of the unavailability of serviceable engines for the UH-1A aircraft was the Army's failure to promptly provide spare parts to the contractor responsible for overhauling these engines despite advance knowledge that these parts would be required for contract performance. We attribute this failure to a lack of coordination among responsible officials of the United States Army Aviation Materiel Command.

We advised the Secretary of Defense of our finding and proposed that procurement officials, in coordination with the materiel management officer, determine



the parts to be furnished by the Government prior to the award of overhaul contracts and take appropriate action to assure that the parts will be available when required.

By letter dated April 2, 1964, the Acting Assistant Secretary of the Army (Installations and Logistics) stated that the United States Army Aviation Materiel Command procedures are now in agreement with our proposal for coordination between materiel management and procurement personnel.

Index No. 69  
B-132990, July 2, 1964

C-64-153

#### High Deadline Rate of Air Defense Equipment and Excess Spare Parts at an Overseas Location Due to Supply Support Deficiencies, Department of the Army

Our review of supply support furnished to an air defense system at an overseas location disclosed that deficiencies in the supply management of repair parts had caused a high deadline rate of essential equipment representing an investment of about \$30 million and had resulted in large stocks of repair parts for which there was little or no demand.

One of the supply deficiencies that caused key equipment to be nonoperational was the lack of repair parts that were not authorized for stockage at using unit level. Many of these were parts that were frequently required to repair inoperative equipment, while other parts for which there had been no demand for over a year were authorized for stockage. Other inefficient supply management practices contributed to a high rate of nonoperational equipment.

Index No. 79  
B-146716, July 22, 1964

C-65-8

#### Combat Capability of an Infantry Battalion in Europe Impaired Because of Inadequate Maintenance of Combat and Combat-Support Vehicles, Department of the Army

Our review of the adequacy of maintenance of combat and combat-support vehicles disclosed that armored personnel carriers and 2½-ton cargo trucks assigned to the 1st Battalion, 30th Infantry, 3d Infantry Division, in Europe were not properly maintained and as a result the combat capability of this battalion was impaired. These vehicles had numerous defects requiring immediate corrective action but action was not being taken because responsible commanders were not assuring themselves that the required maintenance was being performed by personnel under their command. In practically all cases, insofar as we were able to determine, there were no other serious problems that would have prevented the required maintenance from being performed. In view of the location of this battalion, it seems particularly important that the vehicles not be allowed to fall into such a condition.

Our review, although it covered only one infantry battalion, disclosed further evidence of the serious maintenance problem in the Army. We have, in a number of reports, previously brought to the attention of the Army the fact that the combat capability of various units had been impaired because significant quantities of combat and combat-support equipment had not been properly maintained. Unfortunately, as shown by this review, the actions taken on the basis of earlier reports have been inadequate. Also, these inadequate results demonstrate again that the issuance of directives by higher headquarters will not alone assure the attainment of the desired objectives.

The Acting Assistant Secretary of the Army (Installations and Logistics) acknowledged that the deficiencies and defects in vehicles existed at the time of our review but disagreed with our conclusions regarding the effect on combat capability and the lack of command attention. In our opinion, however, the 216 major deficiencies and about 2,300 other defects on the 66 armored personnel carriers and cargo trucks, representing about 43 percent of these types of vehicles assigned to the unit, conclusively demonstrate that the capability of those vehicles was significantly impaired. The lack of command attention is evidenced by failure of personnel to record needed repairs, to promptly correct known deficiencies, and to detect deficiencies during quarterly maintenance inspections.

The Acting Assistant Secretary advised also of numerous actions taken at departmental and Headquarters, Seventh Army, levels to improve materiel readiness. Although these actions are desirable, greater command attention will be required to realize any long-term improvement in this area. We believe that it is essential that commanders continually stress to personnel the importance of their responsibilities for carrying out their assignments in an effective manner and that any

failures on their part to do so should be noted in their personnel records and appropriately considered in promotion, reassignment, and other personnel actions. We recommended that the Chief of Staff, United States Army, require division and Army commanders to report to him on the disciplinary and other actions taken as a result of their personal inspections and on the inspections and audits made by command maintenance management teams, The Inspector General, Army Audit Agency, our Office, or other organizations.

Index No. 105

C-65-34

B-146772, August 21, 1964

**Combat Capability of Vehicles Impaired and Unnecessary Procurement Costs Incurred Because of Lack of Repair Parts Support by the Army Tank-Automotive Center, Department of the Army**

Our review of supply operations at the Army Tank-Automotive Center disclosed that the lack of repair parts in the Army depot supply system continued to impair the combat capability of certain of the Army's combat and combat-support vehicles and caused unnecessary costs, estimated at \$1.4 million during 1962, for procurement of parts locally which are normally procured centrally at lower prices. For example, at Fort Riley, Kansas, we found that 23 M48A1 tanks were deadlined or operated in a substandard condition for a period of from 43 to 136 days because of the lack of seven parts. The factors which we identified as contributing to the lack of parts were (1) delays by the Tank-Automotive Center in determining needs for parts, (2) failure of the Center to procure parts when known to be needed, (3) failure of the Center to award contracts within a reasonable period, and (4) failure of troop installations to order parts as needed with the result that, at the time of crises, large numbers of unanticipated orders for parts were placed on Army depots.

The Acting Assistant Secretary of the Army (Installations and Logistics), in commenting on our findings, acknowledged that shortages of repair parts occurred during 1961 and 1962 and stated that the expenditure of additional funds was warranted by the need to keep combat and combat-support vehicles operative. We found, however, that, although the Army advised us it had endeavored to keep the expenditure of funds for local procurements to a minimum, the management deficiencies contributing to the lack of parts and resulting in local procurement were the same as those deficiencies identified in our earlier review and reported to the Congress on March 14, 1963 (B-146772).

The Acting Assistant Secretary advised us also of numerous measures taken to improve supply management at the Center. Despite the actions taken as a result of our earlier review, however, we found no substantial improvement. We recommended that the Commanding General, Army Materiel Command, require the Center to submit periodic reports on the progress being made to improve operations in order that concentration can be placed on the weak areas.

Index No. 196

C-65-129

B-146899, February 19, 1965

**Unavailability of Certain Aircraft at an Oversea Location Due to Maintenance and Supply Deficiencies, Department of the Army**

Our review of the maintenance and supply support of certain aircraft at an oversea location disclosed that the availability of operational aircraft in this oversea area during 1962 and 1963 was less than that stated by responsible Army officials as necessary to meet mission requirements. This was due primarily to the unavailability of technically qualified maintenance personnel as well as to the failure to stock parts which usage experience indicated would be needed.

GENERAL

Index No. 80

C-65-9

B-133316, July 23, 1964

**Continuing Inadequate Control Over Programing and Financing of Construction, Department of the Air Force**

We found that the Department of the Air Force constructed or extensively altered real property facilities without authorization from the Congress, even after the enactment of legislation in 1961 to restrict the use of funds to those projects which had been specifically authorized in annual military construction authorization acts or which were urgently required and whose costs were within prescribed statutory limitations.

Our report describes numerous violations of statutory limitations on the use of appropriated funds for construction purposes. At Lockbourne Air Force Base,

Ohio, golf and riding facilities were constructed without disclosure to the Congress, at a cost of \$286,000, by using a portion of the funds which had been authorized for an airfield runway. An incomplete facility was constructed at Newark Air Force Station, Ohio, with minor construction funds, in the amount of \$195,000, after Air Force officials had deleted several basic items such as plumbing, lighting, and heating to keep the project cost under \$200,000 in an apparent effort to avoid the statutory requirement of obtaining congressional authorization.

At five installations, six projects totaling about \$125,000 in cost were classified as urgently needed, to permit their construction without prior congressional approval, although it was apparent that the projects were so labeled not so much on the urgency of their need but on the likelihood that they would not be approved for accomplishment with military construction funds. Examples of projects cited as urgently needed were a parking lot for an officers' swimming pool at Andrews Air Force Base, Maryland, and a building converted to a food inspection facility but actually used primarily for performing veterinary services for sentry dogs and pets of base personnel at Lockbourne Air Force Base, Ohio.

Two other projects, constructed at Lowry Air Force Base, Colorado, and at Lockbourne Air Force Base, Ohio, at a combined cost of approximately \$115,000 were each split into two or more projects, which resulted in violations of the \$25,000 statutory limitation imposed on the use of such funds for construction purposes.

We also found that a broad interpretation by the Secretary of Defense of the work constituting airfield pavement repair, while technically not a violation of statutory requirements, enabled the Air Force to overlay in increments an air field parking apron at Otis Air Force Base, Massachusetts, at a cost of \$1.6 million without authorization from the Congress.

The Department of Defense, in commenting on our findings, stated that the Air Force actions resulted from its misinterpretation of the directives and regulations of the Department of Defense governing construction. We were informed, however, that the basic construction directives were being revised to bring about needed improvement in the management of the military construction program.

We are hopeful that the new directives will result in tightening management control in this area. It has been our experience, however, as demonstrated in our report and as acknowledged by the Department of Defense in its comments, that the issuance of directives will not in itself assure that the objective of proper management control over a program will be attained. Accordingly, we recommended that the Secretary of Defense provide for periodic site reviews by an office directly responsible to him to closely monitor at all levels of command the activities of Air Force officials having responsibility for the programing, financing, and construction of facilities. In view of the apparent need for clarification of items constituting real property, we recommended also that the Secretary of Defense broaden the definition of real property to specifically include certain items which the Air Force has not considered as being in this category.

In accordance with the provisions of section 3679, Revised Statutes, the violations cited in our report must be reported by the Secretary of the Air Force to the President and to the Congress, together with a disclosure as to the disciplinary action taken. We suggested to the Secretary of the Air Force that the report identify by name the persons responsible in each case and that a copy of the report be filed in the personnel record of each individual named so that the information will be available for consideration in future actions relating to promotions and assignments. We will also issue notices of exception against the individual disburser officers in appropriate instances.

Under present laws and regulations, repair projects of almost unlimited cost, such as airfield pavements, can be approved and undertaken by the Department of Defense and the military departments without congressional review. We recommended that the Congress consider enacting legislation to provide for congressional approval of repair projects costing in excess of a specified amount.

Index No. 86

C-65-15

B-146897, July 31, 1964

Costs Incurred for Completion of a Solid Propellant Continuous-Mix Facility for Which There Was No Planned Use, Department of the Air Force

Our review of a solid propellant continuous-mix facility at Thiokol Chemical Corporation, near Brigham City, Utah, disclosed that the Government incurred costs of about \$825,000 because the Air Force decided to complete the facility although it was known at the time that there was no foreseeable requirement for the facility of for the process.

The Air Force based its decision to complete the Thiokol project on the ground that it was necessary to continue advancing state-of-the-art technical development on large solid propellant rocket motors to be cast and cured on site and that such a facility, having the capabilities of disassembly and transportability, could significantly enhance responsiveness to the future needs of the national launch vehicle program. We found, however, that completion of the Thiokol project was not warranted because (1) in the opinion of knowledgeable Air Force technical personnel responsible for state-of-the-art development in the area of solid propellant rocket propulsion within the Air Force Systems Command, the project would not materially advance technology because similar efforts made for the Army and Navy already had demonstrated general feasibility of the continuous-mix technique and (2) it was not economically feasible to complete the facility with transportability and disassembly capabilities so that it could be used when casting and curing rocket motors at the site where the motors would be used. It appears that the decision to complete the Thiokol facility was motivated primarily by the desire to develop a logical justification, for use in budget hearings before the Congress, concerning the expenditure of nearly \$4,000,000 on a facility which could not be used as planned, rather than by a legitimate requirement for a continuous-mix process and the related facility.

The Air Force has advised us that the decision to complete the Thiokol project was a matter of judgment and that, because more than 80 percent of the dollars had been expended and clear technological advances were indicated, it considered completion of the project advantageous to the Government. The evidence we reviewed, however, showed that it was the considered and emphatic opinion of the Air Force organization responsible for research and technology in the area of solid propellant rocket propulsion that completion of the Thiokol process would not materially advance related technology.

It seems clear to us that the Air Force was not justified in spending nearly \$825,000 of Government funds for completing the solid propellant continuous-mix facility at Thiokol. It was known in April 1962, at the time the decision was made to complete the facility and prove the workability of the process, and also as recently as December 1963, that there was no foreseeable requirement for such a process in programs planned by the Air Force. Similar processes already had established general feasibility, one process having already advanced into production.

We recommended, therefore, that the Secretary of Defense initiate action to assure that, prior to approval of future projects of this nature involving significant expenditures, full consideration be given to the evaluations by the agency's technical organizations. We recommended also that the Secretary of Defense initiate action to assure that the justification prepared for consideration of future projects of this nature include a determination that the anticipated objectives and benefits have not previously been achieved and a statement of the plans for using the new facilities in or applying the new processes to Government programs.

Index No. 97  
B-125099, August 12, 1964

C-65-26

#### Review of Financial Claims for Logistic Support of United Nations Forces in Korea, Department of the Army

At the outbreak of the Korean War, the United States agreed to furnish virtually all of the logistical support required by the member governments of the United Nations participating in the Korean conflict. Support was furnished through regular Department of Defense appropriations on the basis that reimbursement would be made in United States dollars. Subsequently, discussions designed to obtain reimbursement were initiated by the United States with the governments involved.

Our review of financial claims for logistic support of United Nations forces in Korea disclosed that in some cases there has been a considerable delay in effecting settlement. Despite 13 years of negotiations, starting in 1951, reimbursement for support supplied Australia, New Zealand, and the United Kingdom was not effected until March 1964 and France still owes \$9 million for similar support. About \$182,000 for support furnished the United Kingdom subsequent to June 1958 is still outstanding and will be presented for payment in the near future. In contrast to the delay in effecting collections from Australia, New Zealand, the United Kingdom and France, early settlements were effected with several other countries that were furnished logistic support by the United States. In addition to the above, however, a total of about \$195 million is still due from a number of

countries and the Department of State believes most of the amount to be uncollectible at this time, due largely to the financial situation of the countries involved.

We brought these matters to the attention of representatives of the Department of State and the Department of the Army, who indicated no disagreement with our findings. We believe that steps should now be taken to (1) determine the proper disposition of balances currently outstanding, (2) determine whether the United Nations will pay for logistic supplies furnished nations which are unable or unwilling to pay for them, and (3) keep the Congress advised of the status of the unpaid balances. Therefore we recommended that (1) the Secretary of State determine the balances that are collectible, consider any further steps that should be taken to effect collection from the countries involved or, as a last alternative, from the United Nations; and (2) the Secretary of Defense advise the Congress of the outstanding amounts due when presenting departmental appropriation requests and whether or not collection is ultimately made.

Index No. 108  
B-146975, August 24, 1964

C-65-37

Evaluation of Department of Defense Comments Concerning General Accounting Office Report Entitled "Failure To Curtail Operation at Government Expense of Military Commissary Stores in Continental United States Where Adequate Commercial Facilities Are Available"

On April 16, 1964, we sent to the Congress a copy of our report to the Chairman, Joint Economic Committee, concerning the failure to curtail operation at Government expense of military commissary stores in the continental United States where adequate commercial facilities are available. Copies of correspondence consisting of a letter dated June 16, 1964, from the Assistant Secretary of Defense (Manpower) to the Chairman, Joint Economic Committee, containing the comments of the Department of Defense on our report, and a letter dated July 9, 1964, to the Chairman, Joint Economic Committee, containing our evaluation of the comments of the Department of Defense were furnished to the Congress on August 24, 1964.

Our letter of July 9, 1964, to the Chairman, Joint Economic Committee which contained comments on specific points included in the Assistant Secretary of Defense (Manpower) letter of June 16, 1964, concluded with the following recommendation:

"In view of the implicit position of the Department that its criteria for determining the legal justification for commissary stores will be continued despite the findings in our report, we wish to repeat our suggestion that \* \* \* the Joint Economic Committee consider recommending to the Congress the enactment of legislation to establish precise conditions under which the operation of military commissary stores may be authorized'."

Index No. 121  
B-146936, September 4, 1964

C-65-50

Increased Costs Resulting From Ineffective Use of Automatic Data Processing System in Supply Management at the Philadelphia Naval Shipyard, Philadelphia, Pennsylvania, Department of the Navy

The Philadelphia Naval Shipyard expected to realize annual savings of \$114,000 in the cost of processing supply data through the use of automatic data processing equipment. The savings the Shipyard had expected to achieve by using automatic data processing equipment were in personnel reductions, the savings from which were expected to more than offset the cost of leasing and using this equipment. After this equipment was installed at the Shipyard, however, the cost of processing supply data increased over \$290,000 during a period of about 1½ years in which the equipment was used for this purpose.

We found that the Shipyard did not realize the expected savings in personnel costs because effective use was not made of the automatic data processing equipment in supply management. In this regard, the shipyard failed to do the programming work necessary to permit the equipment to perform certain planned functions and thus the expected personnel reductions did not occur. Also, the Shipyard had not planned for use of the equipment in performing several supply functions that involved time-consuming manual effort although these functions were of repetitive types which automatic data processing equipment is well suited to perform rapidly and efficiently. Because costs had increased rather than decreased as a result of the use of automatic data processing equipment, the Shipyard removed the supply functions from this equipment after about 1½ years'

use. To perform its supply functions, the Shipyard reverted to the method of performing supply functions that existed prior to the acquisition of the automatic data processing equipment.

The Deputy Assistant Secretary of Defense (Supplies and Services) indicated that the Department of Defense did not agree with our findings; however, the Deputy Assistant Secretary stated that appropriate measures had been undertaken to establish a standard reporting system through which officials of the Department of Defense would be able to monitor not only the progress in installing automatic data processing systems but also other significant management areas as well.

The Navy has informed us that it is planning to install a uniform automatic data processing system at all its shipyards and that this system would apply to supply management functions. According to the Navy's plans, this system is to be installed at the Philadelphia Naval Shipyard in February 1965. In view of the plans of the Department of Defense to establish a standard system for reporting on significant management areas relating to automatic data processing systems and the plan for installing an automatic data processing system at the Philadelphia Naval Shipyard in the near future that will perform supply functions, we did not make recommendations for specific action at the Shipyard. The experience of this Shipyard demonstrates a need, however, for the Department to equip itself to provide for more than just a monitoring and surveillance function. In this respect, it seems to us that the Shipyard's problems resulted from its inability to complete the transition from its prior system to the automatic data processing system. We believe that the Shipyard's problem in this area could have been overcome had more effort, particularly the effort of skilled specialists, been channeled into solving the Shipyard's problems and making the system perform properly.

It is likely that other military installations that use automatic data processing systems may encounter problems in the transitional stage similar to those encountered at the Philadelphia Naval Shipyard. We therefore recommended that, as a part of its plans for monitoring the installation of automatic data processing systems, the Department of Defense plan to have automatic data processing specialists from both the Department and industry provide such assistance as may be necessary for the prompt and effective resolution of problems encountered by military installations in the transitional stage.

Index No. 152  
B-146952, November 23, 1964

C-65-81

#### Expensive Operation of Mountain Recreation Facilities at Armed Forces Recreation Center, Kilauea Military Camp, Hawaii Volcanoes National Park, Department of Defense

Our review of the operation by the Department of Defense of the Armed Forces Recreation Center, Kilauea Military Camp, Hawaii Volcanoes National Park, disclosed that during fiscal year 1963 the Government spent more than \$850,000, or over \$20 per guest-day, to provide mountain recreation facilities for military personnel and their dependents. These expenditures were in addition to about \$250,000 expended from funds produced by daily guest fees and revenue-producing activities at the camp. We questioned the need for such a costly recreation facility in Hawaii and proposed to the Secretary of Defense that he either place the Armed Forces Recreation Center on a completely self-supporting financial basis or close the camp as a recreation facility.

The Assistant Secretary of Defense (Manpower) informed us that he did not agree with these proposals on the basis that the Department of Defense policy was to provide adequate recreation facilities through financial support tendered by the Federal Government and that closure of the recreation center would have an undesirable effect on the morale of forces stationed in the Hawaii area. However, less than 8 percent of the eligible military personnel and their dependents stationed in the Hawaii area visited the recreation center during fiscal year 1963 and the occupancy of the transient living quarters averaged less than 40 percent of capacity. This limited utilization indicates that this recreation center does not contribute significantly to the morale of military forces.

We do not disagree with the basic policy of the Department of Defense with regard to providing free-time recreation facilities for servicemen, but we believe that, where recreation facilities are otherwise available, and where there appears to be little demand for facilities involving substantial costs, the propriety of spending large amounts of appropriated funds is questionable. This facility is

unique in that it is located on an island about 250 miles by sea from the Island of Oahu, where most of the military personnel to be served by the recreation center are located. Further, there are numerous Government and public recreation facilities in Hawaii that are readily accessible to the areas where military personnel are concentrated. These factors have undoubtedly contributed to the limited utilization of the recreation center at Kilauea Military Camp. Consequently, we believe that the extensive use of Government funds to support a recreation facility that is neither needed nor highly utilized is not warranted. Therefore, we recommended to the Secretary of Defense that he take steps to place the recreation center on a completely self-supporting financial basis or, if the Secretary of Defense finds that the recreation center cannot be placed on a self-supporting basis, that he take steps to have it closed.

Index No. 162

C-65-92

B-125097, December 3, 1964

**Unnecessary Transportation Costs for Small Arms Ammunition Components Purchased for the Military Assistance Program, Department of the Army**

Our review of transportation costs incurred in the shipment of small arms ammunition components disclosed that the Government incurred unnecessary transportation costs of about \$157,000 during the period March 1962 to June 1963 because ammunition components purchased for the military assistance program were shipped from manufacturers' plants to the Lake City Army Ammunition Plant, Independence, Missouri, and then to ports rather than directly from manufacturers' plants to ports. For example, 1.1 million pounds of brass strips for cartridge case cups for Greece were purchased from a company in Indianapolis, Indiana, and shipped to the Army Ammunition Plant before being shipped to Seattle, Washington, for export. The brass strips could have been shipped from the manufacturer's plant to Greece through a nearer port at a savings of about \$13,000, or more than one third of the transportation costs actually paid. Army officials at the Ammunition Procurement and Supply Agency, Joliet, Illinois, and at the Army Ammunition Plant did not require a comparison of transportation costs for shipments direct to ports with the costs for shipments via the Army Ammunition Plant to determine the savings that could be affected. This information was not required because a proper evaluation of the procurement program had not been made at its inception to identify those items that could be shipped from the manufacturers' plants direct to ports. After we disclosed our finding in this matter, management officials issued instructions requiring that direct shipments be made whenever feasible. Direct shipments will result in savings in transportation costs of about \$212,000 on orders placed prior to October 1, 1964, and significant savings are expected to be achieved as additional direct shipments are made from manufacturers' plants.

The Deputy Assistant Secretary of the Army (I & L) (Logistics), by letter of August 14, 1964, acknowledged that additional, rather than unnecessary, costs for transportation were incurred, but stated that such costs were justified in order to assure the success of the procurement program. We found, however, that since Remington Arms Company, Inc., the operator of the Army Ammunition Plant, had had previous experience in small arms ammunition production, a proper evaluation of the program at its inception would have identified those items that could be shipped direct to ports with resulting savings in transportation costs.

The Deputy Assistant Secretary stated also that he did not feel that there had been a lack of alertness on the part of operating officials to effect cost reductions and that consequently a notation to that effect in their personnel records, as we had proposed, was not warranted. We believe, however, that the fact that the Army representatives at the Ammunition agency and at the Army Ammunition Plant failed to take timely constructive action to use direct shipments when feasible demonstrated the lack of alertness on their part to effect cost reduction.

We recommended that, inasmuch as the same condition may prevail with regard to other procurement programs, the Secretary of the Army direct management personnel to adequately evaluate such programs, giving proper consideration to savings that can be realized in transportation costs by proper routings.

Index No. 164

C-65-94

B-153878, December 9, 1964

**Unauthorized Use of Military Personnel and Government Property at Fort Gordon, Georgia, for Activities Related to the Masters Golf Tournament, Department of the Army**

We found that military man-hours valued at over \$20,000 were used at Fort Gordon to prepare Government quarters and provide transportation for military

and civilian visitors attending the 1963 and 1964 Masters Golf Tournaments at Augusta, Georgia. The use of appropriated funds for unofficial purposes is not authorized. Furthermore, we believe that the use of Government quarters to provide accommodations to civilians for unofficial purposes, especially at lower rates than charged for competitive commercial facilities, is improper.

We reported this matter to the Secretary of Defense in May 1964 and proposed that Fort Gordon's practice of providing accommodations and transportation and other services in connection with the Masters Golf Tournament be discontinued and, if there are similar programs at other locations, that they also be discontinued.

The Under Secretary of the Army in commenting on our findings and proposals stated that Fort Gordon's practices in connection with the Masters Golf Tournament were authorized under the Department of Defense program for maintaining active community relations. He stated that overt participation by the Army in major community events has been a practice for a number of years and that the Masters Golf Tournament fits well within the definition of community relations opportunities, as provided by Army regulations. We do not believe that the community relations programs encompass the preparing of Government quarters and the providing of transportation for visitors attending national sporting events in an unofficial capacity. It seems clear that these expenditures were for the pleasure and comfort of the individuals involved and did not engender any benefit to the Department of Defense or the national defense in the form of improved community relations. We, therefore, recommended that the Secretary of Defense give further consideration to our proposals and that he clarify and modify as necessary the concept of community relations programs that exists in the Department of the Army.

Index No. 170

C-65-100

B-146961, December 21, 1964

#### High Costs of Unnecessary Daily Compilation of Statistical Data by Use of Automatic Data Processing Equipment, Department of the Army

We estimate that costs amounting to about \$365,000 a year have been incurred at 10 Army depots in processing and reporting cost information more frequently than necessary. These unnecessary costs were composed of the costs of rental, labor, and material incident to the use of automatic data processing equipment in performing the unnecessary processing and reporting operations. The reported information is required periodically, but it was being processed and reported daily as a result of the failure of officials at the depots to realistically consider the need for such information. For example, at Pueblo Army Depot the cost of processing and reported on a daily basis amounted to about \$108,000 a year, while the cost of processing and reporting direct labor and material on a weekly basis and of indirect labor on a monthly basis would amount to about \$32,000, or a difference of \$76,000.

In commenting on our finding, on behalf of the Department of Defense, the Assistant Secretary of the Army for Financial Management, by letter of August 26, 1964, agreed that daily accumulation and reporting of cost information, except in unusual circumstances, is not necessary for management purposes. He advised us that the provision for accounting simplification contained in the Army regulation would be brought to the attention of depot commanders and that our finding would be disseminated Army-wide as guidance for corrective action in management practices.

We recommended that the Secretary of Defense direct appropriate officials to determine whether needless compilation of cost data is taking place at other depots in the Department of Defense and, further, that he direct that specific action be taken to eliminate any such needless compilation as is found. We also recommended that he direct our report to the attention of internal review staffs and data systems offices throughout the Department of Defense to assure that the review efforts of those groups provide for realistic appraisal of the uses to which automatic data processing equipment is applied.



## APPENDIX 5

### DEVELOPMENT OF AN INTEGRATED FEDERAL SUPPLY SYSTEM

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., June 7, 1968.

Hon. PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Defense Procurement, Joint Economic Committee,  
U.S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: In furtherance of the discussions held in your office on May 7, I enclose two copies of a memorandum of understanding between the General Services Administration and the Department of Defense, signed by the Administrator of General Services and the Assistant Secretary of Defense (Installations and Logistics).

This memorandum represents agreement on the transfer to the General Services Administration of the procurement and management of all handtool and paint items, except those which are related to "weapons systems." These items will remain the responsibility of the Department of Defense.

The Bureau of the Budget will continue to work with the two agencies on carrying on the administrative steps necessary to effect the transfers in an orderly manner and in accordance with the time schedule referred to in paragraph 3 of the memorandum of understanding.

With this set of issues resolved, the Bureau and the General Services Administration will now proceed to examine GSA's role in relationship to other civilian agency supply systems. By agreement among the Bureau, the Department of Defense, and the General Services Administration, we shall not pursue other possible transfers between Defense and GSA until there has been a full assessment of the effect upon the Defense Supply Agency of this agreement. It seems to us imperative that DSA now have an opportunity to consolidate its responsibilities with respect to the three military departments.

Sincerely,

ELMER B. STAATS, *Deputy Director.*

ASSISTANT SECRETARY OF DEFENSE,  
INSTALLATION AND LOGISTICS,  
Washington, D.C.

MEMORANDUM OF UNDERSTANDING BETWEEN THE GENERAL SERVICES ADMINISTRATION AND THE DEPARTMENT OF DEFENSE

Subject: Procurement and management of handtools (FSG-51 and FSC-5210) and paint (FSG-80).

Based upon our thorough consideration and evaluation of all of the facts, data and other information developed during the course of the joint GSA/DOD/BOB study designed to establish an integrated system for procurement and management of the above two commodities, the following understanding between the Department of Defense and the General Services Administration has been consummated:

1. The Department of Defense shall retain responsibility for the procurement and management of all "weapons systems" items; i.e., those items which are subject to continuous redesign or modification during the production phase, or directly related to a weapon when the weapon is essential to a primary operational mission of a military service.

2. The General Services Administration shall assume responsibility for the procurement and management of all other handtool and paint items. With respect to the items for which GSA will have procurement and management responsibility, the following specific operational relationships shall be assumed:

(a) The Department of Defense to be responsible for:

(1) Performing cataloging operations and publishing the DOD section of the Federal Catalog;

- (2) Developing and publishing Military Specifications and Standards and revisions and amendments thereto;
  - (3) Preparing proposed Federal Specifications and Standards and revisions and amendments thereto, as agreed;
  - (4) Conducting mobilization planning;
  - (5) Determining general mobilization reserve requirements;
  - (6) Funding applicable costs of mobilization reserve stocks;
  - (7) Determining desired positioning of general mobilization reserve stocks;
  - (8) Performing industrial mobilization planning.
- (b) The General Services Administration to be responsible for:
- (1) Procurement and management;
  - (2) Determining the method of supply necessary to be responsive to military needs;
  - (3) Procurement, on request from a military activity, of any item designated for local purchase;
  - (4) Performing quality control functions for items procured;
  - (5) Developing, in coordination with DOD, and publishing Federal Specifications and Standards and revisions and amendments thereto;
  - (6) With respect to any general mobilization reserve requirements, positioning such stocks in GSA depots as agreed to by the funding Defense agency; maintaining stock accounts for the owning agency; performing or arranging for performance of custodial functions, protection and surveillance of such stocks; rotating "shelf life" item stocks to the extent demand exists. When program changes result in reduction or elimination of mobilization reserves, utilizing the resulting long supply as the first source of supply to meet GSA stock replenishment or direct delivery requirements; reimbursing the owning agency after transfer of ownership to GSA at current GSA cost prices.
  - (7) Performing industrial mobilization planning where necessary on items procured, as requested by DOD.
  - (8) "Buying back" quantities of GSA stock items, or similar items, from military requisitioners to meet GSA stock replenishment needs or for direct delivery to meet other customer requirements, reimbursing the owning agency at current GSA cost prices, less return transportation, after transfer of ownership to GSA or to other customers.

3. Implementation of an understanding with DOD on the above-recommended basis would, of course entail policy and procedural changes which could be jointly developed by the two agencies. We recommend that such implementation be undertaken immediately and be completed not later than September 30, 1963, with respect to paint (FSG 80), and the previously identified 153 handtool items, and no later than December 31, 1963, with respect to the remaining items which would come to GSA under this recommendation for procurement and management.

This agreement shall not constitute a precedent for the alinement of supply management responsibilities of GSA and DOD with respect to any other commodity managed by the two agencies.

BERNARD L. BOUTIN,  
*Administrator of General Services.*

THOMAS D. MORRIS,  
*Assistant Secretary of Defense (Installations and Logistics).*

JUNE 20, 1963.

Mr. ELMER B. STAATS,  
*Deputy Director, Bureau of the Budget,  
Executive Office Building, Washington, D.C.*

DEAR MR. STAATS: I am in receipt of your letter of June 7, 1963, and the enclosed memorandum of understanding between the GSA and DOD concerning the procurement of handtools and paint.

On the surface, it appears to me that a fair and reasonable solution to the problem has been charted and all parties are to be commended on it.

Your suggestion that DSA be given a period of time in which to consolidate its responsibilities is meritorious and the same reasoning applies to GSA. This is consistent with the thought behind recommendation No. 4 of our report of October 1960.

I expect, however, that you will also present to the subcommittee within the 6-month's period agreed upon at our meeting on May 6, 1963, at least a plan for the

orderly development of a Federal supply system as contemplated by the Federal Property and Administrative Services Act of 1949.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*

CONGRESS OF THE UNITED STATES,  
JOINT ECONOMIC COMMITTEE,  
December 19, 1963.

Mr. BERNARD L. BOUTIN,  
*Administrator, General Services Administration,  
Washington, D.C.*

DEAR MR. BOUTIN: It will be recalled that at a meeting in my office on May 7, 1963, attended by yourself; Mr. Jones, of the Bureau of the Budget; Secretary Morris, of the Department of Defense; and Congressman Curtis and myself, of the Defense Subcommittee of the Joint Economic Committee, that conclusions were reached on two points:

1. That an agreement would be made in a month as to the respective responsibilities of GSA and DOD on the procurement and management of paint and handtools. (Mr. Staats' letter of June 7, 1963, indicates that an agreement has been reached on this point.)

2. That a plan would be developed and presented to the subcommittee within 6 months' time with respect to the development of a Government-wide supply system as intended by Congress in the policy declaration in section 2 of the Federal Property and Administration Services Act of 1949. It is understood that the interested parties have been working on this plan since our meeting on May 7.

I am not unmindful of the size and complexity of this assignment but also appreciate its importance when considering the procurement impact on the national economy which is a responsibility of our subcommittee.

The subcommittee will hold hearings early in March 1964 and will appreciate a full report at that time on progress respecting the points outlined above. You will be notified later as to details of the hearing and other points to be covered.

Faithfully,

PAUL H. DOUGLAS, *Chairman.*

JANUARY 10, 1964.

HON. PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee,  
Congress of the United States, Washington, D.C.*

DEAR MR. CHAIRMAN: As recognized in your letter of December 19, 1963, GSA and DOD have reached agreement on management of paint and handtools. Under this agreement supply management for both civil agency and military requirements for paint and handtools becomes the responsibility of GSA. Responsibility for paint was, in fact, assumed by GSA on October 1, 1963. We are now supplying military and civil agency requirements for this commodity, and the arrangement is proceeding satisfactorily.

GSA responsibility for supplying military handtool requirements became effective January 1, 1964. Under transitional arrangements for assumption of this responsibility which have been finalized, we are confident that military and civil agency requirements for handtools will be supplied in an efficient and economical manner.

We have been working cooperatively with DSA representatives toward the integration of our respective supply systems into a coordinated Government-wide supply system to serve the needs of both the military and civil agencies efficiently, economically, and without unnecessary duplication. These discussions are progressing satisfactorily. It is presently expected that a proposed statement of understanding will be agreed upon in principle in the near future subject only to an actual test to determine its adequacy.

The joint DOD/GSA agreement for assumption by GSA of responsibility for the disposal of DOD surplus personal property, which matter also was considered by your committee during the hearings on March 28, 29, and April 1, 1963, is still pending before the Bureau of the Budget, although we have been anticipating an expression of their views for some time now.

During the course of our discussions with Department of Defense, we have also had under review supply management for civil agencies, looking toward integration of all supply management functions into a fully coordinated, unified national

supply system to serve the entire supply requirements of the Federal Government in an efficient and economical manner, eliminating costly overlapping and duplication. Discussions have been had toward this end with a number of civil agencies including Department of Commerce, National Aeronautics and Space Administration, Federal Aviation Agency, Veterans' Administration, and Post Office Department. Because of the interrelationship between the management of supply requirements of the Department of Defense and the management of the overall supply requirements of the entire Federal Government, affirmative steps to integrate civil agency requirements into the unified system have been deferred pending development of satisfactory GSA/DSA supply management relationships. Now that this matter is rapidly approaching a reasonable solution, we expect to proceed immediately with the civil agency aspects.

We will, of course, be pleased to report to the subcommittee fully on all of the foregoing matters during the hearings you have scheduled for March 1964, at which time we are confident that we will be able to show major progress toward accomplishment of the intent of Congress as stated in section 2 of the Federal Property and Administrative Services Act of 1949, as amended, to provide for the Government an economical and efficient system for the procurement and supply of personal property and nonpersonal services.

Sincerely yours,

BERNARD L. BOUTIN, *Administrator.*

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ASSISTANT SECRETARY OF DEFENSE,  
INSTALLATIONS AND LOGISTICS,  
Washington, D.C., January 7, 1964.

HON. PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee,  
Congress of the United States.*

DEAR MR. CHAIRMAN: Reference is made to your letter dated December 19, 1963, concerning actions taken this year in connection with the supply management responsibility for paint and handtools used by the Department of Defense, and other supply management matters.

Complete information concerning these and other appropriate matters will be furnished your committee upon request, as in previous years. As you know, Mr. Ray Ward, of your staff, has already been in contact with representatives of my office in connection with certain material desired by the committee.

Advanced notification of proposed hearings by your committee is greatly appreciated, and we would like to be advised as soon as a firm date has been established.

Sincerely,

THOMAS D. MORRIS,  
*Assistant Secretary of Defense,  
Installations and Logistics.*

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EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., January 25, 1964.

HON. PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Defense Procurement,  
Joint Economic Committee, Congress of the United States,  
Washington, D.C.*

DEAR SENATOR DOUGLAS: Please accept my apologies for this tardy acknowledgment of your letter of December 19 notifying the Bureau of the Defense Subcommittee's plans to hold hearings in March.

A good deal has happened since the meeting in your office on May 7. You have been kept advised of the success which we have had in transferring responsibility for paint and handtools from the Department of Defense to the General Services Administration.

With respect to the second numbered point in your letter of December 19, the General Services Administration and the Department of Defense have carried on extensive and fruitful conversations for next steps in bringing about better integration of the supply system. I am sure they will report fully upon these developments at the time of the hearing.

We have also made some progress on other fronts, not the least encouraging piece of that progress being acceleration of the civilian supply catalog. The

subsistence study about which we told you has been completed, and the Bureau is now having discussions with Defense, General Services Administration, and Veterans' Administration on improvements in subsistence procurement and distribution.

I shall appreciate it if, at the appropriate time, you will send to us, to the General Services Administration, and to the Department of Defense any specific points to which you would like to have us discuss at the time of the hearing.

Sincerely,

ELMER B. STAATS, *Deputy Director.*

MEMORANDUM FOR THE ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS) AND THE ADMINISTRATOR OF GENERAL SERVICES

Subject: Agreement between DOD and GSA governing supply management relationships.

1. Attached is a proposed agreement covering the subject which has been worked out between our respective representatives.

2. Essentially, the agreement is designed to eliminate avoidable duplication between DSA and FSS in performance of supply management responsibilities pertaining to civil agency and Defense requirements for personal property.

3. It recognizes the essentiality of each agency maintaining separate supply management capability and provides for the fitting together of those separate capabilities in a coordinated Government-wide supply system.

4. Key terms used in the agreement are defined for the sake of clarity and the principles governing our coordinate operations are set forth. The agreement provides for FSS assumption of Government-wide supply management responsibilities for groups, classes, or items selected under criteria established by the agreement and for DSA assumption of supply management responsibility for Defense requirements determined under the same criteria. Provision is included for DSA assumption of Government-wide supply management responsibility for selected groups, classes, or items under stated circumstances. Adequate safeguards are incorporated to insure that the responsibilities of DSA and FSS to insure effective and economical support of Defense and civil agencies are fully discharged. To this end, the agreement accepts the need for Defense management of certain items which are also managed by the Federal Supply Service for civil agencies.

5. Express provision is made for cross-utilization of facilities, capabilities, and services where such action will promote economy and efficiency of supply support to Defense and civil agencies.

6. The criteria embodied in the agreement under which assignment of supply management responsibility as between DSA and GSA will be determined is limited to those groups, classes, or items which now are or hereafter may be assigned within DOD for integrated management by DSA.

7. The agreement includes an understanding that GSA's total supply management capabilities will be available to DOD in times of national emergency and that GSA will honor the Defense priority system in peacetime.

8. The agreement recites the method by which supply management responsibilities assigned thereunder will be implemented and expresses the intention of the parties that the assignment determinations thereunder will fix the management responsibilities of DSA and GSA, as between themselves, for a minimum period of 5 years.

9. It is proposed to proceed with a test of the commodity management criteria set forth in the proposed agreement. This test will call for actual joint application of the criteria to certain groups, classes, or items to be jointly selected by DSA and FSS. The test will be initiated immediately following your approval of this memorandum and will be expedited to completion at the earliest possible date. The agreement is subject to such modification of criteria or other terms as the test may show to be necessary or desirable and is therefore not binding on either parties except for the conduct of the test. All such modifications as prove to be necessary or desirable will be incorporated and the agreement in final form presented for your formal acceptance at that time.

10. We consider that the principles underlying this agreement are sound. The agreement, including the criteria and other terms embodied in it if proved to be feasible in practical application, could represent a fulfillment of the obligation of DOD and GSA to Joint Economic Committee Chairman Douglas to develop

a plan for a Government-wide supply system, which was the subject of his recent reminder letter, dated December 19, 1963.

A. T. McNAMARA,  
*Director, Defense Supply Agency.*

JANUARY 10, 1964.

Approved:

THOMAS D. MORRIS,  
*Assistant Secretary of Defense (I. & L.).*

JANUARY 13, 1964.

JOHN M. MCGEE,  
*Acting Commissioner, Federal Supply Service.*

JANUARY 9, 1964.

Approved:

BERNARD L. BOUTIN,  
*Administrator of General Services.*

JANUARY 10, 1964.

AGREEMENT BETWEEN GSA AND DOD GOVERNING SUPPLY MANAGEMENT RELATIONSHIPS

This agreement is entered into between the Department of Defense and the General Services Administration in furtherance of the principle of providing for the Federal Government an efficient and economical Governmentwide system for the procurement and supply of personal property and nonpersonal service, eliminating unnecessary overlapping and duplication within the Government's supply system, and to establish a sound and continuing basis for assignment of responsibility for management of commodities determined to be susceptible to integrated management within the Department of Defense and those susceptible to integrated management within the Federal Government as a whole.

It is hereby agreed that—

1. The maintenance of centralized supply management capability by the Defense Supply Agency within the Department of Defense as an integral part of the military supply system and by the Federal Supply Service within the General Services Administration as a source of supply for all executive agencies is essential to the performance of the basic statutory responsibilities and missions of their respective parent agencies; and

2. The supply management capabilities of each of the respective agencies can, through cooperative arrangements, successfully be fitted together to form a coordinated supply system for the Federal Government, with clearly defined responsibilities of each component, and with sufficient control concerning assigned responsibilities retained by each to assure successful performance of basic missions.

3. *Definitions.*—Key terms used herein are defined for the purposes of this agreement as follows:

a. Supply services within the scope of this agreement include—

- (1) Preparation and maintenance of specifications.
- (2) Preparation of supply catalogs.
- (3) Coordination of standardization activities.
- (4) Determination of method of supply.
- (5) Development of arrangements for supply support.
- (6) Computation of inventory replenishment requirements.
- (7) Purchasing.
- (8) Provisioning for the commodities concerned; if required.
- (9) Stock control.
- (10) Mobilization planning.
- (11) Receipt.
- (12) Storage.
- (13) Issue.
- (14) Contract administration services.

b. *Integrated Supply Management.*—The performance by a separately organized agency of supply services in support of other agencies.

c. *Centralized Supply Management.*—Performance or supervision by a single agency of the complete range of supply services.

d. *Centralized Inventory Management.*—Maintenance and control of commodity inventories for distribution to eligible users.

e. *Centralized Purchasing.*—Establishment by a central supply manager or other agency of centrally controlled procurement activities as sources of supply

for commodities which are delivered to user or to another agency's inventory distribution system.

f. *Decentralized Commodities.*—Commodities authorized by the central supply manager for procurement by using agencies, through direct placement of orders on commercial supply sources, including Supply Schedules negotiated by a central supply manager.

g. *Support of Decentralized Commodities.*—Arrangements made by the central supply manager to obtain commodities authorized for local procurement when a using activity is unable to procure for itself.

h. *Primary Federal Supply Service Group or Class.*—A Federal supply group or class which is assigned, on the basis of agreed criteria, as a group or class for management by the Federal Supply Service for both civil agency and Defense users. This does not require that every item within the group or class qualify under the agreed criteria for assignment to the Federal Supply Service, but that the number of items not so qualifying be sufficiently small to permit them to be segregated under the exception procedures provided for in paragraph 10.

i. *Primary Defense Supply Agency Group or Class.*—A Federal supply group or class which is assigned, on the basis of agreed criteria, as a group or class for management by the Defense Supply Agency for Defense users, subject to the exception procedures cited in (h) above. Certain Primary Defense Supply Agency groups or classes may be assigned, by agreement, for both Defense and civil agency users.

j. *Split Management Classes.*—Federal supply classes which do not qualify as primary Federal Supply Service or primary Defense Supply Agency classes.

4. a. The following classes or items within classes are not within the scope of the provisions of paragraph 10 of this agreement, except as provided in subparagraph (b) below:

(1) Classes of items which have not been designated within DOD on the date of this agreement for integrated management within DOD;

(2) Items within classes which have been retained on the date of this agreement for management by each of the Military Services under DOD approved coding criteria; and

(3) Items within classes which have been retained for management by Federal civil agencies.

b. The provisions of this agreement shall apply to any additional groups or classes of items which may hereafter be determined to be susceptible to integrated management with DOD and shall become effective as to such additional groups or classes of items upon their management classification.

5. a. It is the primary mission of—

(1) The integrated military supply management system assigned to the Defense Agency to provide supply support to organized military units; and

(2) The Federal Supply Service to support the common supply requirements of executive agencies.

b. These different purposes provide a sound basis for differentiation of the respective supply management assignments of the Federal Supply Service and the Defense Supply Agency;

c. For their intended purposes and for support of their respective users, both DSA and FSS have access to managerial talent and systems; each is responsible for supply management requirements of sufficient magnitude to realize the economies of scale; and

d. Supply requirements common to both military and civilian agencies can, under certain circumstances, be met by assignment of centralized supply management responsibilities or selected supply services for Governmentwide support of certain groups, classes, sub-classes, or individual items to either FSS or DSA.

6. The intent of the statutory supply responsibilities vested in the General Services Administrator and the Secretary of Defense can best be realized by DOD and GSA observance of the following principles:

a. The Defense Supply Agency is responsible for insuring maximum responsiveness and economy in the supply of all Defense-used commodities not retained for management by the Military Services and, in the discharge of this responsibility, will make maximum use of the supply management capabilities of the Federal Supply Service, consistent with the requirements of military readiness.

b. The Federal Supply Service, in discharging its responsibility to provide for the Government an economical and efficient system for the procurement and supply of personal property and nonpersonal services with "due regard to the program activities of the agencies concerned," accepts the necessity for retention

of control within the Department of Defense of supply services essential to the conduct of military missions.

c. The Defense Supply Agency will furnish supply management services to all Federal agencies under conditions specified elsewhere herein.

d. Where utilization by each agency of the specialized capabilities and facilities of the other will promote increased responsiveness to the needs of civil agency and Defense users and economy and efficiency for the Government as a whole, certain supply management services may be retained by a military or civilian agency or assigned by the central supply manager to another agency. It is agreed, however, that DSA and FSS shall continue to strive to work out mutually satisfactory arrangements for full coordination in performance of specification, cataloging, and standardization functions. Supply services which may be retained by or assigned to other agencies include:

(1) *Preparation and maintenance of specification.*—In the case of supplies for civil agency use, this function may be performed by the central supply manager or assigned by such manager by agreement to another agency; for Defense-used commodities, final responsibility is retained by the Military Services.

(2) *Cataloging and coordination of standardization actions.*—For civil agencies, coordination of these functions is a responsibility of the central supply manager; for Defense Department components, this responsibility is retained by the Department of Defense for all commodities used by it.

(3) *Contract Administration Services.*—For purposes of this agreement, responsibility for this function, including quality control, will remain with the agency responsible for centralized purchasing.

(4) *Purchasing support.*—Use by each agency of the purchasing capabilities of the other, particularly where both agencies draw upon the same commercial or industrial sources.

(5) *Warehousing support.*—Use by each of the warehousing facilities of the other where facilities of both agencies are located or would need to be located in the same geographic areas.

e. The role of the Federal Supply Service as coordinator between the Defense Supply Agency and civil agencies and the role of the Defense Supply Agency as coordinator between the Federal Supply Service and the Military Services is intended to insure consistency of policy and procedures governing centralized supply management, particularly with respect to changing existing arrangements or establishing new arrangements, but these coordinating responsibilities do not preclude direct day-to-day communications between supply sources and users within the purview of established supply support arrangements.

7. The Federal Supply Service shall assume centralized supply management responsibility for all Federal users for those commodity groups or classes which are designated by agreement, in accord with criteria set forth in paragraph 10 below, as primary GSA classes, except for those services listed in paragraph 6 for retention by the Department of Defense.

8. The Defense Supply Agency will perform centralized supply management services for Defense users and for other Federal agencies, as agreed, for those commodity groups or classes which are designated as primary Defense Supply Agency classes. Specifically, the Defense Supply Agency agrees to consider support of all Federal agencies for groups and classes in the following commodity areas: Subsistence, Clothing and Textiles, Medical, Petroleum, and Electronic supplies. Agreement with respect to the classes to be supported and the range of supply services to be furnished is contingent upon (a) determination by DSA that support of civil agencies will not impair DSA's capability to support military units in war or peace and will not significantly increase DSA's operating costs or inventory investment; (b) determination by GSA that the establishment of a separate capability by the Federal Supply Service to support Federal civil agencies would result in significantly higher costs to the government than support by the Defense Supply Agency; and (c) completion by GSA of arrangements for extension of integrated supply management for the commodity areas in question to the Federal civil agencies. Should the General Services Administration determine, with respect to any other classes or items, that Governmentwide economies and improved responsiveness can be gained through support of all Federal agencies by the Defense Supply Agency, it shall make a recommendation to that effect to the Department of Defense.

9. In split management classes, civil agency and Defense users will look to the Federal Supply Service and the Defense Supply Agency, respectively, for coordination of supply management actions affecting items in such classes and for support,



where necessary, of decentralized items. Sub-groups or items within such classes which are designated for management by the Federal Supply Service, will be referred for centralized purchasing or centralized inventory management by the Federal Supply Service.

10. The Federal Supply Service and the Defense Supply Agency will undertake a joint review of all groups, classes, or items designated for integrated management within the Department of Defense with a view to agreeing upon assignment of supply management responsibilities as between the Defense Supply Agency and the Federal Supply Service to be determined under the following general criteria applied first, by groups; second, by class; third, by subclass or family relationships; and last, by individual item. Both parties to this agreement affirm that the criteria set forth below as governing the assignment of management to DSA constitute a sound basis for the exercise of the statutory authority vested in the Secretary of Defense to exempt the Department of Defense from actions taken by the Administrator of the General Services Administration under Federal Property and Administrative Services Act, as amended; and that the criteria governing assignment to the Federal Supply Service are applicable to all Defense-used items not qualifying for such exception.

a. The use of the criteria set forth below will require adequate controls to assure consistency of application. Provision must also be made for review and negotiation after application of the criteria to assure that a supply management method is adopted which will provide optimum governmentwide economy consistent with military readiness. It is therefore agreed that—

(1) A procedure for application of these criteria will be jointly developed and approved by the Director, Defense Supply Agency, and the Commissioner, Federal Supply Service, GSA.

(2) The controls referred to above and the procedures for application of the criteria will be developed and implemented by a committee which will be established in accordance with Annex A to this agreement.

(3) All items which do not meet the requirements of DSA management criteria 2 through 5 below will be reviewed by the committee to determine the appropriate management assignment in the light of the other criteria and the general policy set forth above.

(4) Any item may be referred to the committee for comprehensive analysis when it is considered that application of the criteria in accordance with established procedures does not provide optimum governmentwide economy consistent with the requirements of military readiness.

(5) The committee will give special attention to detailed review of items which are identified as meeting the DSA managed criteria but are also extensively used by Federal civil agencies.

#### b. *Supply Management Assignment Criteria*

##### *DSA Managed*

1. Groups, classes or items essential to the conduct of military missions (for committee use only).
2. Items specially designed for military use.
3. Items subject to return for depot level repair.
4. Items essential to operational readiness of weapons systems and military designed equipment.
5. Items which are essential to health, safety and survival of personnel in the performance of military missions.

##### *GSA Managed*

1. Groups, classes or items used throughout the Federal Government (for committee use only).
2. Items which are commercial in nature and similar to those produced by industry for general consumption by the civilian economy.

c. In the conduct of the joint review, first priority shall be given to the identification of commodity groups or classes which, because they consist predominantly of items satisfying the appropriate criteria set forth above, can be assigned as primary Federal Supply Service or Defense Supply Agency groups or classes. Upon such designation, the group or classes shall not be subject to further review except that either agency may, upon its own initiative propose specific items for excepted assignment and shall justify its proposal by a clear demonstration that the proposed exception satisfies the criteria agreed upon for the proposed assignment.

d. Where group or class assignments cannot be agreed upon, the joint review will then identify families of items within classes which satisfy the criteria for management assignment to the Federal Supply Service or the Defense Supply Agency. Items within such families which are clearly identifiable with special military users may be proposed and justified as item exceptions under the conditions set forth above for exceptions to group or class assignments. All remaining items will be subject to individual joint review under the agreed criteria.

e. It is recognized that by reason of scope and diversity of usage, certain items will, to some degree, satisfy both sets of criteria set forth above. In such instances, exhaustive item-by-item analysis will be made with a view to assigning central supply management responsibility for such items to the Federal Supply Service wherever consistent with assured support of military forces. Where the Secretary of Defense determines that military considerations require central management within the Department of Defense of items which are also widely used by civil agencies, management by both the Defense Supply Agency and the Federal Supply Service will be accepted under the terms of this agreement. Centralized purchasing of such commodities will be assigned to the Federal Supply Service in those instances where the Federal Supply Service purchases the items centrally for civil agencies.

f. Within the commodity ranges assigned to each agency for centralized supply management, the joint review will explore all opportunities for full utilization by each agency of the specialized functional capabilities and facilities of the other pursuant to subparagraph 6(d) above.

g. The Defense Supply Agency and the Federal Supply Service will retain final responsibility for insuring the availability of items in split management classes which are decentralized for local procurement by Defense and civil agency users, respectively. Where Federal Supply Schedules exist for Defense-used decentralized items in these classes, the Department of Defense will use such schedule as the primary source of supply. The Federal Supply Service agrees that centralized inventory management will not be provided for these items to Defense users without prior coordination with the Defense Supply Agency. The Department of Defense, in turn, agrees that it will not provide centralized inventory management for decentralized items supported in whole or in part by Federal Supply Schedules without prior coordination with the General Services Administration.

h. It is recognized that, under existing circumstances, items in split management classes otherwise satisfying criteria for assignment to the Federal Supply Service may not qualify for centralized inventory management under policies and criteria established by it. In these instances, the Federal Supply Service will so advise the Defense Supply Agency, identifying those items which it is prepared to support through Federal Supply Schedules. With respect to such of those items which the Defense Supply Agency thereafter determines to require central inventory management to assure support of military forces, the Defense Supply Agency may assume centralized inventory management. With respect to such of those items as the Defense Supply Agency determines do not require centralized inventory management within the Department of Defense, final responsibility for assuring availability to support military forces remains in the Defense Supply Agency.

11. The General Services Administration will honor the Defense Uniform Materiel Issue Priority System during times of peace, and in the event of national emergency, the full supply management capabilities, facilities, and resources of the Federal Supply Service will be available for the supply support of the Department of Defense, and upon determination by the President that such control is required in the interest of national security, will come under the operational control of the Secretary of Defense. The Department of Defense will take this assurance into account in formulating emergency plans, and to this end, jointly with the General Services Administration, will insure that their respective systems and procedures are so coordinated as to facilitate effective support of military emergencies.

12. Upon approval of this agreement, the Defense Supply Agency and the Federal Supply Service will proceed to formulate findings and determinations with respect to commodity and functional assignments consistent with the provisions of this agreement, including the identification of related funds, personnel, property, and records. Supply management assignments resulting from these actions will be made effective upon completion of all findings, but actual management transfers will be so scheduled as to insure adequate dissemination of infor-

mation and direction to subordinate and supported elements as necessary to effect orderly transfer and realignment actions.

13. The parties to this agreement anticipate that these determinations will stabilize their respective management assignment for a period of at least five years as between themselves, except for the review of additional supply classes determined to be susceptible to integrated management, as provided for in paragraph 4(b) above. Provision will be made for protection of the integrity of agreed management assignments through coordination of procedures with respect to standardization actions and the replacement of items managed by each agency by new items entering the supply system.

14. This agreement, providing a method for determining and implementing assignment of supply management responsibilities between DSA and GSA, is intended to constitute for a minimum period of five (5) years the vehicle of fixing, as between themselves, the supply management responsibilities of DSA and GSA, it being understood and agreed that this agreement may be revised or modified from time to time, by mutual assent, for purposes of clarification, refinement, and improvement, upon the basis of experience thereunder.

Approved:

PAUL R. IGNATIUS,  
*Assistant Secretary of Defense, (I. & L.).*

December 12, 1964.

Approved:

BERNARD L. BOUTIN,  
*Administrator of General Services.*

November 6, 1964.

CHARTER PROVISIONS FOR DSA/FSS MATERIEL MANAGEMENT REVIEW COMMITTEE

*Committee composition*

The committee will be comprised of equal representation from DSA and FSS.

*Purpose*

(1) Develop and maintain procedures for application of agreement criteria; (2) assure consistency in the application of the criteria; (3) expedite the resolution of problems; and (4) coordinate with other related programs.

*Functions*

(1) Analyze the item content of FSC Groups, Classes or other item categories to identify item groupings which can be assigned to FSS or DSA management without extensive item by item coding or with a limited coding process.

(2) Determine which FSC Groups or Classes must be subjected to comprehensive coding for determination of appropriate management assignment in accordance of with the agreement. Develop proposed schedules for coding and

(a) Indoctrinate coding activities in coding procedures or source data requirements to facilitate analysis by the committee.

(b) Monitor and validate the coding operation for compliance with the intent of the agreement.

(c) Review coding and designate FSC Groups, Classes, item families, and individual items for assignment to the DSA or the FSS for management.

(d) Develop proposed time phased plan for implementation of the agreement and transfer of item cognizance, including development of data to indicate resource implications.

(e) Develop recommendations for deviation from the proposed agreement in the assignment of item management when such action is determined to be feasible for assuring economical and responsive supply management.

(f) Negotiate under the terms of the agreement to develop item management assignment recommendations which are economically feasible and acceptable to the DOD and the GSA.

(g) Provide professional advice to higher echelon on material management matters and the potential impact of transferring item management in terms of resources.

(h) Develop smooth interagency working relationships as related to commodity management and the interface of material cognizance with legislative matters.

*Responsibility and authority*

(1) Proposals developed by the committee will be forwarded concurrently to the Director, Defense Supply Agency, and the Commissioner, Federal Supply Service, or their designated representatives, for final approval prior to implementation. Guidance to the committee will be provided from these same channels, as required.

(2) Problems which cannot be resolved by the committee will be referred concurrently to the Director, Defense Supply Agency, and the Commissioner, Federal Supply Service, GSA, for resolution.

REPORT ON SUPPLY MANAGEMENT OF PAINT AND OTHER SHORT-SHELF-LIFE-ITEMS,  
DEPARTMENT OF DEFENSE, GENERAL SERVICES ADMINISTRATION, AND OTHER  
FEDERAL AGENCIES

COMPTROLLER GENERAL OF THE UNITED STATES,  
Washington, D.C., April 2, 1965.

B-150417

The Honorable PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Federal Procurement and Regulations,  
Joint Economic Committee,  
Congress of the United States.*

DEAR MR. CHAIRMAN: In accordance with recommendations of your Subcommittee in September 1964 and 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 review effort, which was limited in order to provide the Subcommittee with information by March 1965 as requested, identified the inadequacy of existing control procedures as well as a need for closer supervision over the implementation of prescribed procedures. The results of our limited review indicated that losses from paint and related products occurred primarily because of deficient supply management practices in the Department of Defense and that similar deficient practices, in civil as well as defense agencies, had caused losses from other short-shelf-life items.

A joint shelf-life materials study group, consisting of representatives of the General Services Administration and the Department of Defense and set up pursuant to your Subcommittee's request, also identified certain management deficiencies. The group prepared a report of its findings and recommendations which was submitted to the Deputy Assistant Secretary of Defense (Supply and Services) on February 10, 1965. Copies of the report were made available to us informally on February 24, 1965, with the understanding that at that time it did not represent a firm position of either agency.

The study group's recommendations included a proposed Department of Defense instruction and an interagency agreement, which we believe are desirable to provide a basis for procedural improvements in certain areas. However, certain of the other recommendations made by the study group require clarification. Moreover, problem areas discussed in the sections of our report dealing with the management of paints and other shelf-life items do not appear to be covered in the proposed procedures. In our opinion, the proposed procedures, if expanded to cover the deficiencies noted in our reviews and if properly implemented, should result in reduced future losses from short-shelf-life items. In our future reviews, we will inquire into the effectiveness of these procedures.

Inventory reductions totaling about \$3.6 million occurred during the transfer of paint and related products from the Defense Supply Agency to the General Services Administration and the Department of the Navy. Of these inventory reductions, items worth \$2.5 million were identified as (1) excess to requirements—\$545,300, (2) deteriorated and unfit for use or otherwise classified as not ready for issue—\$823,300, and (3) not accounted for as a result of deficient stock records—\$1,155,400. The additional \$1.1 million was for paint disposed of by the Navy as excess or otherwise not usable.

In addition, our limited review disclosed that, prior to the transfers, the Defense Supply Agency decreased its inventory balances by approximately \$2 million because stocks of these materials could not be physically located or were unfit for use.

Although we were unable to determine and fully develop all the conditions leading to the losses due to excess or deteriorated paint, we found evidence that

basically the losses were attributable to deficient supply management practices within the Department of Defense. These practices primarily involved (1) the use of inaccurate data in computing requirements, (2) failure to issue the oldest stocks first, (3) failure to fill requisitions of items in short supply from excess stocks of substitutable material, (4) failure to promptly return excess stocks to the supply system for reissue, and (5) failure to terminate procurement actions when requirements for items decreased.

During the course of our reviews of Federal agency operations, we have identified and continue to identify unnecessary costs resulting from basic deficiencies in supply management, many of which are clearly related to deterioration identified in short-shelf-life items. These deficiencies involve (1) stocks becoming overaged and deteriorated because of ineffective inventory controls and warehouse practices, (2) premature disposal because of failure to extend shelf-life expiration dates, and (3) unnecessary procurement and accumulation of stocks because of ineffective requirements controls and failure to utilize substitutable items in excess or long supply. We have also identified a need for better interagency coordination in redistributing stockpile excesses and oldest stocks to meet Government-wide needs.

In view of the time limitation on reporting to your Subcommittee, we were unable to solicit comments on this report from the Department of Defense, the General Services Administration, or other Federal agencies involved.

We trust that our report provides you with the information required. If we can be of further assistance, please let us know.

Copies of this report are being sent today to the Secretary of Defense and the Acting Administrator, General Services Administration, for their information, pursuant to arrangements with your staff. We plan to make no further distribution of this report unless copies are specifically requested, and then only after your approval has been obtained or public announcement has been made by you concerning the contents of our report.

Sincerely yours,

JOSEPH CAMPBELL,  
*Comptroller General of the United States.*

#### *Introduction*

At the request of the Subcommittee on Defense Procurement, Joint Economic Committee, in its report on the "Economic Impact of Federal Supply and Service Activities, September 1964," the General Accounting Office has examined into certain aspects of the management of short-shelf-life items, with particular emphasis on paints and related products, in the Department of Defense (DOD), General Services Administration (GSA), and to a limited extent, other Federal agencies.

Our review was conducted primarily at activities within the Defense Supply Agency, the DOD, and the Federal Supply Service, GSA. Additional information concerning the scope of our review is contained on page 42 of this report.

#### *Background information*

##### *General*

Basic policies governing the operation of Government supply systems are generally prescribed by the Office of the Secretary of Defense and the Administrator, General Services Administration. These agencies constitute the largest supply systems servicing military and civilian agencies.

##### *Department of Defense*

Prior to the establishment of the Defense Supply Agency (DSA) in January 1962, each military department was responsible for operating and maintaining a supply system for the common-use items needed by its own forces, except that, for certain items, support for all military services was provided by single supply managers as directed by DOD. With the creation of DSA, various single manager functions previously assigned to the respective services were transferred to DSA. These single manager assignments included such commodity areas as clothing, construction, electronics, general, medical, petroleum, subsistence, and industrial supplies and equipment.

Control of DSA inventories is distributed among eight Defense Supply Centers. Their primary functions are to compute replenishment requirements for assigned items; maintain complete records of inventory status and transactions; procure needed items; and direct shipment action, as appropriate. Other related activities at a Center include cataloging, standardization, and installation management.

The DSA warehousing and distribution system for military supplies and equipment is an integrated system consisting of 7 principal distribution depots, 4 specialized support points, and 18 direct supply support points. DSA commodities are stocked in these 29 installations and 47 military departmental using locations throughout the United States. DSA managed approximately 1,328,000 line items with an inventory valued at about \$2.23 billion at June 30, 1964. Procurement of supply materials and equipment by DSA amounted to about \$2.7 billion during fiscal year 1964. The number of personnel assigned to DSA activities was 31,141 at the end of the fiscal year.

The policies established by the Office of the Secretary of Defense (OSD) are issued in the form of DOD directives and are required to be implemented by each of the military services and DSA.

#### *General Services Administration*

Under the General Services Administration, the Federal Supply Service (FSS) is responsible for (1) the procurement and supply distribution of standard commercial-type goods and (2) the procurement of certain services for Federal agencies including the Department of Defense. In addition to this Government-wide procurement responsibility, FSS catalogs items, develops Federal standards and specifications, and provides inspection and other quality control services. FSS also establishes Government-wide supply management programs and regulations to promote uniformity and efficiency in supply operations for civilian agencies.

FSS buying is divided into three major areas: (1) replenishment of supplies and equipment stocked in GSA supply depots and shipped to Federal agencies when needed, (2) establishment of about 120 Federal Supply Schedules covering more than 700,000 items procured under about 1,300 indefinite quantity term contracts, and (3) definite quantity purchases on a wide variety of other supply items for Federal agencies. Procurement operations are performed by the Central Office and the regional buying groups.

The FSS warehousing and distribution system for supplies and equipment consists of 15 major supply depots, 7 supply depot annexes, 4 auxiliary storage facilities, 23 self-service stores, 4 export operation facilities, and 6 other specialized facilities. FSS managed approximately 34,900 line items with an inventory valued at about \$182.7 million as of June 30, 1964. Procurements by FSS amounted to about \$1.55 billion for fiscal year 1964, of which \$301 million was for supply system replenishment, \$264.4 million was for direct delivery to ordering agencies under FSS-awarded contracts, and \$985.5 million represented orders placed by civilian and military agencies directly with suppliers under the Federal Supply Schedules. The number of personnel assigned to FSS activities was 3,972 at the end of fiscal year 1964.

The policies established by GSA for management of personal property are issued in the form of Federal Property Management Regulations (superseding GSA, Title I, Personal Property Management Regulations) and are required to be implemented by each of the civilian agencies and FSS.

#### *Short-shelf-life items*

A shelf-life item has been defined as any item that has deteriorating characteristics to a degree that a limited storage time period must be assigned. OSD has not issued any overall policy directive on management of limited shelf-life items. DSA and each of the military services, however, use the same basic instruction, the Joint Storage and Materials Handling Manual, and have prescribed certain operating procedures for limited shelf-life items. These instructions generally provide for (1) use of the first-in, first-out method of issuing at the depot level, (2) surveillance cycles, including testing and examination of stock samples as appropriate, to determine suitability for extending shelf-life time of the stocks, (3) condition codes for reporting to the appropriate manager, stocks of items which are not in a ready-for-issue status and require testing or examination to determine their suitability for issue, and (4) consideration of shelf-life limitations when computing economic order quantities.

We have been informed that about 36,300 line items with limited shelf life, valued at approximately \$654 million, were managed within DOD as of December 31, 1964. DSA managed approximately 7,300 of these items, valued at about \$123.6 million, as of that date.

GSA has not issued any specific policy directives on management of limited shelf-life items for guidance of civilian agencies. FSS has published two handbooks which are available for use by Government agencies: (1) a document entitled "Storage Guide for Limited Shelf-life Items" dated April 1961 and (2) a scientific management document entitled "Economic Order Quantity" dated

February 1961. The former document generally describes the limited shelf-life periods under various storage conditions for various semiperishable commodities. The latter document indicates that special consideration would have to be given in the use of the economic order quantity inventory and procurement procedures when applied to limited shelf-life items. The FSS also issued, for use of its regional offices and supply depot personnel, (1) an instruction dated July 1961 establishing responsibilities and operating procedures for procuring, storing, inspecting, and issuing stock items having limited shelf life and (2) an inventory management handbook dated December 1960 which restricted the reorder amount of a limited shelf-life item carried in the FSS supply depot system.

We were informed that FSS managed about 3,500 limited shelf-life items, valued at approximately \$25 million, as of December 31, 1964.

*Transfer of procurement and management of paint*

Prior to October 1, 1960, the inventory management responsibility for Federal Supply Group (FSG) 80, paints and related items, was assigned to the Mobile Air Materiel Area, Mobile, Alabama, for the Air Force; the General Stores Supply Office (GSSO), Philadelphia, Pennsylvania, for the Navy; and the Engineer Supply Control Office, St. Louis, Missouri, for the Army. The General Services Administration carried out most of these activities for all other agencies outside the Department of Defense.

As of October 1, 1960, central inventory management responsibilities for FSG 80 were transferred from the individual military services to the Defense Industrial Supply Center (DISC), Philadelphia, which was formerly known as the Military Industrial Supply Agency and prior to that as GSSO. At that time, stocks of paint and related products were located at depots such as the Navy's Supply Centers, the Air Force's Air Materiel Areas, and the Army's General Depots. These depots subsequently became the DISC distribution system for paint and related products and were responsible for (1) issuing items to the actual users, (2) receiving items from manufacturers or other depots, (3) storing, controlling, and maintaining stocks, and (4) reporting supply data to DISC.

The information reported to DISC was the basic data used by DISC to compute the systems requirements. These requirements were satisfied through procurement or redistribution of stock to depots which needed replenishment.

Under its system, DISC centrally managed about 1,500 different types of paint and related products and made annual procurements averaging about \$24.7 million to replenish these items. As of September 30, 1963, DISC had inventories of paint and related products amounting to \$16 million, as shown below:

Federal supply class	Commodity	Inventory value (millions)
8010.....	Paint-type items.....	\$12.8
8020.....	Paint brushes.....	.6
8030.....	Preserving and sealing compounds.....	2.3
8040.....	Adhesives.....	.3
	Total.....	16.0

Stocks undelivered under existing contracts amounted to about \$4.4 million.

Items included in Federal Supply Class (FSC) 8010, paint-type items, are deteriorative in nature if not consumed within a certain period of time from the date of manufacture. The shelf-life periods of paint and related products range from 6 months to 5 years. Generally, DISC technical records showed a shelf-life period of 2 years for most items with provisions to extend this period.

In order to identify the shelf-life period of each item, the date of manufacture is marked on its packaging. As a rule, when items on hand had reached their shelf-life expiration period, the depots tested them to determine whether they were suitable for use, and, if so, the expiration periods were extended. This procedure was continued, if necessary, until the items were unfit for use and were disposed of.

A DOD/GSA understanding in June 1963 provided the general framework for GSA's assumption of procurement and management of handtools and paint. GSA was to be responsible for cataloging, preparing and publishing specifications, determining method of supply, performing procurement, and performing quality control functions. DOD was to be responsible for conducting mobilization planning; determining requirements for and desired positioning of mobilization

reserve stocks; and, in coordination with GSA, performing certain cataloging and specifications operations. Implementation of the understanding called for the assumption by GSA of procurement and management of paint by September 30, 1963.

The agencies in August 1963 agreed on the basic conditions for the transfers of paint and related transfers of personnel and funds. Both DSA and GSA were financed through the use of stock funds. The transfer of accountability for paint involved a reduction in the stock fund of the transferring organization (decapitalization) and an increase in the stock fund of the receiving organization (capitalization). The amounts were based on DSA's recorded inventories. Since it was recognized that the recorded inventories might not agree with the actual physical inventories, a reserve was to be set up in GSA's stock fund to allow for variances due to losses including deterioration.

The GSA/DSA agreement on the transfer of accountability and decapitalization of FSG 80 brushes, paints, sealers, and adhesives was reached in August 1963. This agreement recognized that (1) a limited quantity of paint and related products would be held by DSA for mobilization reserve purposes and (2) other quantities of paint would be decapitalized to the Department of the Navy for fleet support purposes and for direct use by certain naval shore installations. The agreement detailed (1) the scope of stock to be decapitalized including locations of stock covered by the initial decapitalization and subsequent decapitalizations and stocks excluded from decapitalization, (2) decapitalization reports, (3) reports of receipts by GSA depots, (4) requisition processing, (5) physical movement of stock, (6) procurements, and (7) returns of material.

On the basis of these agreements, DISC transferred its FSG 80 inventories to the GSA and Navy during the period October 1963 to October 31, 1964. The value of inventory transferred is shown below:

	<i>Value of inventory (millions)</i>
General Services Administration-----	\$13.1
Navy-----	7.1
<b>Total-----</b>	<b>20.2</b>

The first transfer of accountability for paint stocks to GSA was made on October 1, 1963, and amounted to \$8,365,641 consisting of 4,918 items of paint stocked at 12 military depots.

In April 1964 the Director of the Bureau of the Budget (BOB) issued a determination order with respect to the transfer of funds and inventories from the Department of Defense to the General Services Administration incident to the assumption by the latter agency of the responsibility for certain paint and hand-tool items. Approximately \$2.38 million in operating funds for fiscal year 1964 were transferred from DOD to GSA.

The BOB agreed to a proposal that GSA pick up the inventory transfers of paint and handtools in accordance with DSA's recorded values and establish a \$20-million reserve for losses due to transportation factors, material unsuitable for issue, excesses as identified, and other inventory adjustments. On or before June 30, 1966, the final inventory is to be identified and the reserve is to be written off as appropriate.

The principal officials of the Department of Defense, General Services Administration, and other Federal agencies responsible for the activities discussed in this report are listed in the appendix.

### *Findings*

#### *Deficiencies and problem areas in supply management of paint and related products*

Inventory reductions totaling about \$3.6 million occurred during the transfer of paint and related products from DSA to GSA and the Department of the Navy. Of these inventory reductions, items worth \$2.5 million were identified as (1) excess to requirements—\$545,300, (2) deteriorated and unfit for use or otherwise classified as not ready for issue—\$823,300, and (3) not accounted for as a result of deficient stock records—\$1,155,400. The additional \$1.1 million was for paint disposed of by the Navy as excess or otherwise not usable.

During the period June through September 1963, prior to the transfers, DISC decreased its inventory balances of paint and related products by approximately \$1.4 million because stocks of these materials could not be physically located.



Prior to transfer, DISC also disposed of about \$618,000 worth of paints and related products which were determined to be unfit for use.

We believe that the major factor which led to these actions could be attributed to the poor supply management practices in the Department of Defense prior to October 1, 1963. Specifically, it appears that losses because of excess and deteriorated paints have resulted primarily from (1) the use of inaccurate data in computing requirements, (2) failure to issue the oldest stocks first, (3) failure to fill requisitions of items in short supply from excess stocks of substitutable material, (4) failure to promptly return excess stocks to the supply system for reissue, and (5) failure to terminate procurement actions when requirements for items have decreased.

In view of the limited time in which to develop the information required for reporting to the Subcommittee, we have been unable to make a complete analysis of the basic causes and total effect of the problems we identified. However, the circumstances creating this situation are discussed in greater detail in the following sections of the report.

As of December 31, 1964, recorded inventories of paint and related products totaling about \$13.1 million had been decapitalized and accountability had been transferred from DSA to GSA. We were informed by GSA officials that all the stock, except for about \$4.4 million worth located at the Naval Supply Center, Oakland, had been inspected as to usability by GSA inspectors who had physically or visually inspected the paint. The selection of specific lots of paint to be physically inspected was made on a statistical sample basis and was carried out by GSA regional personnel at the locations where the paint was stored. We were informed by GSA personnel that, except for paint valued at about \$455,000, all paint had been moved from military to GSA depots by January 31, 1965.

According to GSA records, inventory balances of about \$1.3 million worth of the decapitalized paint had been written off by GSA as of December 31, 1964. The three categories of this write-off were as follows:

<i>Category</i>	<i>Amount</i>
Excess usable paint.....	\$120, 300
Excess deteriorated paint.....	517, 300
Stock adjustments (net shortages).....	655, 400
<b>Total write-off.....</b>	<b>1, 293, 000</b>

The excess usable paint was reported to have been in good condition but excess to stockage requirements. We were informed that the excess deteriorated paint was found by inspection and quality control testing to be unusable for stock issue. Our review of about \$168,000 of approximately \$637,000 worth of excess usable and deteriorated paint and related products has shown that about \$122,000 worth was set aside for transfer to the Department of Health, Education, and Welfare for donation to States for educational, public health, or civil defense purposes; about \$27,000 worth was shipped to other Government agencies, and about \$19,000 worth was sent to a disposal sales center.

The amount shown as stock adjustments—\$655,400—is the difference between gross shortages of about \$927,400 netted against gross overages of about \$272,000, as disclosed by GSA's physical inventories. The shortages represent recorded inventories which could not be found. The overages represent paint found which either was not recorded or was in excess of the recorded quantities. Accordingly, GSA found that differences totaling about \$1.2 million existed between actual and recorded inventories.

A limited survey at the GSA San Francisco Regional Office disclosed that as of January 31, 1965, more than \$5.1 million of the total of \$13.1 million worth of paint and related products had been decapitalized to the GSA San Francisco Regional Office. The amounts and locations of this material were as follows:

<i>Location</i>	<i>Amount</i>
Naval Supply Center, Oakland, Calif.....	\$4, 451, 800
Naval Supply Center, San Diego, Calif.....	704, 648
Tracy Defense Depot, Tracy, Calif.....	2, 161
<b>Total.....</b>	<b>5, 158, 609</b>

We noted that the GSA write-off of paint and related products worth \$1.3 million as of December 31, 1964, did not include the results of the quality control inspection by GSA of the items located at San Diego and Tracy or the uninspected items located at Oakland.

However, review of GSA records at the San Francisco Regional Office disclosed that approximately \$285,000 worth of paint received from the Naval Supply Center (NSC), Oakland, and \$21,000 worth of paint received from NSC, San Diego, had been found not ready for issue after GSA inspections. The total amount of paint and related products which had been inspected at these two locations was not readily available.

Further, the potential disposal of approximately \$425,000 worth of fluorescent paint is presently before the Commissioner, FSS, for decision. (See pp. 230 to 231.)

In addition, Navy financial records at the Fleet Material Support Office (FMSO) showed that about \$6.6 million worth of paint and related products were capitalized and retained by various naval activities; whereas, DISC records showed that \$7.1 million worth of these items had been transferred. This difference of \$500,000 in inventory value could not be explained by FMSO officials. Also, the FMSO financial records showed that, subsequent to the transfer, naval activities had disposed of paint and related products worth about \$1.1 million which was either excess or otherwise not usable.

The poor supply management practices pertaining to paint and related products noted during our review are discussed below.

#### *Overprocurement resulting from inaccurate data in computing requirements*

In computing requirements for paint and related products, DISC, on the basis of demand data, computed a forecast of gross needs and then deducted the assets that were available to arrive at the quantities to purchase. Errors in these supply factors can cause significant overbuying of shelf-life material which may ultimately be disposed of, as illustrated by the current inventory status of red-orange fluorescent paint kits.

During the period March to December 1960, DISC purchased about 38,400 fluorescent red-orange paint kits costing about \$953,500. The quantities bought were at the time computed to be enough for a 15-month period. According to DISC records, however, it had on hand, about 3 years later, over 21,600 kits of this paint valued at \$520,320. This item has a shelf-life period of 2 years, but this period may be extended if stocks of the item are tested and found to be fit for use. This stock was recently tested and found to be in good condition and ready for issue.

This red-orange fluorescent paint was used by the Air Force for marking aircraft to aid in preventing midair collisions. Prior to the transfer of management responsibility to DISC, in October 1960, the item was managed by the Mobile Air Material Area (MOAMA). In order to have enough stock in its inventory when it began to manage the item, DISC began to procure this kit in March 1960. We were informed by DISC personnel that their computations were essentially based on demand and asset data furnished to them by MOAMA. Following are the computations made by DISC to procure this paint.

1. During mid-December 1959, MOAMA advised DISC that Air Force sales of this kit were averaging about 1,955 a month and that it had on hand paint equivalent to about 5,100 kits. On this basis DISC computed that it needed for a 9-month period about 17,600 kits, less the 5,100 on hand, or a net requirement of 12,500. In March 1960, DISC purchased under contract N155-52069 12,600 kits.

2. In May 1960, MOAMA advised DISC that its monthly sales were still 1,955 kits and that it had on order 9,872 kits but none on hand. On this basis, DISC determined that it needed about 29,300 kits for a 15-month period, less the 12,600 it previously ordered plus the 9,872 of Air Force kits, or a net requirement for about 6,900. This quantity was purchased on contract N155-56588 awarded in August 1960.

3. During September 1960, MOAMA again advised DISC that it had sales of 1,955 kits a month and that it had 892 on hand and none on order. As before, DISC computed that it needed 29,300 for a 15-month period and after deducting the 19,500 ordered previously plus the 892 reported by the Air Force, it determined a net requirement for about 9,000 kits. This quantity was purchased under contract N155-59280 awarded in December 1960.

In addition to the above purchases amounting to 28,500 kits, DISC purchased for the Air Force 9,872 units under contract N155-33053 in April 1960. These kits were ordered by MOAMA on a Military Interdepartmental Purchase Request. MOAMA personnel determined that these kits were required to meet Air Force needs until DISC assumed management.

On the basis of our review, we estimate that, of the 38,372 kits procured to support the Air Force about a 2-year period, at least 25,300 were in excess of

actual requirements. We found that MOAMA conducted a review in June 1961 of the over purchase. Its review disclosed that issues of these kits had been about 9,000 annually or an average of 750 a month, but did not disclose how MOAMA had determined that 1,955 kits were needed monthly. On the basis of 750 kits a month, however, DISC would have needed 11,250 for a 15-month month period instead of 29,300, or about 18,100 less than the quantity purchased. Likewise, the Air Force order for 9,872 kits to support operations, until DISC assumed supply management, was overstated by about 7,200.

Since detailed records covering the periods prior to the above procurements were not available at DISC or MOAMA, we were unable to verify the sales factor developed by MOAMA. However, our review indicated that the monthly issue rate of 1,955 kits was significantly overstated. According to DISC records, demand data since October 1960 averaged about 460 kits a month, which was even less than the 750-issue factor developed by the Air Force. We found that orange fluorescent paint was initially used by the Air Force during 1957 to mark training aircraft. During 1959, this program was expanded to cover many other types of aircraft. As a result, the issue experience prior to 1960 apparently included that required for the initial painting of these aircraft.

According to DISC records, about 21,600 kits were in its supply system as of September 30, 1963. Of these, 19,500 were transferred to GSA and 1,800 to the Navy. The remaining 300 kits could not be located and were written off. We also noted that DISC records, as of September 1963, showed an annual issue of about 5,200 kits. Thus, the quantity on hand would constitute about 4 years' supply.

In reviewing the history of this item after transfer of management to GSA, we found that the GSA stock status register of October 22, 1963, showed that, of an initial decapitalization, there remained 8,904 kits on hand to provide for a monthly demand of 288, or an annual issue of about 3,450 kits.

Nevertheless, in February 1964, GSA contracted under an indefinite quantity contract for an estimated 1,410 kits along with other fluorescent paint items with a 50-percent minimum delivery guarantee to the supplier. We understand from discussions with the FSS contracting officer that the estimated quantities covered by the contract were based on purchase history data cards along with demand data supplied by DISC. We found no evidence that GSA, in estimating the requirement for 1,410 kits, gave consideration to the additional assets being transferred from DISC.

In March 1964, the Navy Department notified GSA that, because of a change in the color configuration requirements for Navy aircraft which eliminated the use of fluorescent paint for a number of aircraft models, a significant reduction would result in the usage of fluorescent paint items by the Navy. In April 1964, GSA notified its regional offices of this matter and in May 1964 the FSS central office halted all further procurement of fluorescent paint items.

The FSS contract expired August 31, 1964, but only 368 kits of the 705 minimum quantity under the contract had been ordered by GSA and there remained a balance of 337 kits of this line item, at an estimated cost of \$7,750, still required to be taken by GSA under the minimum guarantee provisions of the contract. We understand that GSA is negotiating with the contractor regarding the settlement of the contract.

As of January 28, 1965, there were approximately 15,400 excess kits valued at about \$425,000 in the GSA supply system. Efforts have been made by GSA without success to dispose of these kits now carried in the FSS stores stock system. We understand that the problem of disposition of this fluorescent paint as well as other fluorescent paint items is presently before the Commissioner of FSS for decision.

*Failure of DOD activities to issue first those items having shortest remaining shelf-life period*

Our review indicated that the DISC system relating to issuance of shelf-life material needs improvement. We found evidence that (1) DISC and its distribution depots in several instances failed to issue paint items that were in long supply as substitutes for similar paint being procured and (2) distribution depots in several instances issued quantities of an item with longer shelf-life than older stocks which were available. Our comments on these problem areas follow.

*DISC and its distribution depots in some instances failed to issue paint items in long supply as substitutes for similar paint being procured.*—Frequently, identical

paint and paint products are packaged in containers of different sizes (i.e., pint, quart, 1-gallon, and 5-gallon containers). Each item, although identical, has a different Federal stock number. We found that DISC in several instances was purchasing paint items in a particular size container while at the same time it had on hand long-supply quantities of identical items in containers of different sizes. As a result, short-shelf-life items in some instances were not effectively utilized. Moreover, the failure to use the older items could ultimately result in their being disposed of because of deterioration, as illustrated by the following example:

DISC carried in its stocks a certain olive drab enamel paint in a 1-gallon container and also in a 5-gallon container. This paint, according to DISC records, had a shelf-life period of 2 years. During February and July 1963, DISC procured 20,800 gallons of this paint in 1-gallon containers at a cost of about \$32,000. However, much, if not all, of this requirement could have been satisfied by issuing long-supply quantities of identical paint in 5-gallon containers.

DISC records showed that as of March 18, 1963, there were about 12,400 5-gallon containers on hand and that the average annual usage was only about 4,000. Since the recorded shelf life for this item was 2 years, the DISC system had on hand at least 4,400 5-gallon containers of this paint in excess of its remaining shelf-life period, which was equivalent to about 22,000 1-gallon containers.

The issue of paint in 5-gallon containers in response to orders for quantities in 1-gallon containers might in some instances result in waste. However, since the paint in 5-gallon containers was in an excess supply position and was subject to deterioration and total loss, it would have been advisable to use the excess 5-gallon containers to the extent possible to fill the 1-gallon orders. Furthermore, our tests of actual issues during a 2-month period disclosed that about 98 percent of quantities ordered were in multiples of 5 gallons and, consequently, the 5-gallon containers could have been substituted for the 1-gallon containers with little waste.

Further review showed that the requirement for paint in 1-gallon containers could be met with minimum redistribution of the 5-gallon containers. The following tabulation shows the scheduled deliveries from procurement of paint in the 1-gallon containers and the location of stock of paint in 5-gallon containers.

Distribution depots	Scheduled deliveries of 1-gallon containers	Location of 5-gallon container inventory (gallons)
Naval Supply Center, Oakland, Calif. ....	6,700	50,500
Naval Supply Center, Bayonne, N.J. ....	5,300	3,500
Columbus General Depot, Columbus, Ohio. ....	4,900	7,000
Naval Supply Depot, Mechanicsburg, Pa. ....	2,600	-----
Naval Supply Center, Norfolk, Va. ....	-----	1,000
Memphis Army Depot, Memphis, Tenn. ....	400	-----
Atlanta Army Depot, Atlanta, Ga. ....	300	-----
Utah Army Depot, Ogden, Utah. ....	600	-----
<b>Total</b> .....	<b>20,800</b>	<b>62,000</b>

The cost of redistribution could have been avoided to some extent by directing, when applicable, that requisitions for this paint in 1-gallon containers be satisfied from Oakland's inventory of 5-gallon pails regardless of the depot receiving the order.

According to DISC records at September 30, 1963, DISC had on hand about 36,800 gallons of this paint in 5-gallon pails. Of this quantity, 10,650 gallons were classified as being unfit for use. On October 1, 1963, DISC transferred 21,300 gallons of ready-for-issue paint to GSA and 2,350 gallons to the Navy. DISC was unable to account for the difference of 2,500 gallons. Later in October, DISC reclassified the 10,650 gallons that were earmarked as unfit for use to its ready-for-issue material account and also transferred this stock to GSA. We were unable to locate any documents justifying this reclassification.

Because our review was limited, we were unable to determine the total quantity of this paint that was disposed of. However, our tests indicate that as of January 30, 1965, significant quantities of this material were

classified as unfit for use or could not be physically located. In this connection, records at DISC and certain GSA locations show that about 700 gallons of paint in 5-gallon pails were disposed of. In addition, GSA was unable to locate 7,055 gallons of the transferred inventory.

Since DISC records showed that a large portion of its inventory of this item had been located at NSC, Oakland, we checked the Navy's stock of the item at this location. We found that the NSC had recorded inventory of only 1,420 gallons in 5-gallon pails on hand. However, there were actually 11,770 gallons in stock, of which 7,570 gallons were classified as being unfit for use. We were unable to determine whether this was part of the material which GSA could not locate. We brought this matter to the attention of NSC, Oakland, officials so that proper disposition could be made of this material.

*Distribution depots in several instances issued quantities with longer shelf life than older stocks which were available.*—Our tests indicated that DISC distribution deposits in several instances issued quantities of items having a longer shelf-life period while quantities of the same items having a shorter shelf-life period were on hand. This practice could result in stocks unnecessarily becoming unfit for use and eventually being disposed of. Following is an example illustrating the failure to issue older stocks first.

As of June 11, 1963, the NSC, Oakland, California, had on hand 3,905 units, each containing 5 gallons of a certain prime coating valued at \$11 a unit, or a total of about \$43,000. Also, the shelf-life period had expired for 1,364 units, or about \$15,000 worth of this primer. However, the period had been extended from 1962 to 1963 for part of this paint and 1964 for the remainder.

We analyze the inventory transactions relating to this primer to determine practices followed in issuance of the item. We found that about 1,063 units having a longer shelf-life period were issued even though sufficient quantities having a much shorter shelf-life period were available for issue, as shown by the following schedule:

Contract No. under which primer was purchased	Manufacturing date	Shelf-life expiration	Quantities			Balance on hand June 11, 1963
			Received	Issued		
				New	Old	
DSA-5-7374	April 1963	March 1965	2,204	719	-----	1,485
DSA-5-4746	January 1963	December 1964	500	16	-----	484
DSA-5-1081	October 1962	September 1964	900	328	-----	572
N-155-53925	October 1960	February 1964	650	-----	311	339
N-155-55733	September 1960	August 1963	8,975	-----	7,950	1,025
<b>Total</b>			<b>13,229</b>	<b>1,063</b>	<b>8,261</b>	<b>3,905</b>

According to DISC records, NSC, Oakland, had about 3,325 units of this paint on hand as of September 30, 1963. Of this quantity, 1,538 were classified as being unfit for use. On October 1, 1963, DISC transferred about 1,000 units of the ready-for-issue material to GSA and 787 to the Navy.

We were informed by DISC personnel that in December 1963, NSC, Oakland, was questioned as to the status of the 1,538 units that were in an unfit condition. DISC was advised that this paint was available and reclassified as being fit for use. No documents were available at DISC to justify the basis of this reclassification. However, DISC, in March 1964, ordered the transfer of the 1,538 units to GSA but NSC, Oakland, could not locate this inventory. As of February 28, 1965, DISC still had not accounted for this shortage.

*Failure of end-users to promptly return excess stocks to supply system for reissue*

The DISC inventory management system includes several distribution depots which maintain inventories, receive and issue stock, and report supply transactions and other data to DISC for its use in computing material requirements. The military service installations requisition DISC-managed supplies from these distribution depots. These military installations are referred to as end-users.

Our review disclosed instances where the end-users of paint supplied by DISC distribution depots failed to promptly return paint that had become excess to

installation needs. Delays in returning excess short-life items result in unnecessary procurement or disposal because of deterioration, as illustrated by the following example:

On October 12, 1961, Brookley Air Force Base (AFB), Alabama, recorded an inventory gain on its supply records of 34,620 gallons of a certain enamel paint valued at about \$69,200. According to DISC records, this paint had a shelf-life period of 1 year. Brookley AFB personnel informed us that the 34,620 gallons of paint had been excess to the installation's needs since October 1961. We found, however, that action was not initiated until November 1962 to return this material to the DISC distribution depot located at Mobile Air Material Area. When the transfer was attempted, the paint could not be located. In March 1963, about 16 months after the paint at Brookley AFB was identified as excess, 37,900 gallons, including an additional 3,280 gallons, were found and returned to DISC inventories at MOAMA. DISC was not aware of the existence of the 37,900 gallons of this paint and had initiated a purchase action for an additional 20,900 gallons in February 1963.

Subsequently, DISC determined that the paint returned by Brookley AFB was manufactured during 1959 and 1960 and instructed MOAMA to return it to the user. In May 1963, Brookley AFB had this paint tested and, as a result, about 16,600 gallons valued at about \$33,200 were condemned and earmarked for disposal. The remaining 21,300 gallons were accepted by DISC since there was still a requirement for this item. Nevertheless, DISC, in July 1963, awarded the contract for the 20,900 gallons.

According to DISC records, there were 9,300 gallons of this paint on hand as of September 30, 1963, and an additional 44,900 gallons undelivered under existing contracts, or total assets of 54,200 gallons. During the period September 30, 1963, through January 1, 1964, DISC transferred about 35,200 gallons to GSA and 5,400 gallons to the Navy, leaving about 13,600 gallons unaccounted for. We brought this matter to the attention of DISC officials in order to have them investigate this shortage. As of February 28, 1965, this problem was still unsolved.

#### *Failure to terminate procurement actions when requirements decrease*

During our review at DISC, we noted that in some instances personnel were failing to promptly review outstanding procurement for items which were no longer needed because requirements had subsequently decreased. The situation, if widespread, can result in significant overprocurements and eventual disposal of material having limited shelf life. The following example illustrates the savings which can be accomplished through prompt review of outstanding purchase actions covering items for which requirements have decreased.

On January 27, 1963, DISC personnel prepared a requisition for the procurement of 3,000 gallons of olive drab lacquer in 5-gallon pails, having a 2-year shelf life, at an estimated cost of \$8,100. This requisition was based on a computation showing gross requirements for 4,020 units, less assets available of 3,340 units, or a net requirement for about 600 units.

Our review of stock status data about 3 months later showed that the gross requirements had decreased to 2,622 units and the assets available, excluding the scheduled purchase, were 2,850 units, or a long supply of 228 units. We requested DISC personnel to review this matter in view of the proposed procurement of unneeded stock.

As a result of our request, DISC personnel reviewed the requirements for this item and we were advised that the purchase requisition was canceled. Also, they informed us that the excess position resulted from a military user's returning 350 units, thereby increasing the assets available and resulting in a general decrease in the expected issue of the item.

#### *Deficiencies and problems in the management of other short-shelf-life items*

During the course of our reviews of Federal agency operations, we have noted many basic deficiencies in supply management operations which resulted in substantial losses and additional operating expenses, not all of which were specifically identified in terms of effect on short-shelf-life items. In the succeeding sections of this report, we have presented those deficiencies in supply management operations which illustrate the need for special handling of short-shelf-life items. They are—

1. Stocks becoming overaged and deteriorated because of ineffective inventory controls and warehouse practices.

2. Premature disposal because of failure to extend shelf-life expiration dates.
3. Unnecessary procurement and accumulation of stocks because of ineffective requirements controls and failure to utilize substitutable items in excess or long supply.
4. Need for better interagency coordination in redistributing stockpile excesses and oldest stocks to meet Government-wide needs.

*Stocks becoming overaged and deteriorated because of ineffective inventory controls and warehouse practices*

*Navy aeronautical parts.*—Our review of practices followed in the storage and warehousing of aircraft parts and equipment at the Naval Air Station, Pensacola, Florida, disclosed that limited-shelf-life aircraft parts became overaged because (1) warehouse records were not marked to indicate shelf-life material and (2) shelf-life stocks were not reviewed regularly to determine the remaining storage life and insure timely transfer to a limited use or unserviceable category. This condition was reported to the Congress in June 1958 (B-133014). The Navy advised us in August 1958 that it had implemented our recommendations for corrective action and that instructions had been issued directing naval installations to issue oldest material first.

We subsequently conducted a follow-up review at this installation and found that, despite new instructions, stocks unnecessarily became overaged because of the continued failure to issue oldest stocks first. This resulted from deficient warehousing practices including (1) placing new stock in front of older stock in storage bins and shelves and (2) uncrating and issuing newer bulk stock before older stock was used up. Parts valued at about \$2 million had to be withdrawn from stock and restored to usable condition at an estimated rework cost of \$400,000. Many of these items could have been used without rework if oldest stock had been issued first.

We reported this condition to the Congress in November 1961 (B-133014) but made no recommendations because the Navy, in commenting on our findings in September 1961, had advised us that new instructions, coupled with rewarehousing of stock at the installation, would ensure that the oldest stock would be issued first.

Our second follow-up review, which is substantially completed, indicates that the prescribed corrective measures have not been put into actual practice. Warehouse personnel are not following first-in, first-out procedures for issuing shelf-life material.

*Air Force aeronautical parts.*—We identified ineffective warehouse controls as a principal reason why the Air Force was prevented from utilizing substantial quantities of age-controlled aeronautical spare parts before their established shelf life expired. This condition was aggravated by the failure of the Air Force to clearly identify, for use of its warehousemen and item managers, the items requiring age control and their established shelf life.

Air Force instructions require that parts with the earliest cure dates<sup>1</sup> be issued first. The instructions, however, did not sufficiently emphasize the importance of segregating warehouse stocks in a manner which would ensure that parts would be issued in sequence of earliest cure dates. In reviewing warehousing practices at three depots, we found that parts with the earliest cure dates were not readily identifiable and were not consistently issued first because (1) cure dates were not shown on warehouse locator cards and (2) cure-dated stocks were physically intermingled with other stocks.

We reported to the Congress in March 1964 (B-146865) that these conditions led to the premature disposal of \$4.8 million worth of spare parts, which is discussed on page 30 of this report. In May 1964 DOD advised us that, as a result of our recommendations, the Air Force had revised its regulation on age control of property in storage to provide for new criteria on the application of age control, segregated storage, and identification of aged items.

*Rubber tracks for Army combat vehicles.*—Our report to the Congress in February 1963 (B-146773) disclosed unnecessary cost to rebuild unused rubber tracks for Army combat vehicles because the Army allowed the tracks to deteriorate in storage. We found that this condition was aggravated by the failure to protect the items. Substantial quantities of the tracks were kept in unprotected outside

<sup>1</sup> Established shelf lives for aeronautical spare parts begin generally with the dates that material such as rubber is fabricated into components, which are referred to by the Air Force as cure dates.

storage for years despite existing procedures calling for inside storage and the Army's knowledge that outside storage accelerated rubber deterioration. The Army's failure to utilize the tracks before they deteriorated is discussed on page 33 of this report.

In commenting on the lack of protection, the Army advised us that its policy for inside storage was receiving current reemphasis.

*Premature disposal because of failure to extend shelf-life expiration dates*

*Photographic supplies—Department of Defense.*—We found that Army and Navy depots disposed of at least \$826,000 worth of photographic film and paper without first applying relatively simple tests to determine whether the service expiration dates could be extended. Tests made during our review indicated that substantial quantities of these items were disposed of because the Army and Navy assumed that they were too old to be usable. In contrast, the Air Force salvaged for future use \$1,228,000 worth of outdated film and paper by utilizing inexpensive testing techniques. DOD, in commenting on this deficiency, advised us that existing instructions provided general guidelines on evaluating the quality of stored supplies and that the Army and Navy were being directed to institute a program for quality surveillance of photographic film and paper. This situation was reported to the Congress in January 1962 (B-146711).

*Air Force aeronautical parts.*—The Air Force required that certain age-controlled spare parts be condemned as unfit for use, irrespective of condition, as soon as their shelf lives expired. These parts included primarily synthetic rubber items, such as gaskets, seals, washers, diaphragms, and assemblies containing such components. This deficiency coupled with the ineffective warehouse controls, described on page 27 of this report, resulted in the disposal at four Air Force Depots of \$4.8 million worth of parts, many of them serviceable, without (1) any physical examination for continued serviceability of the shelf-life components or (2) consideration of the fact that inexpensive components which had become defective could be economically replaced.

This condition was reported to the Congress in March 1964 (B-146865). Subsequent to our review, the Air Force issued instructions providing that disposition of age-controlled items with expires lives be subject to engineering tests. According to Air Force estimates, savings from the retention of age-controlled items that were previously subject to automatic condemnation and disposal may reach \$15 million by June 1965.

*Unnecessary procurement and accumulation of stocks because of ineffective requirements controls and failure to utilize substitutable items in excess or long supply*

*Photographic supplies—Department of Defense.*—Unnecessary costs were incurred in the management of photographic supplies as a result of ineffective control of requirements and lack of interservice use of available assets. Included in an inventory of 27,300 photographic items valued at \$150 million were substantial quantities in excess of actual requirements which resulted in disposals because of obsolescence and expiration of shelf life. Our review also identified unnecessary purchases of film, paper, and chemicals.

The basic operating deficiencies, identified in our report to the Congress in January 1962 (B-146711), which led to the accumulation of excess or long-supply inventories were as follows:

1. Erroneous computation of requirements.
2. Unnecessarily carrying in stock at least 5,000 of the 27,300 photographic supply items readily available from commercial sources.
3. Failure to either recognize or utilize substitutable items in long supply.
4. Failure to accomplish interservice utilization of excess or long-supply stocks.
5. The same supply support being provided by both the Government administrative organization and a contractor operating at a missile site.

Subsequent to our review, the supply management of photographic items common to the military services was transferred to the newly established Defense Supply Agency.

In our report to the Congress in June 1964 (B-146711), we identified that photographic film and sensitized paper worth \$140,000 deteriorated in storage primarily as a result of the failure of the Air Force to obtain a clear and unequivocal agreement with a contractor and its failure to verify the contractor's requirements before undertaking to procure and stock items. The items were procured by the Air Force for use at a missile range by the contractor whose responsibilities



included processing of film for photographic coverage at the range. Because of the lack of a clear agreement and verified requirements:

1. About \$56,000 worth deteriorated because the contractor purchased the items from suppliers after being advised by the Air Force that, under an arrangement with the contractor, identical items had been procured and were available at its depot.
2. About \$34,000 worth deteriorated because the contractor had not furnished accurate requirements data or promptly advised of its reduced need for certain of the items.
3. About \$50,000 worth deteriorated because the Air Force procured the items before it was assured that the contractor needed and would requisition the items.

Subsequent to our review, the Air Force took action to recover from the contractor the \$56,000 incurred as a result of its purchase of supplies which were available from the Air Force. We recommended similar action to recover also the \$34,000 loss resulting from the contractor's failure to furnish accurate requirements data.

*Photographic supplies—National Aeronautics and Space Administration.*—During a review of the management of photographic supplies by the National Aeronautics and Space Administration (NASA), we found that the failure of local supply management officials to follow prescribed supply procedures was the principal cause for an inventory of photographic film, paper, and developer that was greatly in excess of quantities required for adequate supply support.

The inventory of photographic supplies at NASA's Manned Spacecraft Center contained a total of 365 different items worth about \$286,000. Actual issue experience showed that 250 items, valued at \$171,000, which constituted about 70 percent of all photographic items managed, were not required. NASA supply procedures provided that quantities carried in inventory are to be based on prior usage and deterioration rates and that they require regular determination at the local level of quantities which are excess to needs. The failure to implement these procedures resulted in purchases even though quantities on hand were already excess to requirements and in retention of many items in the inventory despite little or no demand for their issuance.

Although we did not identify any disposals of shelf-life items, the creation of excess inventories to this extent could have very easily resulted in the expiration of the effective shelf-life period and in spoilage had we not called it to the attention of the agency. NASA advised us that, as a result of our review, the inventory was reduced by 181 line items with a cost value of about \$150,000 by steps including redistribution to other NASA units and other Government agencies. We were also informed that steps had been taken to ensure more effective implementation of the prescribed procedures. Our findings on this situation were reported to the Congress in January 1965 (B-133340).

*Rubber tracks for Army combat vehicles.*—As indicated on page 28 of this report, a contributory cause of unnecessary costs of about \$5 million incurred by the Army was the lack of adequate storage protection which accelerated the deterioration of rubber tracks. The primary cause for this loss was the fact that the Army could have used, but did not use, the tracks before they deteriorated.

We found that the Army procured and issued new stocks of a modified version of the rubber track even though by a slight modification it could have issued the older tracks of the prior version. The subsequent deterioration required rebuild at a cost of \$3.4 million. In other instances the rubber tracks could have been issued without modification as Government-furnished property for use in production of new vehicles. Instead, the vehicle producers purchased new tracks. As a result, these tracks subsequently deteriorated in storage and required rebuild costing \$1.7 million.

In commenting on these deficiencies, the Army indicated that its policy was to meet requirements by modifying and issuing older tracks and that this matter was receiving current reemphasis (report to the Congress dated February 26, 1963, B-146773).

*Wet storage batteries—Navy.*—In our report to the Congress in April 1964 (B-146765), covering the review of certain aspects of the Navy's management of mobilization reserve stocks of commercial-type vehicles, we identified unnecessary disposal of usable wet storage batteries and procurement of new items because of ineffective supply utilization.

The Navy Construction Battalion Center, Davisville, Rhode Island, a mobilization reserve storage point for commercial-type vehicles, disposed of wet storage batteries even though it concurrently had need for such batteries. Although other storage points maintained wet batteries in storage from 2 to 3 years until

they were used or no longer met specific gravity standards, the Davisville Center removed the batteries from the vehicles; and, unless there was a definite known need, the batteries were declared excess and committed to disposal. We found that these batteries, valued at about \$29,800, could have been utilized at the Center in vehicles being shipped from storage. Instead, the Center purchased and installed new wet storage batteries in these vehicles. The Navy concurred with our proposal that closer surveillance be maintained to prevent further disposals of usable materials.

*Need for better interagency coordination in redistributing stockpile excesses and oldest stocks to meet Government-wide needs*

Civil and military agencies of the Government stockpile substantial reserves of material, including items with limited life, to meet a sudden expansion of requirements. For items where normal peacetime consumption is low in relation to quantities stockpiled for wartime needs, losses from deterioration are probably unavoidable to some extent. However, in reviews currently in process, we are considering whether deterioration losses might be reduced by more effective Government-wide coordination of the computation of requirements and the rotation of stockpile items.

We are reviewing medical supplies subject to deterioration in the civil defense medical stockpile managed by the Public Health Service (PHS), Department of Health, Education, and Welfare (HEW). PHS has estimated that items valued at about \$62 million are subject to deterioration within the next several years or are already of questionable usability. Potential losses are of increased significance in that, when limited-life items presently in the stockpile are replaced, the new items would likewise be subject to deterioration. Thus losses from deterioration amounting to many millions of dollars could continue indefinitely unless an effective program is established for rotation of limited-life items into current use.

It appears that deterioration losses might be reduced by transferring limited-life civil defense stockpile items to the Department of Defense and Veterans Administration (VA) for current use in medical care programs of these agencies. PHS estimates that during the next 3 years about \$8.2 million worth of potency-dated antibiotics will need replacement. Our limited review has disclosed purchases of potency-dated antibiotics by VA, totaling over \$600,000, and by DOD's Defense Medical Supply Center (DMSC), totaling about \$3.1 million. Large quantities of these items were in the stockpile, and issuance of them for current use by these agencies would enable replacement of the stockpile with fresh stock, thereby reducing deterioration losses which undoubtedly will otherwise occur.

PHS had only limited success in attempting to arrange for transfers to DOD and VA. We believe that exploration of the matter has been impeded by the divided agency responsibilities and the natural reluctance to accept items that have been in storage for some time. Qualified officials of the Food and Drug Administration and the National Institutes of Health have told us, however, that stockpiled antibiotics and biologicals which meet product specifications after laboratory testing are just as suitable for use as newly manufactured products.

We have brought this matter to the attention of the Secretary, HEW, the Secretary of Defense, and the Administrator of Veterans Affairs, suggesting that they review the feasibility of using for current Government requirements limited-life items, acquired or to be acquired, for the civil defense medical stockpile and, on the basis of this review, take action to establish programs for the systematic rotation of those items that can be used in the current programs of other agencies. We are awaiting the response of these officials.

*Joint Department of Defense General Services Administration study project*

The Subcommittee on Defense Procurement, Joint Economic Committee, recommended that a joint project be set up (1) to identify and use throughout the Government the existing short-shelf-life items now in stock and (2) to devise ways and means to reduce losses from these items in the future. By memorandum addressed to the Director, Defense Supply Agency, on September 25, 1964, the Deputy Assistant Secretary of Defense (Supply and Services) requested that the joint project be established to (1) identify items having limited shelf life, (2) standardize the shelf-life time periods to the extent possible, and (3) explore maximum Government-wide utilization prior to disposal.

We met with the DSA project officer on October 7, 1964, and suggested that consideration also be given to utilization of the existing items now in stock. He agreed that it would be helpful if the objectives of the joint project included (1) an inquiry into instances of actual shelf-life losses, (2) the matching of existing inventories with requirements, and (3) the grouping of interchangeable items so

that the quantities of items not likely to be issued before shelf-life expiration might be utilized as substitutes.

The first meeting of the joint project study group was held October 14, 1964. Under the chairmanship of a representative of DSA headquarters, it included representatives of the General Services Administration, certain DSA Supply Centers, and the Army, Air Force, Navy and Marine Corps. We were informed later that, because of a lack of time and its interpretation of the Subcommittee recommendation, the study group had limited its efforts to identifying shelf-life items and devising procedures to reduce future losses.

The study group's joint report, dated February 10, 1965, was submitted to the Deputy Assistant Secretary of Defense (Supply and Services) and to GSA. Its recommendations include a proposed DOD instruction on identification, control, and utilization of shelf-life items and a proposed agreement between GSA and DOD governing cross-servicing of shelf-life assets. On February 24, 1965, copies of the joint report were furnished to us informally with the understanding that at that time it did not represent a firm position of either GSA or DOD. In view of time limitations, we have been unable to fully evaluate the report's conclusions and recommendations.

Our limited review indicates that the proposed instructions and interagency agreement call for procedural improvements needed in the areas of item identification, shelf-life time period standardization, procurement practices applicable to shelf-life items, and determination and utilization of potential excess shelf-life items.

These corrective actions are desirable. However, certain of the other recommendations made by the study group require clarification. Moreover, our reviews have disclosed problem areas that do not appear to be covered by the proposed instruction and agreement. These are described in the preceding sections of this report and include ineffective inventory controls and warehouse practices, inadequate identification and use of interchangeable items, and an apparent lack of effective rotation of stockpiled items in meeting current requirements on a Government-wide basis. We believe that correction of these deficiencies is important to minimize deterioration losses.

The study group recommended that drugs and biologicals requiring refrigeration be excluded from redistribution because of the possibility that storage and transportation may result in lowered potency. In view of the extensive quantities of these sensitive items in both civil and military stockpiles, we believe that the interagency use procedures should include tests to determine the potency of the items at the time current needs are to be filled.

The study group found that 840 shelf-life items, identified by the same Federal stock numbers, were managed by different agencies and that 580 of these items had been assigned varying shelf-life periods. Its recommendations included resolving the differences in shelf-life periods and coordinating the utilization of these items. Although such coordination would tend to reduce losses from deterioration of shelf-life items, the results of this review and our previous reviews indicate that there may be instances where increased effectiveness would best be attained by consolidation rather than by attempting coordination. In this respect, GSA and DOD, in December 1964, agreed to study the management of all common-use items with the objective of single supply management of individual types of items by one or the other agency. We believe that this study should be vigorously pursued. In addition, consideration should be given to the feasibility of consolidating supply management functions of other Government agencies where shelf-life items are presently under multiple management, such as identical medical supplies managed by various civil agencies as well as the DOD.

The study group's report states that all agencies practice first-in, first-out issuance of shelf-life items. Our review of warehousing practices indicates that this is probably a prescribed procedure or technique but that it is not being effectively implemented in practice. We have reported on serious deficiencies in this area on pages 26 to 29.

In its proposed instructions, the study group has provided for the marking of shelf-life items as either Type I or Type II. Type I is defined as an item which is disposed of when the established date has expired because it has a definite storage period that cannot be extended. We believe that this matter deserves further consideration and clarification to avoid an unrealistically rigid policy requiring that dated items be automatically condemned without regard to their possible remaining usefulness. See page 236 of this report dealing with items in a similar category that the Air Force had condemned as unserviceable upon expiration of their stated shelf life without an examination to determine actual

condition or whether the assembly containing the nonextendable dated item could be restored to full serviceability merely by replacing the outdated item.

In our opinion, the proposed procedures, if expanded to cover the deficiencies noted in our reviews and if properly implemented, should result in reduced future losses from shelf-life items. In our future reviews of supply management activities, we will inquire into the effectiveness of these procedures.

#### *Scope of review*

Pursuant to the September 1964 report of the Subcommittee and subsequent discussions with the Subcommittee staff, our review of the management of short-shelf-life items was limited in order to provide the results by March 1965. Our work was primarily directed to (1) examining into the magnitude of and conditions leading to losses on paints and related products transferred from the Defense Supply Agency in October 1963, (2) identifying deficiencies and problems in the management of other short-shelf-life items disclosed during the course of our reviews of Federal agency operations, and (3) evaluating the results of a joint study undertaken, pursuant to the Subcommittee's request, by representatives of the General Services Administration and the Department of Defense.

We made a limited examination into the pertinent policies, procedures, and controls of the Department of Defense and the General Services Administration. We reviewed the decapitalization and transfer of responsibility for paints and related products from the Defense Supply Agency to the General Services Administration. In addition, we reviewed information pertaining to the prior management of these and other shelf-life items. We also discussed with representatives of the joint study group the results of their efforts and reviewed a report of their findings.

Our review was conducted at the Defense Supply Agency headquarters, Washington, D.C.; the Defense Industrial Supply Center, Philadelphia, Pennsylvania; the Mobile Air Materiel Area, Department of the Air Force, Mobile, Alabama; the Naval Supply Center, Oakland, California; and the Navy Fleet Material Support Office, Mechanicsburg, Pennsylvania.

In addition we performed certain review work at the General Services Administration central office and regional offices located at Washington, D.C.; Kansas City, Kansas; and San Francisco, California.

#### *Principal officials of the Department of Defense, the General Services Administration, and other Federal agencies responsible for activities discussed in this report*

	Tenure of office	
	From—	To—
<b>DEPARTMENT OF DEFENSE</b>		
Secretary of Defense:		
Thomas S. Gates, Jr.-----	December 1959....	January 1961.
Robert S. McNamara-----	January 1961....	Present.
Assistant Secretary of Defense (Installations and Logistics) (formerly Supply and Logistics):		
E. Perkins McGuire-----	December 1956....	January 1961.
Thomas D. Morris-----	January 1961....	December 1964.
Paul R. Ignatius-----	December 1964....	Present.
Deputy Assistant Secretary of Defense (Supply and Services):		
Paul H. Riley-----	January 1961....	Present.
Director, Defense Supply Agency:		
Lt. Gen. Andrew T. McNamara, U.S. Army-----	October 1961....	June 1964.
Vice Adm. Joseph M. Lyle, U.S. Navy-----	July 1964....	Present.
Commander, Defense Industrial Supply Center (formerly Military Industrial Supply Agency and General Stores Supply Office):		
Capt. John W. Bottoms, U.S. Navy-----	September 1958....	June 1961.
Capt. Robert L. Watson, U.S. Navy-----	June 1961....	October 1961.
Read Adm. James S. Dietz, U.S. Navy-----	October 1961....	May 1964.
Maj. Gen. Donald L. Hardy, U.S. Air Force-----	May 1964....	Present.
Commander, Defense Medical Supply Center:		
Rear Adm. William L. Knickerbocker, U.S. Navy-----	January 1962....	June 1963.
Maj. Gen. Bryan C. T. Fenton, U.S. Army-----	July 1963....	April 1964.
Brig. Gen. Charles H. Gingler, U.S. Army-----	May 1964....	Present.
<b>DEPARTMENT OF THE AIR FORCE</b>		
Secretary of the Air Force:		
Dudley C. Sharp-----	December 1959....	January 1961.
Eugene M. Zuckert-----	January 1961....	Present.

*Principal officials of the Department of Defense, the General Services Administration, and other Federal agencies responsible for activities discussed in this report—Continued*

	Tenure of office	
	From—	To—
<b>DEPARTMENT OF THE AIR FORCE—Continued</b>		
Assistant Secretary of the Air Force (Installations and Logistics) (formerly Materiel):		
Philip B. Taylor.....	April 1959.....	February 1961.
Joseph S. Imirie.....	April 1961.....	September 1963.
Robert H. Charles.....	November 1963.....	Present.
Commander, Air Force Logistics Command (formerly Air Materiel Command):		
Gen. Samuel E. Anderson.....	March 1959.....	July 1961.
Gen. William F. McKee.....	August 1961.....	June 1962.
Gen. Mark E. Bradley.....	July 1962.....	Present.
Commander, Mobile Air Materiel Area:		
Maj. Gen. Dantel Callahan.....	August 1957.....	July 1961.
Maj. Gen. Emmett Cassidy.....	August 1961.....	January 1965.
Maj. Gen. Charles Root.....	January 1965.....	Present.
<b>DEPARTMENT OF THE NAVY</b>		
Secretary of the Navy:		
Fred Korth.....	January 1962.....	November 1963.
Paul H. Nitze.....	November 1963.....	Present.
Assistant Secretary of the Navy (Installations and Logistics):		
Kenneth E. BeLieu.....	February 1961.....	February 1965.
Graeme C. Bannerman.....	February 1965.....	Present.
Chief, Bureau of Supplies and Accounts: Rear Adm. John Crum- packer.	May 1961.....	Present.
Commanding Officer, Fleet Materiel Support Office: Capt. Ed- ward E. Brighton.	July 1962.....	Present.
<b>GENERAL SERVICES ADMINISTRATION</b>		
Administrator of General Services:		
Bernard L. Boutin.....	November 1961.....	November 1964.
Lawson B. Knott, Jr. (acting).....	December 1964.....	Present.
Commissioner, Federal Supply Service:		
C. D. Bean.....	September 1956.....	May 1964.
H. A. Abersfeller.....	May 1964.....	Present.
Assistant Commissioner, Office of Procurement, Federal Supply Service:		
L. L. Dunkle, Jr. (acting).....	January 1963.....	July 1963.
L. L. Dunkle, Jr.....	July 1963.....	Present.
Assistant Commissioner, Office of Supply Distribution, Federal Supply Service: Lewis E. Spangler.	July 1963.....	Present.
<b>DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE</b>		
Secretary of Health, Education, and Welfare:		
Abraham A. Ribicoff.....	January 1961.....	July 1962.
Anthony J. Celebrezze.....	July 1962.....	Present.
Surgeon General, Public Health Service: Luther L. Terry.....	March 1961.....	Do.
Chief, Division of Health Mobilization, Public Health Service:		
Carruth J. Wagner.....	February 1959.....	July 1962.
Gabriel P. Ferrazzano.....	August 1962.....	June 1964.
Arnold H. Dodge (acting).....	July 1964.....	Present.
<b>VETERANS' ADMINISTRATION</b>		
Administration of Veterans' Affairs:		
James S. Gleason, Jr.....	February 1961.....	January 1965.
William J. Driver.....	January 1965.....	Present.
Chief, Medical Director:		
William S. Middleton.....	March 1955.....	February 1963.
H. Martin Engle (acting).....	March 1963.....	May 1963.
Joseph H. McNinch.....	June 1963.....	Present.
Director, Supply Service:		
Glenn C. Parmelee.....	April 1954.....	December 1964.
Donald P. Whitworth.....	January 1965.....	Present.

## APPENDIX 6

## GSA SELECTED STATISTICS AND STATEMENTS OF SAVINGS AND ECONOMIES JULY 1, 1954, TO JUNE 30, 1964

## SOURCE OF DATA

This publication contains selected financial and operating statistics covering GSA's operations and growth for the fiscal years 1955-64. These statistics are presented for each GSA "service" by major program activity.

Financial data and related operating statistics, where applicable, are based on actual year data contained in budget justifications submitted to the Bureau of the Budget. Data not contained in

budget submissions are based on other official published financial and operating reports.

As indicated by appropriate footnotes, data for fiscal year 1964 and prior years have been adjusted to show comparative transfers to Transportation and Communications Service and Utilization and Disposal Service, both of which were established subsequent to June 30, 1961.

*Selected statistics, fiscal years 1955-64*

## PUBLIC BUILDINGS SERVICE

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Operating expenses (obligations in millions of dollars), PBS.....	106.4	106.6	114.4	130.5	139.9	150.1	164.6	179.5	193.6	217.1
Repair and improvement: Obligations (million dollars).....	18.2	33.1	45.8	76.0	75.9	53.1	61.2	62.6	64.8	78.0
Workload (million square feet).....	105.0	108.5	111.2	114.4	114.4	115.6	121.4	128.5	144.1	156.3
Buildings management (million dollars): Income by source:										
Operating expenses, PBS.....		108.3	116.3	129.0	130.7	138.0	152.3	163.6	176.3	197.1
Repair and improvement.....	(1)	6.9	10.2	29.0	24.1	14.0	14.2	16.2	15.9	17.4
Other GSA funds.....	(1)	7.6	9.5	8.0	8.9	7.9	7.9	9.1	11.6	11.0
Other agencies.....		47.8	51.7	55.6	56.4	66.3	67.7	70.3	71.6	95.1
Total.....	\$ 153.3	\$ 170.6	\$ 187.7	\$ 221.6	220.1	226.2	242.1	259.2	275.4	320.6
Expense by type:										
Government-owned space.....	60.2	66.4	62.6	81.5	89.7	94.5	111.7	118.6	121.9	126.6
Leased space.....	61.2	62.4	66.4	73.2	80.4	86.9	88.5	96.1	113.3	129.1
Other.....	19.5	27.2	43.1	49.5	49.8	44.5	42.6	44.3	38.4	65.2
Total.....	140.9	156.0	172.1	204.2	219.9	225.9	242.8	259.0	273.6	320.9

<b>Buildings management workload (millions of average net square feet):</b>										
<b>Government-owned space, financed by—</b>										
Operating expenses (see above).....	58.4	58.4	54.9	54.9	55.1	57.7	62.9	69.2	73.5	78.6
Other agencies and other GSA funds.....	9.7	10.9	14.6	19.3	22.9	26.0	29.9	35.5	40.1	40.5
<b>Total.....</b>	<b>68.1</b>	<b>67.3</b>	<b>69.5</b>	<b>74.2</b>	<b>78.0</b>	<b>83.7</b>	<b>92.8</b>	<b>104.7</b>	<b>113.6</b>	<b>125.1</b>
<b>Leased space, financed by—</b>										
Operating expenses (see above).....	23.7	20.3	20.5	21.4	22.0	22.1	22.0	24.0	26.9	30.6
Other agencies and other GSA funds.....	12.1	13.1	13.5	14.4	14.5	14.0	13.9	13.0	14.0	12.8
<b>Total.....</b>	<b>35.8</b>	<b>33.4</b>	<b>34.0</b>	<b>35.8</b>	<b>36.5</b>	<b>36.1</b>	<b>35.9</b>	<b>37.0</b>	<b>40.9</b>	<b>43.4</b>
<b>Total, all space.....</b>	<b>101.9</b>	<b>100.7</b>	<b>103.5</b>	<b>110.0</b>	<b>114.5</b>	<b>119.8</b>	<b>128.7</b>	<b>141.7</b>	<b>154.5</b>	<b>168.5</b>
<b>Construction (million dollars):</b>										
<b>GSA direct:</b>										
<b>Construction:</b>										
Appropriations.....	3.0	5.7	0.5	3.9	173.1	-----	166.0	215.4	190.9	158.6
Obligations.....	18.6	4.3	5.5	4.1	55.0	95.7	127.4	79.4	246.3	130.6
<b>Sites and expenses:</b>										
Appropriations.....		15.0	5.0	20.3	39.9	25.0	21.0	24.9	30.5	40.0
Obligations.....	.2	3.6	13.2	7.9	30.3	8.8	18.9	14.5	36.2	33.8
<b>Payments, purchase contracts:</b>										
Appropriations.....			.2	1.3	.3	1.7	4.0	5.2	5.4	5.2
Obligations.....				.1	.1	1.3	3.7	4.7	5.0	5.2
<b>Transfer to "GSA—Construction":</b>										
Appropriation.....	7.1	17.5	65.4	43.5	133.4	24.3	56.3	56.1	51.8	84.5
Obligations.....	7.6	14.5	59.5	39.6	85.8	46.6	62.6	49.3	41.2	69.9
<b>Number of employees, end of year:</b>										
Central office.....	303	329	367	439	453	422	446	434	465	475
Field.....	19,316	19,588	19,786	19,936	19,873	20,045	20,490	* 19,793	20,122	21,591
<b>Total.....</b>	<b>19,619</b>	<b>19,917</b>	<b>20,153</b>	<b>20,375</b>	<b>20,326</b>	<b>20,467</b>	<b>20,936</b>	<b>20,227</b>	<b>20,587</b>	<b>22,066</b>

See footnotes at end of table, p. 249.

## Selected statistics, fiscal years 1955-64—Continued

## FEDERAL SUPPLY SERVICE

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Stores depot sales, including fuel (million dollars).....	75.9	96.4	116.4	120.7	145.5	154.3	183.2	229.6	259.7	287.8
Direct delivery sales including items paid direct by using agency (million dollars).....	148.2	112.8	148.0	140.5	176.7	153.1	160.3	201.9	213.8	229.9
General supply fund inventories, end of year (million dollars).....	26.3	29.8	37.1	41.1	53.1	55.5	66.3	94.8	105.6	182.7
Federal supply schedule purchases (million dollars).....	308.9	333.2	373.7	411.3	511.7	540.2	644.8	697.1	782.0	985.5
Operating expense obligations (million dollars):										
Expenses, supply distribution.....	13.1	15.0	16.1	18.5	20.9	22.1	24.9	30.1	( <sup>6</sup> )	( <sup>6</sup> )
Operating expenses, FSS: <sup>6</sup> Definite—Appropriation.....	2.0	2.6	3.0	3.4	3.7	4.9	3.4	4.0	39.8	47.8
Other (advances and reimbursements).....	1.3	1.7	2.0	2.8	3.5	3.5	4.1	3.8	4.1	5.7
Number of employees end of year:										
Expenses, supply distribution:										
Central office.....	142	268	300	319	297	343	375	433	( <sup>6</sup> )	( <sup>6</sup> )
Field.....	1,478	1,479	1,497	1,464	1,522	1,553	1,753	2,120	( <sup>6</sup> )	( <sup>6</sup> )
Total.....	1,620	1,747	1,797	1,783	1,819	1,896	2,128	2,553		
All other: <sup>6</sup>										
Central office.....	106	202	247	246	254	209	249	297	720	813
Field.....	289	279	321	342	387	374	465	294	2,709	3,159
Total.....	395	481	568	588	641	583	714	591	3,429	3,972
Total, Federal Supply Service: <sup>6</sup>										
Central office.....	248	470	547	575	563	568	638	730	720	813
Field.....	1,930	1,959	2,102	2,144	2,284	2,376	2,703	2,414	2,709	3,159
Total.....	2,178	2,429	2,649	2,719	2,847	2,944	3,341	3,144	3,429	3,972



## UTILIZATION AND DISPOSAL SERVICE

Real property:										
Excess property (acquired cost, million dollars):										
Excess workload for year	191.0	333.0	184.0	449.0	671.0	1,131.0	998.0	1,162.0	1,262.0	1,033.0
Utilization transfers	87.0	11.0	6.0	32.0	16.0	10.0	79.0	87.0	114.0	101.0
Withdrawn by holding agency	9.0	8.0	7.0	11.0	13.0	24.0	8.0	10.0	31.0	77.0
Determined surplus	57.0	261.0	96.0	312.0	427.0	766.0	545.0	657.0	675.0	527.0
Inventory end of year	38.0	53.0	75.0	94.0	215.0	331.0	366.0	408.0	442.0	328.0
Surplus Property (acquired cost, in million dollars):										
Surplus workload for year	278.0	417.0	358.0	460.0	704.0	1,293.0	1,376.0	1,398.0	1,361.0	1,333.0
Sold	31.0	87.0	27.0	80.0	81.0	320.0	413.0	442.0	360.0	340.0
Donations	26.0	19.0	26.0	26.0	31.0	67.0	116.0	91.0	69.0	49.0
Recalled from surplus	39.0	5.0	12.0	16.0	7.0	29.0	27.0	100.0	53.0	122.0
Inventory end of year	182.0	306.0	293.0	338.0	585.0	877.0	820.0	765.0	879.0	822.0
Sales:										
Appraised FM value	7.5	26.4	9.7	31.1	27.1	71.4	71.6	71.5	75.0	84.6
Sales price	7.4	26.0	11.6	40.1	31.0	78.0	71.6	78.9	77.8	90.1
Percent return	98.7	108.3	119.6	128.9	114.4	109.2	100.0	110.3	103.7	106.5
Personal property utilization (acquisition cost, million dollars):										
Excess property workload	809.4	620.3	642.4	1,093.4	1,258.0	1,500.0	1,680.7	1,473.8	1,828.4	3,681.2
Utilization transfers	71.1	94.9	83.2	138.0	141.4	218.0	310.1	362.7	475.1	623.0
Donations	130.1	194.1	212.8	289.0	361.0	413.0	387.7	350.7	343.8	392.5
Usable property sold <sup>11</sup>	2.3	2.3	2.0	11.7	19.3	17.1	24.4	39.8	39.5	65.8
Sales price	.7	.8	.6	1.7	1.7	2.7	3.6	5.8	7.5	9.3
Percent return	30.4	34.8	30.0	14.5	8.8	15.8	14.8	14.6	18.9	14.1
Operating expenses (cost, in million dollars): <sup>12</sup>										
Real property activities	1.5	2.7	2.3	2.3	2.4	3.6	3.6	4.0	4.5	4.3
Personal property activities	.6	.8	1.1	1.6	1.9	2.2	3.0	4.0	4.6	4.9
Subtotal	2.1	3.5	3.4	3.9	4.3	5.8	6.6	8.0	9.1	9.2
Expenses, disposal of surplus real and related personal property	.2	.3	.4	.7	1.0	1.9	1.2	1.2	1.0	.8
Total	2.3	3.8	3.8	4.6	5.3	7.7	7.8	9.2	10.1	10.0
Number of employees, end of year: <sup>12</sup>										
Central office	37	50	71	71	82	87	96	122	128	122
Field	129	166	225	278	281	330	401	499	529	526
Subtotal	166	216	296	349	363	417	497	621	657	648
Reimbursable								5	5	
Total	166	216	296	349	363	417	497	626	662	648

See footnotes at end of table, p. 249.

## Selected statistics, fiscal years 1955-64—Continued

## NATIONAL ARCHIVES AND RECORDS SERVICE

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Regional records centers (thousands of cubic feet):										
Accessions.....	659	733	629	581	692	688	694	741	735	771
Disposals.....	248	285	325	346	405	411	570	537	555	542
Inventory, end of year.....	2,472	2,908	3,186	3,391	4,677	5,301	5,362	5,438	5,784	5,994
Reference services (thousands):										
Regional centers.....	900	1,226	1,663	1,944	2,621	2,946	2,972	3,110	3,125	3,104
National personnel records centers.....	601	642	685	559	530	483	1,842	1,764	1,690	1,640
Operating expenses (obligations in million dollars)....	6.3	6.6	7.0	7.9	9.1	9.4	14.2	13.9	14.4	14.7
All records centers.....	3.4	3.8	4.0	4.2	4.8	5.0	8.9	8.6	8.6	8.6
All other activities.....	2.9	2.8	3.0	3.7	4.3	4.4	5.3	5.3	5.8	6.1
Number of employees, end of year.....	918	969	991	1,096	1,156	1,168	1,846	1,848	1,795	1,739
All records centers.....	534	584	590	680	658	655	1,310	1,306	1,235	1,172
All other activities.....	384	385	401	416	498	513	536	542	560	567
Central office.....	336	338	353	357	440	452	470	464	492	490
Field.....	582	631	638	739	716	716	1,376	1,384	1,303	1,249

TRANSPORTATION AND COMMUNICATIONS SERVICE <sup>13</sup>

Regulatory proceedings:										
Transportation cases:										
Entered.....	5	7	21	16	9	12	9	2	10	8
Concluded.....	3	6	7	18	7	11	14	4	9	11
Pending, end of year.....	7	8	22	20	22	23	18	16	17	14
Utility cases, GSA:										
Entered.....	1		6	7	2	5	4	5	2	4
Concluded.....	3	1	2	3	3	7	4	2	5	4
Pending, end of year.....	2	1	5	9	8	6	6	9	5	5
Utility cases, delegated.....				2		10	11	9	4	3
Communications, including SA GE cases:										
Entered.....			2	1	3	7	9	2	7	5
Concluded.....						2	3	2	4	3
Pending, end of year.....			2	3	6	9	15	15	19	21
Estimated freight savings (million dollars).....	8.1	9.3	9.7	12.1	16.9	15.6	24.1	16.9	19.1	12.5
Interagency motor vehicles pools: <sup>14</sup>										
Studies completed (cumulative).....	2	14	29	42	56	68	73	78	78	91
Pools activated (cumulative).....		12	22	33	44	56	60	66	75	82

Operating expense (thousand dollars): <sup>13</sup>										
Obligations.....	1,579	1,694	1,959	2,515	2,995	2,977	3,305	4,046	4,800	5,120
Operating expenses.....	1,573	1,672	1,829	2,305	2,758	2,755	3,057	3,807	4,554	4,915
Other.....	6	22	130	210	237	222	248	239	246	214
Federal telecommunications fund (thousand dollars): <sup>16</sup>										
Income.....	12.9	14.4	15.5	17.1	19.3	21.1	22.7	27.1	33.6	41.8
Expense.....	12.0	14.4	15.4	17.0	19.4	21.2	22.8	26.7	33.3	39.6
Number of employees, end of year:										
Regular:										
Central office.....	178	163	193	214	193	165	165	190	223	221
Field.....	90	101	98	125	125	169	168	183	195	177
Total.....	268	264	291	339	318	334	333	373	418	398
General supply fund: <sup>14</sup>										
Central office.....				10	12	16	14	12	12	14
Field.....	163	201	284	338	375	449	485	502	635	681
Total.....	163	201	284	348	387	465	499	514	647	695
Federal telecommunications fund: <sup>17</sup>										
Central office.....										12
Field.....								1,274	1,366	1,488
Total.....								1,274	1,366	1,500
Total, Transportation and Communications Service:										
Central office.....	178	163	193	224	205	181	179	202	235	247
Field.....	253	302	382	463	500	618	653	1,959	2,096	2,346
Total.....	431	465	575	687	705	799	832	2,161	2,331	2,593

See footnotes at end of table, p. 249.

## Selected statistics, fiscal years 1955-64—Continued

## DEFENSE MATERIALS SERVICE

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
<b>All programs:</b>										
Inventories, end of year (million dollars):										
National stockpile.....	5,399.7	5,717.2	6,041.8	6,169.0	6,216.2	6,153.5	6,107.2	6,049.6	5,816.5	5,677.3
Supplemental stockpile.....			216.6	291.9	604.1	754.2	950.6	1,141.1	1,276.1	1,358.2
Defense production.....	441.7	567.2	679.6	1,140.1	1,368.2	1,448.7	1,482.9	1,495.8	1,499.5	1,463.6
Department of Interior.....			17.9	23.0						
RFC/FFC.....			9.2	9.5	9.5	9.5	9.5			
Commodity Credit Corporation.....	49.3	162.6	143.5	226.5	98.5	119.1	108.8	99.9	57.4	15.3
Total.....	5,890.7	6,447.0	7,108.6	7,860.0	8,296.5	8,485.0	8,659.0	8,786.4	8,649.5	8,514.4
Number of storage locations, end of year (excludes NIER).....	273	242	224	216	217	215	213	208	165	158
OCDM warehousing:										
Warehouses in operation.....	15	18	21	24	23	22	22	21	<sup>18</sup> 61	<sup>18</sup> 52
Inventory, end of year (million dollars).....	58.5	78.3	85.0	96.2	99.5	99.5	100.8	117.5	<sup>19</sup> 208.9	<sup>19</sup> 216.6
Strategic and critical materials:										
Expenses (obligations, million dollars):										
New materials purchases.....	580.8	229.4	191.2	80.8	4.3	1.6	.6	1.0	.7	.6
Upgrading of materials.....				2.3	4.5	.6	3.6	.4	.1	( <sup>20</sup> )
Rotation purchases.....	58.2	90.1	70.2	40.2	48.1	14.4	8.5	13.4	.4	
Storage, industrial equipment, and operating expenses.....	21.0	17.2	18.2	20.3	25.1	19.0	17.6	17.1	16.5	15.2
Total.....	660.0	336.7	279.6	143.6	82.0	35.6	30.3	31.9	17.7	15.8
Defense Production Act (million dollars):										
Cumulative gross transactions contracted, end of year.....	7,187.2	7,113.3	7,315.9	7,550.1	7,489.9	7,492.7	7,481.3	7,508.7	7,566.0	7,635.8
Deliveries of strategic materials.....	482.0	266.7	216.2	495.2	246.6	135.1	72.0	57.0	21.5	4.0
Gross expenditures for operations.....	544.6	349.6	281.7	552.0	310.1	224.1	163.8	129.9	90.8	74.4
Number of employees, end of year:										
Central office.....	251	284	233	214	176	152	143	138	138	130
Field.....	400	398	685	596	553	513	525	793	909	889
Total.....	651	646	918	810	729	665	668	931	1,047	1,019

RELATIONSHIP OF AO FUND EMPLOYMENT TO TOTAL GSA EMPLOYMENT

Total GSA employment.....	25,729	26,426	27,410	27,891	27,946	28,213	29,044	31,519	32,650	34,897
Total AO fund employment:										
Number.....	1,772	1,826	1,951	2,009	2,005	<sup>21</sup> 1,960	<sup>21</sup> 1,982	2,157	2,207	2,289
Percent of total GSA.....	6.9	6.9	7.1	7.2	7.2	6.9	6.6	6.8	7.0	6.6
Finance and administration.....	1,676	1,729	1,834	1,884	1,879	1,829	1,857	2,023	2,159	2,151
Percent of total GSA.....	6.5	6.5	6.7	6.8	6.7	6.4	6.2	6.4	6.6	6.2
Legal services.....	96	97	117	125	126	131	125	134	138	138
Percent of total GSA.....	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.4

<sup>1</sup> Not available.

<sup>2</sup> Includes telecommunication income for the following fiscal years not identifiable by source: 1955, \$12,900,000; 1956, \$14,400,000; 1957, \$15,500,000; 1958, \$17,100,000.

<sup>3</sup> Decrease represents transfers to "Transportation and Communications Service."

<sup>4</sup> Reflects transfers of costs of buying and inspection relating to Federal supply schedules from "Operating expenses, FSS," to "Expense, supply distribution."

<sup>5</sup> Financed from OE-FSS effective July 1, 1962.

<sup>6</sup> Adjusted to show comparative transfers to "Operating expenses, Utilization and Disposal Service," beginning in fiscal year 1962.

<sup>7</sup> Adjusted to exclude costs for "Motor vehicle management" transferred to TCS and "Property rehabilitation" transferred to UDS.

<sup>8</sup> Reimbursable activity only.

<sup>9</sup> Excludes 322 employees assigned to OCDM warehousing program. Transferred to DMS in August 1962.

<sup>10</sup> Includes 3,462 employees financed from OE, FSS, and 530 from reimbursable funds.

<sup>11</sup> GSA conducted sales for other agencies, program commenced in fiscal year 1959.

<sup>12</sup> Adjusted to show comparative transfers from "Operating expenses, Public Build-

ing Service (real property)," and "Operating expenses, Federal Supply Service (personal property)."

<sup>13</sup> Established in fiscal year 1962.

<sup>14</sup> Transferred from Federal Supply Service during fiscal year 1962.

<sup>15</sup> Motor vehicle and communications management transferred during fiscal year 1964 from FSS and PBS, respectively.

<sup>16</sup> Activated July 3, 1963.

<sup>17</sup> Telecommunications function transferred from Public Buildings Service during fiscal year 1962.

<sup>18</sup> Includes storage locations under fallout shelter supply program: June 30, 1963, 40; Dec. 31, 1963, 37. No activity prior to fiscal year 1963.

<sup>19</sup> Includes propositioned hospitals.

<sup>20</sup> Does not include value of material used as payment of upgrading fees (1964, \$936,000).

<sup>21</sup> Gives effect to comparative transfer of employees to "Salaries and expenses, Office of Administrator."

250 ECONOMIC IMPACT OF FEDERAL PROCUREMENT—1965

Savings and economies to the Government as a result of GSA operations,<sup>1</sup> fiscal years 1964 through 1969

[In millions of dollars]

Selected annual totals	Actual, 1964	Anticipated				
		1965	1966	1967	1968	1969
1. Savings through improvement of operating procedures and techniques and increased productivity in supply, transportation, and communications operations:						
(a) Savings from large-volume buying of supplies and materials for distribution through the GSA supply system and FSS schedule purchasing by using agencies.....	\$270.2	\$294.0	\$333.3	\$363.2	\$393.4	\$425.1
(b) Reduction in freight costs of GSA and other Government agencies through consolidation of shipments, negotiation of rates with carriers, etc.....	12.5	15.0	16.1	16.3	16.5	16.7
(c) Reduction in public utilities and communications costs through operation of the Federal Telecommunications System, consolidation of switchboards, execution of areawide contracts, negotiation and representation before regulatory bodies, etc.....	31.3	68.9	74.5	85.1	89.6	94.4
2. Savings and economies from more effective utilization of Government resources and improvement of consolidated services:						
(a) Reduction in costs by evacuation of high-cost Government and commercial storage facilities, through greater use of lower cost Government facilities, and by avoidance of costs through extension of the rotation cycle.....	.6	.4	1.4	.8	.8	.8
(b) Avoiding rental of office space by increased emphasis on moving dead or inactive records to GSA records centers to release substantial quantities of office space for reuse. Also, filing equipment, steel shelves, and transfer cases were put back into active use, thus avoiding new procurement of similar items.....	4.9	4.9	5.0	5.0	5.0	5.0
(c) Increased emphasis on better space utilization, the conversion of warehouse and other special use space to office space, and the conversion of excess military and post office installations to office space, have avoided the leasing of space to house the Federal Establishment; also economies from the conversion of manual operations by use of mechanical devices for elevators, boilers, protection, and cleaning, etc.:						
(1) Conversion of special use and excess space to office space.....	7.9	8.1	11.8	9.1	5.1	5.2
(2) Conversion of manual operations by use of mechanical devices.....	.7	1.1	.8	.4	.2	.1
(d) The expansion of the motor pool program (activated in 1964) as compared with pre-pool operations by agencies continues to pay dividends to the Government—Annual savings.....	11.1	14.2	15.0	15.7	16.6	17.0
(e) The transfer of excess personal and real property among Federal agencies and the rehabilitation of personal property affords maximum possible use of available Government-owned property and thus minimizes expenditures for new property. Efforts of GSA's Utilization and Disposal Service have contributed to the continued growth of these programs and also resulted in an increased return on sales:						
(1) Utilization transfers (acquisition cost).....	801.0	815.0	840.0	890.0	935.0	980.0
(2) Proceeds from sales of—						
(a) Personal property.....	10.1	11.0	12.0	14.0	15.0	17.0
(b) Real property.....	90.1	105.0	110.0	105.0	100.0	95.0
(3) Rehabilitation of personal property (acquisition cost).....	53.4	63.0	70.0	80.0	90.0	100.0

See footnotes at end of table, p. 249.

*Savings and economies to the Government as a result of GSA operations<sup>1</sup>, fiscal years 1964 through 1969—Continued*

[In millions of dollars]

Selected annual totals	Actual, 1964	Anticipated				
		1965	1966	1967	1968	1969
3. Through constant attention to improving our organization, making maximum use of automatic data processing techniques, expansion of common services for use by other agencies, and improvement of our operating procedures, we have made savings which may be termed "administrative improvements."						
(a) Expansion of GSA printing plant operations for use by other agencies in the field.....	.2	.5	.7	.8	1.0	1.5
(b) Automation of mass paperwork operations in accounting, payrolling, billings, and collections.....	.1	.3	.5	.3	3.3	.2
(c) Economies resulting from audit of contractor operations and adoption of employee suggestions for improvement of procedures.....	1.1	.2	.3	.3	.3	.4
Total.....	1,295.2	1,401.6	1,491.4	1,586.0	1,671.8	1,758.4

<sup>1</sup> Prepared by GSA.

