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89th Congress }  
2d Session }

JOINT COMMITTEE PRINT

BACKGROUND MATERIAL ON ECONOMIC  
IMPACT OF FEDERAL PROCUREMENT—1966

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MATERIALS PREPARED  
FOR THE  
SUBCOMMITTEE ON FEDERAL PROCUREMENT  
AND REGULATION  
OF THE  
JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES



MARCH 1966

Printed for the use of the Joint Economic Committee

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## LETTERS OF TRANSMITTAL

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MARCH 18, 1966.

*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 updated background materials on the economic impact of Federal procurement as of March 1966. 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 March 23 and 24, 1966.

Sincerely,

WRIGHT PATMAN,  
*Chairman, Joint Economic Committee;*

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MARCH 16, 1966.

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 an updated report presenting "Background Material on Economic Impact of Federal Procurement—1966."

This study was prepared by temporary staff consultant Ray Ward for the Subcommittee on Federal Procurement and Regulation hearings scheduled for March 23 and 24, 1966.

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—1966**

## **INTRODUCTION**

The Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee has been concerned for several years with the impact of Federal procurement and related activities on the economy of the United States. It has stressed that the how, where, when, who, and scope of procurement, transportation, warehousing, and disposal of surpluses amounting to billions of dollars annually vitally affect the industries, communities, and States concerned.

Of prime interest to the subcommittee in its hearings and reports has been the development of better organization and management in the Government to reduce the wasteful practices which have plagued the Government's property management activities for many years, as the current cost reduction programs of the Federal Establishment make apparent.

This staff report contains selected statistical data for use of the subcommittee for its hearings scheduled for March 23 and 24, 1966. Secretary McNamara testified before the subcommittee on January 24, 1966, on the Department of Defense cost reduction program which stems in large part from real and personal property management activities.

## GOVERNMENT OBLIGATIONS BY OBJECTS

Though reliable statistics on total Federal expenditures by objects are not available, Budget Bureau figures on obligations by object classes show the magnitude of Government-wide and related activities.

TABLE 1.—Grand total—Obligations by object class, by fiscal years

[In millions of dollars]

Description	Administrative budget			Trust funds		
	1964 actual	1965 estimated	1966 estimated	1964 actual	1965 estimated	1966 estimated
Personal services and benefits.....	30,601	32,527	32,905	570	626	644
11 Personnel compensation:						
Permanent positions.....	14,204	15,224	15,377	488	538	547
Military personnel.....	8,871	9,430	9,411	—	—	—
Positions other than permanent....	1,090	1,182	1,183	19	20	22
Other personnel compensation.....	612	606	634	12	13	17
Special personal service pay- ments.....	257	265	292	(1)	(1)	(1)
12 Personnel benefits:						
Civilian personnel.....	1,337	1,440	1,472	41	44	45
Military personnel.....	2,824	2,807	2,818	—	—	—
13 Benefits for former personnel.....	1,406	1,572	1,720	10	12	13
Contractual services and supplies.....	47,216	49,263	49,187	998	1,211	1,615
21 Travel and transportation of per- sons.....	1,295	1,353	1,388	11	12	12
22 Transportation of things.....	2,947	2,932	2,889	9	17	19
23 Rent, communications, and utili- ties.....	1,884	1,974	2,295	43	44	45
24 Printing and reproduction.....	269	276	287	4	4	4
25 Other services.....	19,317	20,102	20,018	728	803	1,038
Services of other agencies.....	1,112	1,212	1,192	20	23	26
Payments to specified ac- counts.....	345	381	421	8	8	8
26 Supplies and materials.....	20,046	21,022	20,695	176	299	364
Acquisition of capital assets.....	29,240	29,114	28,303	900	1,311	1,708
31 Equipment.....	15,851	14,164	13,317	399	617	763
32 Lands and structures.....	4,123	4,483	4,198	102	193	221
33 Investments and loans.....	9,266	10,467	10,788	400	501	724
Grants and fixed charges.....	28,621	31,252	32,983	26,624	27,035	28,113
41 Grants, subsidies, and contribu- tions.....	12,626	14,799	16,089	4,718	4,302	4,345
42 Insurance claims and indemnities.....	4,262	4,302	4,409	21,584	22,422	23,408
43 Interest and dividends.....	11,710	12,107	12,401	124	119	126
44 Refunds.....	24	44	85	198	193	234
Other:						
Proposed for separate transmittal.....	—	3,132	4,013	(1)	(1)	2,088
Not distributed otherwise.....	678	474	706	998	730	719
Change in selected resources.....	-431	1,297	-22	-2	57	37
Quarters and subsistence charges (-).....	-18	-19	-19	-1	-1	-1
Total obligations incurred.....	135,907	147,030	148,057	30,088	30,969	34,823
Recovery of prior year obligations (-).....	-722	-470	-514	-90	-49	-12
Receipts and reimbursements from:						
Administrative budget accounts (-).....	-19,426	-18,861	-18,073	-358	-395	-440
Trust fund accounts (-).....	-1,138	-1,393	-1,684	-64	-76	-82
Gross obligations to the public.....	114,620	126,306	127,787	29,575	30,450	34,290
Collections from the public (-).....	-15,922	-18,062	-19,562	-970	-1,160	-1,190
Net obligations incurred.....	98,698	108,244	108,225	28,605	29,290	33,100

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

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

Source: Bureau of the Budget.

TABLE 1(a).—Legislative branch—Obligations by object class

[In millions of dollars]

Description	Administrative budget			Trust funds		
	1964, actual	1965, estimated	1966, estimated	1964, actual	1965, estimated	1966, estimated
Personal services and benefits.....	85	92	93	1	1	1
11 Personnel compensation:						
Permanent positions.....	68	74	76	1	1	1
Military personnel.....						
Positions other than permanent.....	2	2	2			
Other personnel compensation.....	11	10	9	(1)	(1)	(1)
Special personal service payments.....	(1)					
12 Personnel benefits, civilian personnel.....						
Personnel benefits, civilian personnel.....	5	6	6	(1)	(1)	(1)
Personnel benefits, military personnel.....						
13 Benefits for former personnel.....						
Contractual services and supplies.....	107	112	111	(1)	1	1
21 Travel and transportation of persons.....	(1)	(1)	(1)	(1)	(1)	(1)
22 Transportation of things.....	1	1	1	(1)	(1)	(1)
23 Rent, communications, and utilities.....	3	4	4	(1)	(1)	(1)
24 Printing and reproduction.....	68	67	69	(1)	(1)	(1)
25 Other services.....	3	9	6	(1)	(1)	(1)
Services of other agencies.....	(1)		(1)			
Payments to specified accounts.....						
26 Supplies and materials.....	31	31	31	(1)	(1)	(1)
Acquisition of capital assets.....	8	23	55	(1)	(1)	(1)
31 Equipment.....	6	7	8	(1)	(1)	(1)
32 Lands and structures.....	2	16	46			
33 Investments and loans.....						
Grants and fixed charges.....	(1)	(1)	(1)	(1)	(1)	(1)
41 Grants, subsidies, and contributions.....	(1)	(1)	(1)	(1)	(1)	(1)
42 Insurance claims and indemnities.....	(1)	(1)	(1)	(1)	(1)	(1)
43 Interest and dividends.....						
44 Refunds.....				(1)	(1)	(1)
Other:						
Proposed for separate transmittal.....		(1)	(1)			
Not distributed otherwise.....	90	103	113			
Change in selected resources.....	3	-1	-1			
Quarters and subsistence charges (-).....						
Total obligations incurred.....	294	329	370	2	2	2
Recovery of prior year obligations (-).....						
Receipts and reimbursements from:						
Administrative budget accounts (-).....	-151	-151	-151			
Trust fund accounts (-).....						
Gross obligations to the public.....	143	178	219	2	2	2
Collections from the public (-).....						
Net obligations incurred.....	143	178	219	2	2	2

1 Less than \$500,000.

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

TRENDS IN REAL PROPERTY HOLDINGS, 1955 TO 1965 <sup>1</sup>

The following tables and charts show a worldwide comparison between 1955 and 1965 and the year by year trends in the Federal Government's ownership of real property in the United States as follows:

## TABLES

Worldwide trends in Federal real property holdings 1955 to 1965.  
Agency comparison of federally owned real property in the United States 1955 to 1965. (Page 6.)

## CHARTS

*Worldwide, comparing 1955 with 1965*

Cost of real property owned by the United States throughout the world. (Page 8.)

*United States, trends by years, 1955 to 1965*

Cost of real property owned by the United States (land, buildings, and structures). (Page 9.)

Cost of real property owned by the United States (defense and civil agencies). (Page 10.)

Floor area of federally owned buildings. (Page 11.)

Cost of Federally owned buildings. (Page 12.)

Land owned (acres). (Page 13.)

Cost of Federal land. (Page 14.)

Cost of federally owned structures. (Page 15.)

Worldwide data on land costs, buildings' floor area and costs, and structures' costs are not available because, for security reasons, Department of Defense reports only total cost and total land area data on its holdings outside the United States.

The U.S. charts reflect a change in coverage between 1958 and 1960. Through 1958 Alaska and Hawaii were included in the statistics on "outlying areas." In 1959, data for civil agencies in Alaska was added to the U.S. inventory. In 1960, data for Department of Defense in Alaska and Hawaii, and for civil agencies in Hawaii, was added to the U.S. inventory.

<sup>1</sup> Source: General Services Administration.

TABLE 2.—Worldwide trends in Federal real property holdings, 1955–65  
COST IN BILLIONS

	1955	1965	Increase	
			Amount	Percent
Civilian agency holdings.....	\$13.7	\$21.7	\$8.0	58
Defense holdings.....	24.3	44.7	20.4	84
<b>Total</b> .....	<b>38.0</b>	<b>66.4</b>	<b>28.4</b>	<b>75</b>
Inside United States.....	32.5	59.8	27.3	84
Foreign and outlying areas.....	5.5	6.6	1.1	20
<b>Total</b> .....	<b>38.0</b>	<b>66.4</b>	<b>28.4</b>	<b>75</b>

## ACRES IN MILLIONS

	1955	1965	Increase	
			Acres	Percent
Civilian agency holdings.....	722.3	736.3	14.0	2
Defense holdings.....	31.2	30.0	(1.2)	(4)
<b>Total</b> .....	<b>753.5</b>	<b>766.3</b>	<b>12.8</b>	<b>2</b>
Inside United States.....	407.9	765.8	357.9	88
Foreign and outlying areas.....	345.6	.5	(345.1)	(100)
<b>Total</b> .....	<b>753.5</b>	<b>766.3</b>	<b>12.8</b>	<b>2</b>

## FLOOR AREA IN MILLION SQUARE FEET

	1955	1965	Increase	
			Floor area	Percent
Civilian agency holdings.....	584.6	616.2	31.6	5
Defense holdings <sup>1</sup> .....	1,646.1	1,873.9	227.8	14
<b>Total</b> <sup>1</sup> .....	<b>2,230.7</b>	<b>2,490.1</b>	<b>259.4</b>	<b>12</b>
Inside United States.....	2,196.3	2,457.7	261.4	12
Foreign and outlying areas <sup>1</sup> .....	34.4	32.4	(2.0)	(6)
<b>Total</b> <sup>1</sup> .....	<b>2,230.7</b>	<b>2,490.1</b>	<b>259.4</b>	<b>12</b>

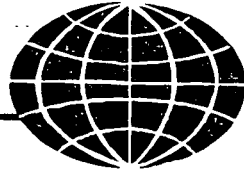
<sup>1</sup> Data on floor area not furnished by DOD for its military functions outside the United States.

TABLE 2(a).—Agency comparison of federally owned real property in the United States as of June 30, 1955, and June 30, 1965

Agency	1955			1965			Increase or (decrease)					
	Cost (thousands)	Land (acres)	Floor area (square feet)	Cost (thousands)	Land (acres)	Floor area (square feet)	Cost		Land		Floor area	
							Amount (millions)	Per- cent	Acres	Per- cent	(Square feet)	Per- cent
Department of Defense:												
Air Force.....	\$4,034,854	10,231,901	373,116,940	\$13,738,917	8,650,645	590,377,608	\$9,704,063	241	(1,581,256)	(15)	217,260,668	58
Army.....	6,655,189	7,057,305	701,279,685	9,578,137	11,378,349	749,390,651	2,922,948	44	4,319,044	61	48,110,960	7
Corps of Engineers.....	3,177,971	3,932,513	10,702,996	7,262,469	6,433,975	11,142,851	4,084,498	129	2,501,452	64	439,865	4
Navy.....	6,229,027	4,170,067	560,879,127	8,659,882	3,500,034	622,988,150	2,430,865	39	(670,033)	(16)	(37,890,977)	(7)
Total, Department of Defense.....	20,097,041	25,391,786	1,645,978,748	39,239,405	29,961,003	1,873,899,260	19,142,364	95	4,569,217	18	227,920,512	14
Civil Agencies:												
Agriculture.....	691,052	167,894,227	7,857,525	1,720,703	186,772,310	23,747,848	1,029,651	149	18,878,083	11	16,890,323	102
Atomic Energy Commission.....	2,704,551	2,003,157	80,602,742	3,782,726	2,135,324	81,708,366	1,078,175	40	132,167	7	1,105,624	(25)
Commerce.....	202,870	36,359	12,630,369	186,539	9,293	9,534,261	(16,331)	(8)	(27,060)	(74)	(3,096,098)	(25)
Federal Aviation Agency.....	0	0	0	410,483	92,245	7,579,108	410,483	-----	92,245	-----	7,579,108	-----
General Services Administration.....	1,136,780	73,695	119,553,556	2,080,899	16,803	171,625,925	944,119	83	(56,892)	(77)	52,072,369	44
Health, Education, and Welfare.....	155,257	4,338	13,121,486	399,100	5,370	24,031,819	243,843	157	1,032	24	10,910,333	83
Housing and Home Finance Agency.....	546,865	22,097	86,733,327	5,513	237	300,497	(541,352)	(99)	(21,860)	(99)	(86,432,830)	(100)
Interior.....	3,432,683	211,504,056	45,483,432	6,097,130	455,744,794	47,219,815	2,664,447	78	334,240,738	158	1,736,383	4
NASA.....	0	0	0	1,168,580	123,446	20,734,617	1,168,580	-----	123,446	-----	20,734,617	-----
Tennessee Valley Authority.....	1,384,422	749,838	2,723,664	2,167,569	710,369	6,412,741	783,147	57	(39,469)	(5)	3,689,077	135
Veterans' Administration.....	1,077,882	45,905	101,144,833	1,417,681	25,766	114,468,820	339,799	32	(20,139)	44	13,323,987	13
All other agencies, (13).....	1,043,718	170,936	80,490,391	1,168,533	199,939	76,457,014	124,815	12	29,003	17	(4,033,377)	(5)
Total, civil agencies.....	12,376,080	382,504,608	550,341,315	20,605,456	735,835,896	583,820,731	8,229,376	66	353,331,288	92	33,479,416	6
Total, all agencies.....	32,473,121	407,896,394	2,196,320,063	59,844,861	765,796,899	2,457,719,991	27,371,740	84	357,900,605	88	261,399,928	12



# COST OF REAL PROPERTY OWNED BY THE UNITED STATES THROUGHOUT THE WORLD

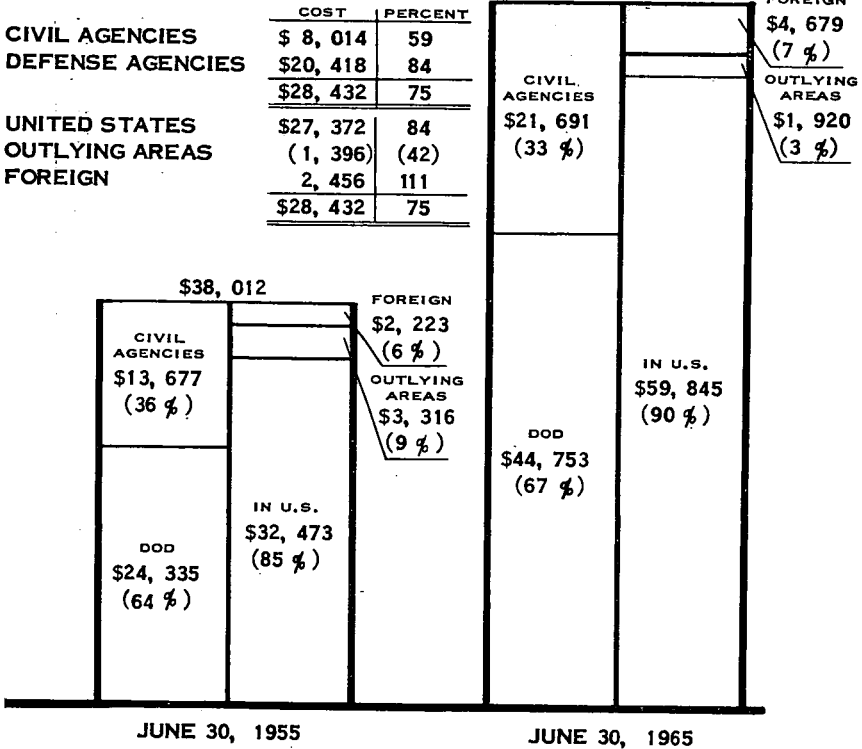


AS OF JUNE 30, 1955 AND JUNE 30, 1965  
MILLIONS OF DOLLARS

NET INCREASE OR (DECREASE)  
1965 OVER 1955

	COST	PERCENT
CIVIL AGENCIES	\$ 8, 014	59
DEFENSE AGENCIES	\$20, 418	84
	<u>\$28, 432</u>	<u>75</u>
UNITED STATES	\$27, 372	84
OUTLYING AREAS	(1, 396)	(42)
FOREIGN	2, 456	111
	<u>\$28, 432</u>	<u>75</u>

\$66, 444



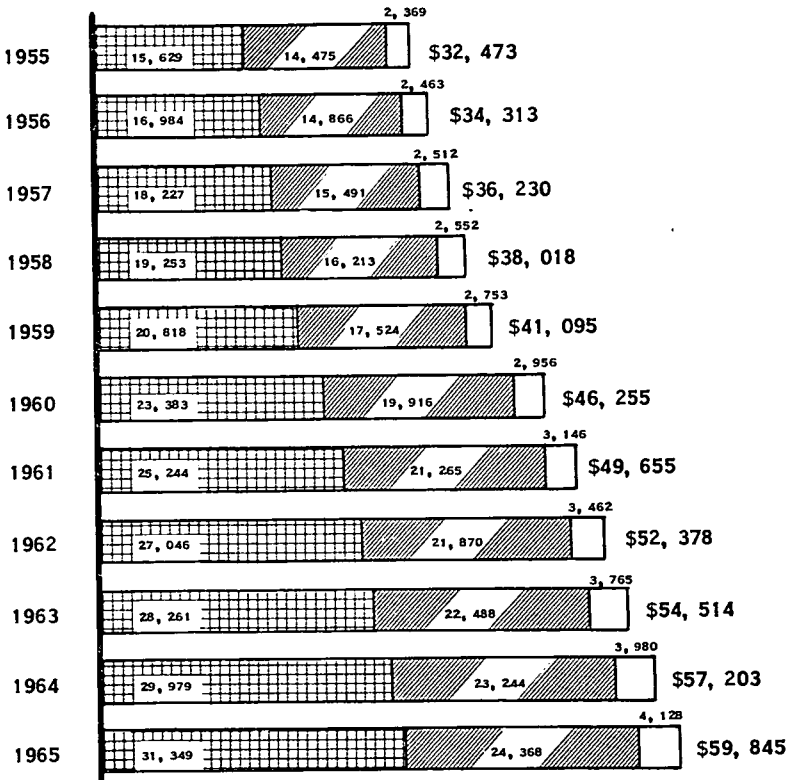
# COST OF REAL PROPERTY OWNED BY THE UNITED STATES IN THE UNITED STATES 1955-1965



MILLIONS OF DOLLARS

NET INCREASE 1965 OVER 1955

	COST	PERCENT
LAND	\$ 1, 759	74
BUILDINGS	9, 893	68
STRUCTURES	15, 720	101
TOTAL	\$27, 372	84



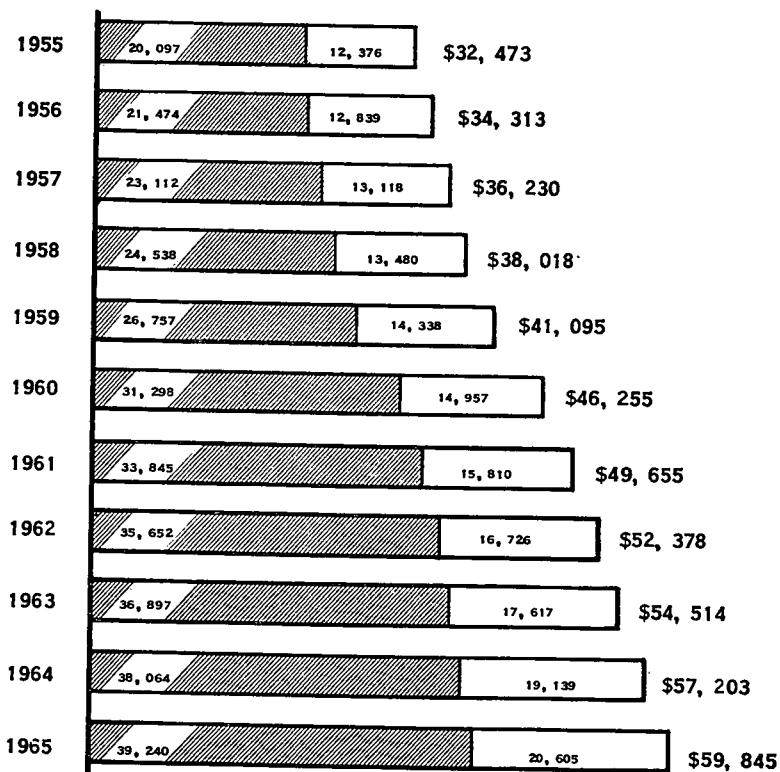
# COST OF REAL PROPERTY OWNED BY THE UNITED STATES IN THE UNITED STATES 1955-1965



MILLIONS OF DOLLARS

NET INCREASE 1965 OVER 1955

	COST	PERCENT
DEFENSE AGENCIES	\$19, 143	95
CIVIL AGENCIES	8, 229	66
TOTAL	\$27, 372	84



# FLOOR AREA OF FEDERALLY OWNED BUILDINGS IN THE UNITED STATES 1955-1965

MILLIONS OF SQUARE FEET



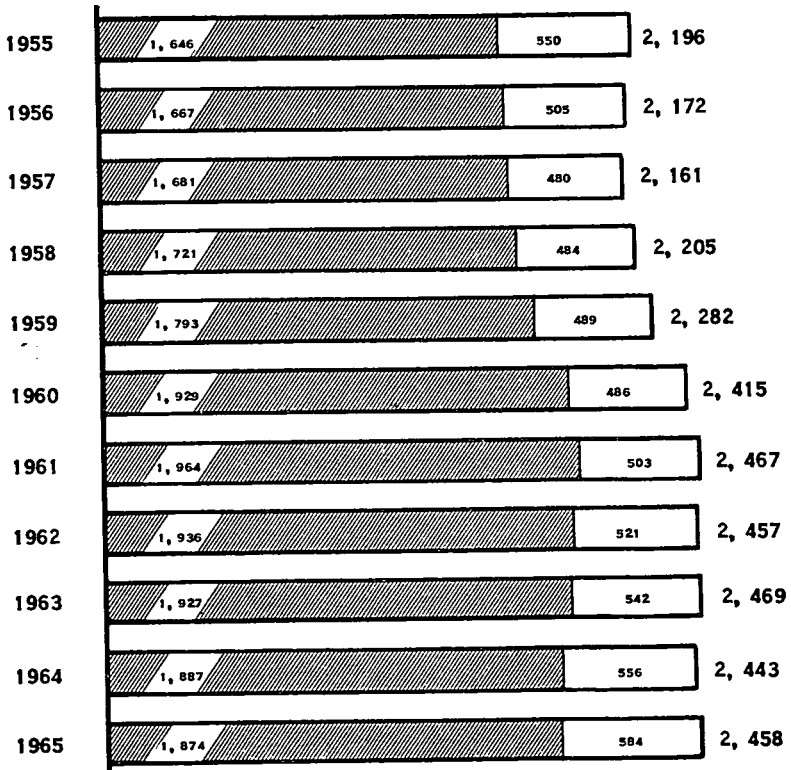
NET INCREASE 1965 OVER 1955



DEFENSE AGENCIES  
CIVIL AGENCIES

TOTAL

AREA	PERCENT
228	14
34	6
262	12



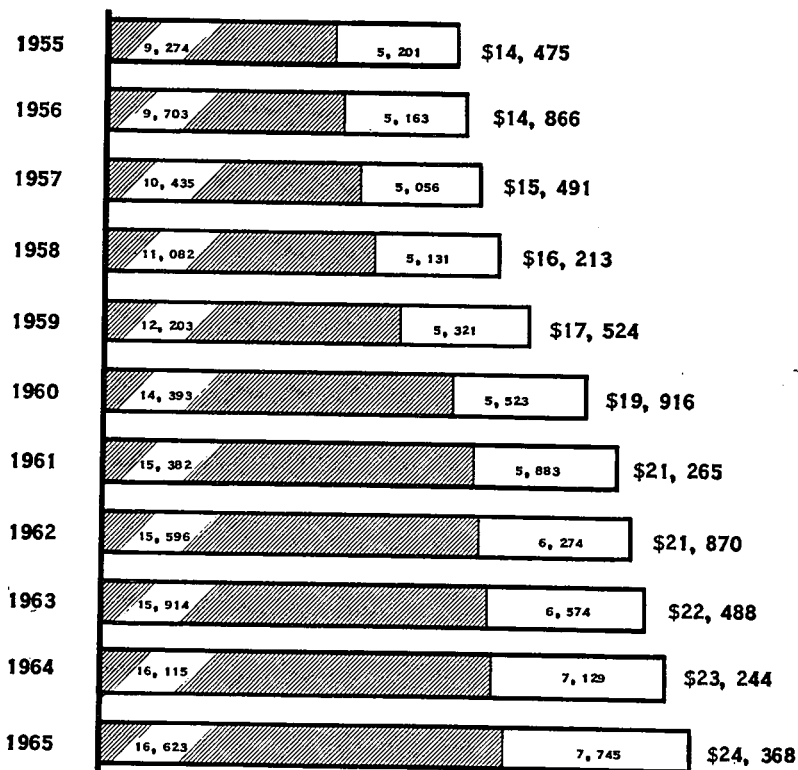
# COST OF FEDERALLY OWNED BUILDINGS IN THE UNITED STATES 1955-1965



MILLIONS OF DOLLARS

NET INCREASE 1965 OVER 1955

	COST	PERCENT
DEFENSE AGENCIES	\$7, 349	79
CIVIL AGENCIES	2, 544	49
TOTAL	\$9, 893	68



# LAND OWNED BY THE UNITED STATES IN THE UNITED STATES 1955-1965

THOUSANDS OF ACRES

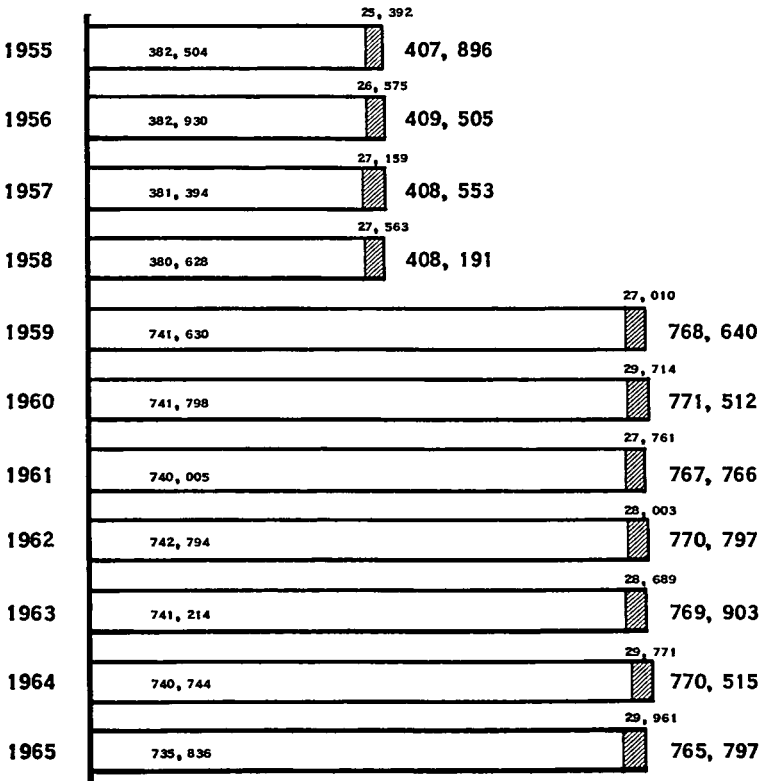


NET INCREASE 1965 OVER 1955



CIVIL AGENCIES  
DEFENSE AGENCIES  
TOTAL

ACRES	PERCENT
353, 332	92
4, 569	18
357, 901	88



## COST OF FEDERAL LAND IN THE UNITED STATES 1955-1965

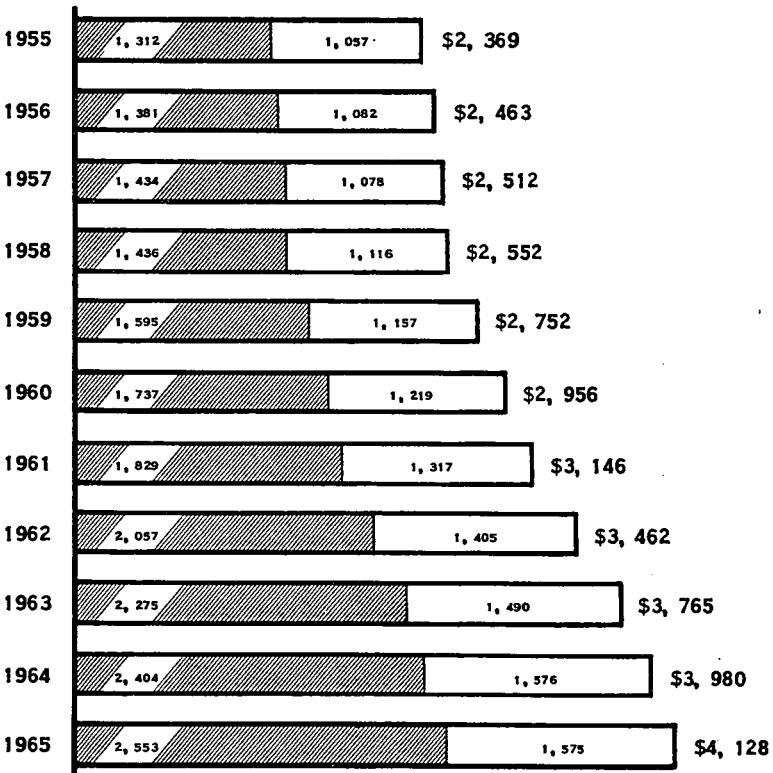


MILLIONS OF DOLLARS

NET INCREASE 1965 OVER 1955

	DEFENSE AGENCIES
	CIVIL AGENCIES
TOTAL	

COST	PERCENT
\$1, 241	95
518	49
\$1, 759	74



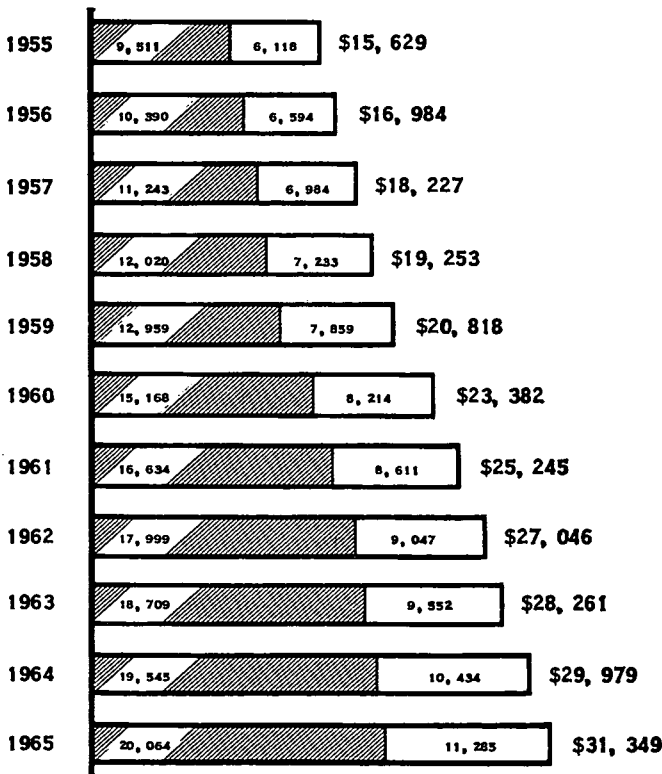
## COST OF FEDERALLY OWNED STRUCTURES IN THE UNITED STATES 1955-1965



MILLIONS OF DOLLARS

NET INCREASE 1965 OVER 1955

	COST	PERCENT
 DEFENSE AGENCIES	\$10, 553	111
 CIVIL AGENCIES	5, 167	84
TOTAL	\$15, 720	101





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 \$176 billion at the end of fiscal year 1965 despite concurrent disposal actions. Real property holdings increased from \$21 to \$38 billion and personal property holdings, including construction in progress, from \$107 to \$139 billion during the 11-year period.

However, "supply systems" inventories have been reduced through improved management by \$14 billion during this period and "stock funds" by almost \$3 billion.

TABLE 3.—DOD property holdings as of June 30, fiscal years 1955-65<sup>1</sup>

[In millions of dollars]

Total and type of property	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Total.....	128,694	134,082	146,021	149,465	150,660	154,617	158,508	164,835	171,364	173,455	176,221
Real.....	21,343	22,918	24,892	26,891	29,689	31,997	34,038	35,378	36,565	36,734	37,557
Personal.....	107,351	111,164	121,129	112,574	120,971	122,620	124,470	129,457	134,799	136,721	138,664
Supply systems.....	50,780	50,974	53,799	47,652	44,467	42,002	40,837	40,652	40,096	38,795	36,956
Stock funds.....	8,153	9,772	10,970	8,913	8,162	7,312	6,413	6,154	6,527	5,749	5,327
Appropriated funds.....	42,627	41,202	42,829	38,739	36,305	34,690	34,424	34,498	33,569	33,046	31,659

<sup>1</sup> Source, "Real and Personal Property of the Department of Defense," an annual report.

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

TABLE 4.—Expenditures for DOD military functions as percentage of gross national product, fiscal years 1939-65

[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	1953.....	359.7	43.6	12.1
1940.....	95.7	1.5	1.6	1954.....	362.0	40.3	11.1
1941.....	110.5	6.0	5.4	1955.....	377.0	35.5	9.4
1942.....	140.5	23.6	16.8	1956.....	408.5	35.8	8.8
1943.....	178.4	62.7	35.1	1957.....	433.0	38.4	8.9
1944.....	202.8	75.8	37.4	1958.....	440.2	39.1	8.9
1945.....	218.3	80.0	36.7	1959.....	466.7	41.2	8.8
1946.....	202.8	42.0	20.7	1960.....	494.8	41.2	8.3
1947.....	223.3	13.8	6.2	1961.....	506.6	43.2	8.5
1948.....	246.6	10.9	4.4	1962.....	539.4	46.8	8.7
1949.....	261.6	11.6	4.4	1963.....	568.7	48.3	8.5
1950.....	263.8	11.9	4.5	1964.....	603.4	49.8	8.2
1951.....	310.8	19.8	6.4	1965.....	649.6	46.2	7.1
1952.....	338.8	38.9	11.5				

Source: OASD Comptroller

Tables 5 and 6 show a decrease of 48,296 military personnel but at an increase in cost of \$21,063,000 between June 30, 1964, and June 30, 1965, while civilian personnel increased by 3,905 with a payroll increase of \$467,914,000.

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, 1964.

	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	40,909,000
Arizona.....	19,588	85,860,000	7,071	47,483,000
Arkansas.....	15,881	68,763,000	4,543	30,435,000
California.....	219,719	972,771,000	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.....	<sup>3</sup> 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.....	<sup>3</sup> 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	52,437,000	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	24,667,000	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	56,580,000
South Carolina.....	43,436	184,692,000	14,604	98,521,000
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.....	<sup>3</sup> 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.....	<sup>3</sup> 19,978	140,750,000	28,709	193,557,000
Maryland.....	<sup>3</sup> 11,785	54,011,000	14,550	98,036,000
Virginia.....	<sup>3</sup> 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.

## DEPARTMENT OF DEFENSE

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, 1965

	Active duty military personnel		Civilian employees	
	Number, June 30, 1965 <sup>1</sup>	Estimated annual pay and allowances <sup>2</sup>	Number, June 30, 1965	Estimated annual payroll <sup>2</sup>
United States total.....	1,641,244	\$7,780,791,000	940,763	\$6,774,018,000
Alabama.....	24,016	130,342,000	33,268	227,683,000
Alaska.....	30,892	137,571,000	8,281	57,311,000
Arizona.....	21,244	104,508,000	7,176	48,100,000
Arkansas.....	9,898	53,634,000	3,961	29,065,000
California.....	212,859	983,125,000	138,777	1,046,581,000
Colorado.....	35,421	163,031,000	14,450	100,550,000
Connecticut.....	3,695	23,089,000	3,132	23,460,000
Delaware.....	7,222	43,088,000	1,236	7,745,000
District of Columbia.....	19,850	142,486,000	29,040	229,850,000
Florida.....	69,969	361,772,000	25,154	166,116,000
Georgia.....	93,980	396,437,000	33,563	223,527,000
Hawaii.....	40,184	182,799,000	18,964	120,789,000
Idaho.....	5,410	30,506,000	6,433	3,036,000
Illinois.....	47,427	219,329,000	28,124	200,111,000
Indiana.....	8,506	41,052,000	12,466	83,269,000
Iowa.....	1,445	8,068,000	630	3,744,000
Kansas.....	29,757	172,835,000	4,728	31,049,000
Kentucky.....	48,901	171,979,000	12,050	79,133,000
Louisiana.....	34,334	127,801,000	6,531	43,290,000
Maine.....	12,246	64,621,000	1,687	10,498,000
Maryland.....	51,435	253,749,000	41,103	342,742,000
Massachusetts.....	30,450	153,458,000	22,809	172,010,000
Michigan.....	19,899	104,764,000	11,614	63,094,000
Minnesota.....	5,167	23,892,000	2,105	12,894,000
Mississippi.....	21,302	104,898,000	6,194	41,676,000
Missouri.....	28,518	103,612,000	17,101	113,513,000
Montana.....	9,526	50,413,000	1,030	6,366,000
Nebraska.....	16,404	101,366,000	3,999	24,914,000
Nevada.....	7,565	40,086,000	2,656	18,154,000
New Hampshire.....	7,714	41,374,000	8,147	62,235,000
New Jersey.....	36,857	165,783,000	25,085	170,601,000
New Mexico.....	21,507	110,630,000	11,110	75,042,000
New York.....	35,097	173,826,000	44,628	342,113,000
North Carolina.....	86,815	344,414,000	10,478	63,389,000
North Dakota.....	12,306	59,066,000	1,386	8,155,000
Ohio.....	18,639	110,833,000	37,252	332,930,000
Oklahoma.....	33,991	161,249,000	25,606	168,584,000
Oregon.....	4,955	25,722,000	3,420	23,273,000
Pennsylvania.....	15,593	76,592,000	66,382	509,561,000
Rhode Island.....	6,550	37,886,000	8,808	56,053,000
South Carolina.....	50,197	185,320,000	15,302	98,540,000
South Dakota.....	6,573	34,362,000	1,344	8,865,000
Tennessee.....	18,428	90,144,000	6,178	44,832,000
Texas.....	165,099	798,445,000	60,051	398,522,000
Utah.....	4,642	23,555,000	19,335	138,504,000
Vermont.....	287	1,581,000	1,74	399,000
Virginia.....	88,811	443,878,000	79,582	540,152,000
Washington.....	45,556	210,507,000	22,301	156,825,000
West Virginia.....	528	2,513,000	1,126	6,867,000
Wisconsin.....	4,204	21,593,000	2,311	11,922,000
Wyoming.....	4,579	24,703,000	595	4,479,000
Undistributed.....	24,794	142,619,000		
Washington, D.C., metropolitan area.....	62,246	353,364,000	79,558	594,520,000
District of Columbia.....	19,850	142,486,000	29,040	229,850,000
Maryland.....	13,189	65,602,000	16,017	133,566,000
Virginia.....	29,207	145,276,000	34,501	231,104,000

<sup>1</sup> Excludes naval personnel assigned to fleet units and to other afloat and mobile activities.<sup>2</sup> Fiscal year 1965.

Source: Directorate for Statistical Activities, Office of the Secretary of Defense, Sept. 14, 1965.

## SUPPLY SYSTEMS INVENTORIES

As stated above, the total of "supply systems" inventories from fiscal year 1955 through fiscal year 1965, was reduced from \$51 to \$37 billion or \$14 billion. The stratification of such stocks, or breakdown into purpose for which they are held, reflects a distinct change during fiscal years 1964 and 1965. 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, and June 30, 1965, 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 material 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 significantly less in value than those reported in prior years.

TABLE 7.—DOD supply systems inventories by inventory stratas as of June 30,<sup>1</sup> fiscal years 1958-65

(In millions of dollars)

Total and inventory strata	1958	1959	1960	1961	1962	1963	1964	1965
Total.....	46,585	44,203	41,727	40,537	40,299	39,684	38,383	36,506
Unstratified.....	2,440	3,056	2,083	1,819	1,837	1,425	2,582	2,704
Total stratified.....	44,145	41,147	39,644	38,717	38,462	38,259	35,801	33,802
Peacetime operating <sup>2</sup> .....	14,538	15,306	15,657	14,722	15,601	15,379	( <sup>3</sup> )	( <sup>3</sup> )
Mobilization reserve <sup>4</sup> .....	12,134	11,530	10,893	11,030	10,725	10,921	( <sup>3</sup> )	( <sup>3</sup> )
Economic retention <sup>5</sup> .....	5,593	4,703	6,618	6,343	5,454	5,912	3,596	3,629
Contingency retention <sup>6</sup> .....	1,050	1,611	1,361	1,246	1,040	636	1,245	1,814
Excess stocks <sup>6</sup> .....	10,418	7,146	5,115	5,377	5,643	5,411	5,528	3,466

<sup>1</sup> Total inventories in this table do not include value of Navy shipboard supplies included in table 3.

<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 and 1965. The sum of these two is \$24,893,000,000 which is divided in 1965 into approved force stocks (\$23,665,000,000) and general force stocks (\$1,228,000,000).

SCOPE OF PROCUREMENT ACTIVITIES

The net value of military procurement actions amounted to \$26.6 billion in fiscal year 1965, a decrease of \$900 million from fiscal year 1964.

TABLE 8.—*Net value of military procurement actions in the United States and possessions, fiscal years 1951-65*

[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	1965.....	26.6

Source: "Military Prime Contract Awards and Subcontract Payments or Commitments, July 1964-June 1965," Office of the Secretary of Defense.

NET VALUE OF PROCUREMENT ACTIONS BY STATES, FISCAL YEARS 1963-65 (SEE TABLES 9 AND 9A)

The percentage breakdown of military procurement actions by States and the District of Columbia shows for fiscal year 1965:

Percent of total:	Number of States	Percent of total—Con.	Number of States
Over 20.....	1	2 to 3.....	7
5 to 10.....	4	1 to 2.....	7
4 to 5.....	2	0 to 1.....	28
3 to 4.....	2		

TABLE 9.—Net value of military procurement actions by States and fiscal year,<sup>1</sup> fiscal years 1963, 1964, and 1965

[Amounts in thousands]

State	Fiscal year 1963		Fiscal year 1964		Fiscal year 1965	
	Amount	Percent	Amount	Percent	Amount	Percent
Total, United States <sup>2</sup> ..	\$28,107,882	-----	\$27,470,379	-----	\$26,631,132	-----
Not distributed by State <sup>3</sup> ..	2,874,642	-----	3,053,272	-----	3,363,052	-----
State total <sup>4</sup> ..	25,233,240	100.0	24,417,107	100.0	23,268,080	100.0
Alabama.....	194,990	0.8	190,681	0.8	165,176	0.7
Alaska.....	103,476	.4	101,545	.4	74,175	.3
Arizona.....	285,751	1.1	173,825	.7	176,857	.8
Arkansas.....	39,114	.2	29,731	.1	39,284	.2
California.....	5,835,670	23.1	5,100,650	21.0	5,153,639	22.1
Colorado.....	444,196	1.8	389,511	1.6	249,151	1.1
Connecticut.....	1,048,449	4.2	1,126,054	4.6	1,180,111	5.1
Delaware.....	47,483	.2	30,424	.1	38,239	.2
District of Columbia.....	238,120	.9	222,947	.9	247,576	1.0
Florida.....	583,237	2.3	782,591	3.2	633,332	2.7
Georgia.....	423,290	1.7	520,169	2.1	662,417	2.8
Hawaii.....	45,206	.2	52,112	.2	72,213	.3
Idaho.....	8,634	( <sup>5</sup> )	7,804	( <sup>5</sup> )	11,724	.1
Illinois.....	486,067	1.9	429,201	1.8	421,899	1.8
Indiana.....	486,759	1.9	537,940	2.2	604,925	2.6
Iowa.....	130,406	.5	103,392	.4	133,951	.6
Kansas.....	331,687	1.3	289,045	1.2	229,051	1.0
Kentucky.....	55,725	.2	40,476	.2	42,749	.2
Louisiana.....	195,341	.8	181,427	.7	255,834	1.1
Maine.....	58,409	.2	31,531	.1	68,771	.3
Maryland.....	606,365	2.4	547,936	2.3	584,333	2.5
Massachusetts.....	1,060,165	4.2	1,032,062	4.2	1,178,729	5.1
Michigan.....	633,047	2.5	591,290	2.4	532,897	2.3
Minnesota.....	273,757	1.1	217,941	.9	259,500	1.1
Mississippi.....	186,039	.7	155,911	.6	152,188	.7
Missouri.....	686,111	2.7	1,349,071	5.5	1,060,781	4.6
Montana.....	79,349	.3	16,422	.1	69,375	.3
Nebraska.....	33,559	.1	33,921	.1	42,708	.2
Nevada.....	13,143	.1	6,361	( <sup>5</sup> )	19,142	.1
New Hampshire.....	51,174	0.2	64,857	.3	52,400	.2
New Jersey.....	1,251,608	5.0	917,561	3.8	820,309	3.5
New Mexico.....	61,642	.2	71,486	.3	84,137	.4
New York.....	2,500,146	9.9	2,496,438	10.2	2,229,473	9.6
North Carolina.....	258,987	1.0	273,516	1.1	288,408	1.2
North Dakota.....	64,855	.3	192,025	.8	48,997	0.2
Ohio.....	1,345,686	5.3	1,028,946	4.2	863,113	3.7
Oklahoma.....	111,204	.5	122,489	.5	119,803	.5
Oregon.....	41,777	.2	29,104	.1	39,624	.2
Pennsylvania.....	887,452	3.5	883,065	3.6	988,811	4.2
Rhode Island.....	46,970	.2	38,173	.2	86,323	.4
South Carolina.....	57,747	.2	51,621	.2	81,580	.4
South Dakota.....	80,630	.3	23,308	.1	21,062	.1
Tennessee.....	183,478	.7	193,564	.8	197,287	.8
Texas.....	1,203,123	4.8	1,294,431	5.3	1,446,769	6.2
Utah.....	427,679	1.7	340,040	1.4	191,173	.8
Vermont.....	12,258	.1	14,012	.1	32,202	.1
Virginia.....	484,989	1.9	690,552	2.8	469,097	2.0
West Virginia.....	1,041,581	4.1	1,085,696	4.5	545,607	2.3
Wisconsin.....	162,201	.7	87,327	.4	90,312	.4
Wyoming.....	219,427	.9	177,217	.7	203,003	.9
Wyoming.....	125,081	.5	49,408	.2	7,867	( <sup>5</sup> )

<sup>1</sup> It is emphasized that data on prime contracts by State do not provide any direct indication as to the State in which the actual production work is done. For the majority of contracts with manufacturers, the casing or assembly is to be performed in more than one plant of a prime contractor, the location shown is the State where the largest dollar amount of work will take place. Construction contracts are shown for firms, the location is the address of the contractor's place of business. For service contracts, the location is generally the place where the service is performed, but for transportation and communications services the home office address is frequently used.

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

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

The estimated amounts of indefinite delivery, open-end or call type contracts for petroleum are included in the report. Except for petroleum contracts, the report does not include indefinite delivery, open-end, or

call type contracts as such, but does include specific purchase or delivery orders of \$10,000 or more which are placed against these contracts. Also excluded from the report are project orders, that is production orders issued to Government-owned-and-operated facilities such as Navy shipyards. However, the report includes the contracts placed with industry by the Government-operated facility to complete the production order.

<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 and 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.

TABLE 9(a).—*Net value of military procurement by States, by percent of total, fiscal year 1965*

	Percent	Total		Percent	Total
1. Wyoming.....	( <sup>1</sup> )	-----	27. Utah.....	0.8	9.5
2. Idaho.....	0.1	0.1	28. Wisconsin.....	.9	10.4
3. Nevada.....	.1	.2	29. District of Columbia.....	1.0	11.4
4. South Dakota.....	.1	.3	30. Kansas.....	1.0	12.4
5. Vermont.....	.1	.4	31. Colorado.....	1.1	13.5
6. Arkansas.....	.2	.6	32. Louisiana.....	1.1	14.6
7. Delaware.....	.2	.8	33. Minnesota.....	1.1	15.7
8. Kentucky.....	.2	1.0	34. North Carolina.....	1.2	16.9
9. Nebraska.....	.2	1.2	35. Illinois.....	1.8	18.7
10. New Hampshire.....	.2	1.4	36. Virginia.....	2.0	20.7
11. North Dakota.....	.2	1.6	37. Washington.....	2.3	23.0
12. Oregon.....	.2	1.8	38. Michigan.....	2.3	25.3
13. Alaska.....	.3	2.1	39. Maryland.....	2.5	27.8
14. Hawaii.....	.3	2.4	40. Indiana.....	2.6	30.4
15. Maine.....	.3	2.7	41. Florida.....	2.7	33.1
16. Montana.....	.3	3.0	42. Georgia.....	2.8	35.9
17. New Mexico.....	.4	3.4	43. New Jersey.....	3.5	39.4
18. Rhode Island.....	.4	3.8	44. Ohio.....	3.7	43.1
19. South Carolina.....	.4	4.2	45. Pennsylvania.....	4.2	47.3
20. West Virginia.....	.4	4.6	46. Missouri.....	4.6	51.9
21. Oklahoma.....	.5	5.1	47. Connecticut.....	5.1	57.0
22. Iowa.....	.6	5.7	48. Massachusetts.....	5.1	62.1
23. Alabama.....	.7	6.4	49. Texas.....	6.2	68.3
24. Mississippi.....	.7	7.1	50. New York.....	9.6	77.9
25. Arizona.....	.8	7.9	51. California.....	22.1	100.0
26. Tennessee.....	.8	8.7			

<sup>1</sup> Less than 0.05 percent.

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

Fiscal year 1965 (July 1964–June 1965)

The 100 companies which together with their subsidiaries received the largest dollar volume of military prime contracts of \$10,000 or more in fiscal year 1965 accounted for 68.9 percent of the U.S. total. This was 4.5 percentage points below the 73.4 percent obtained by the top 100 companies in fiscal year 1964, and was the lowest percentage for the 100 top companies since fiscal year 1957. In that year, when reporting on a fiscal year basis was initiated, the figure was 68.4 percent. The table below shows that the first 25 companies received 4.7 percent less than in fiscal year 1964, while the remaining companies increased their share by 0.2 percent.

*Percent of U.S. total*

Companies	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965
1st.....	7.2	6.0	6.5	5.6	5.9	5.8	7.1
2d.....	5.2	5.1	5.2	4.7	5.2	5.4	4.9
3d.....	4.5	4.8	5.2	4.4	4.1	4.6	3.5
4th.....	4.1	4.6	4.1	4.0	4.0	4.1	3.4
5th.....	4.0	4.3	3.8	3.8	4.0	3.9	3.1
1 to 5.....	25.0	24.8	24.8	22.5	23.2	23.8	22.0
6 to 10.....	12.0	11.3	11.8	11.1	10.9	12.0	10.2
11 to 25.....	17.6	17.4	18.2	17.2	17.8	17.1	16.0
1 to 25.....	54.6	53.5	54.8	50.8	51.9	52.9	48.2
26 to 50.....	10.7	11.3	11.0	12.6	13.7	12.9	13.0
51 to 75.....	5.5	5.4	5.5	6.0	5.5	5.1	5.2
76 to 100.....	3.0	3.2	2.9	2.9	2.8	2.5	2.5
1 to 100.....	73.8	73.4	74.2	72.3	73.9	73.4	68.9

The fiscal year 1965 decline in the 100-company percentage resulted principally from a decrease of \$1.6 billion in missile and aircraft contracts which generally are awarded to very large concerns, since they have the resources and know-how to undertake complex large-scale projects. As a corollary of the reduction in aircraft and missile prime contracts, the percentage of all prime contracts awarded to small business increased from 18 percent in fiscal year 1964 to 20.3 percent in fiscal year 1965. Small business firms also contained about 40 percent of the total amount of subcontracts placed by large concerns. Over the past 10 years large companies have subcontracted out approximately one-half of their Defense work.

The list for fiscal year 1965 contains 17 companies which did not appear on the fiscal year 1964 list. Of the new names, 13 appear between the 76th and 100th positions. However, two of the new companies, Todd Shipyards Corp. and Ogden Corp. (the parent company for Avondale Shipyards, Inc.), attained a rank within the first 50.

Two companies changed their corporate names during fiscal year 1965: Thompson-Ramo-Wooldridge, Inc., to TRW, Inc., and Consolidated Diesel Electric Corp. to Condec Corp.

Over half of the companies were engaged in missile-space, aircraft, and electronics work in fiscal year 1965. 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 21 aircraft, 18 missile-space, and 16 electronics firms. The remaining 45 companies fell into the following categories: petroleum (11), tank-automotive (8), ammunition (7), services (7), ships (6), construction (4), and photographic equipment and supplies (2). There were six fewer missile-space companies in fiscal year 1965 than in fiscal year 1964, three less construction contractors, and one less producer in the petroleum and weapons categories. Offsetting these decreases were increases of two in each of the aircraft, electronics, tank-automotive, ammunition, and ships programs, and an increase of one manufacturer of photographic equipment.



The six nonprofit contractors (see index) listed for fiscal year 1965 are the same ones that appeared on the list for the preceding fiscal year. For the most part, these nonprofit contractors are providing research, development, and training services in the missile-space and electronics programs.

Two companies received prime contract awards of more than \$1 billion each in fiscal year 1965 compared to four companies in fiscal year 1964 and five companies in fiscal year 1965. These two companies and a brief description of their more important contract work are as follows:

Lockheed Aircraft Corp. leads the list for the fourth consecutive year with \$1,715 million, or 7.1 percent of the total. The value ranks second to the \$2,131 million recorded for Boeing Co. in fiscal year 1958. The aircraft contracts of this company 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 and Poseidon missiles, 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.

General Dynamics Corp. received awards amounting to \$1,178.6 million which represented 4.9 percent of the total in fiscal year 1965, and moved up from fifth to second place. This company is a major producer of missiles, aircraft, and ships. The aircraft contracts are largely for the production of F-111 fighters; ship contracts include nuclear submarines and fleet auxiliary craft, and the missile-space contracts involve either the development or production of Atlas, Mauler, Redeye, Tartar, and Terrier missiles, and boosters for the space program.

The two companies having the next highest values in military prime contract awards in fiscal year 1965 were as follows:

McDonnell Aircraft Corp. received contracts which totaled \$855.8 million (3.5 percent) and occupied third, the same rank as in fiscal year 1964. However, the dollar value represents a decrease of \$300 million from the former year. The prime contract work of the company was predominantly for production of F-4 (Phantom II) fighter-bombers procured by the Navy Department.

General Electric Co. received \$824.3 million in awards (3.4 percent of the total), advancing from sixth place in fiscal year 1964 to fourth place in fiscal year 1965. Aircraft contracts, most of which were for the production of jet engines, accounted for approximately 40 percent of the total awards to this company. Contracts for missiles ranked second in value. The remaining contracts involved the production of weapons, electronics and communications equipment, and nuclear propulsion systems for ships.

*Index of 100 parent companies which with their subsidiaries received the largest dollar volume of military prime contract awards in fiscal year 1965*

Rank	Parent company	Rank	Parent company
48	Aerospace Corp. <sup>1</sup>	57	Lear-Siegler, Inc.
7	American Telephone & Telegraph Co.	16	Ling-Temco-Vought, Inc.
54	Asiatic Petroleum Corp.	28	Litton Industries, Inc.
90	Atlantic Research Corp.	1	Lockheed Aircraft Corp.
21	Avco Corp.	53	Magnavox Co.
62	Bath Iron Works Corp.	11	Martin Marietta Corp.
20	Bendix Corp.	38	Massachusetts Institute of Technology. <sup>1</sup>
63	Bethlehem Steel Corp.	3	McDonnell Aircraft Corp.
8	Boeing Co.	70	Mitre Corp. <sup>1</sup>
81	Burroughs Corp.	98	Morrison-Knudsen Co., Inc.
93	Chamberlain Corp.	65	Morrison-Utah-Perini-Leavell.*
46	Chrysler Corp.	91	Motorola, Inc.
83	Cities Service Co.	30	Newport News Shipbuilding & Dry Dock Co.
34	Collins Radio Co.	77	Norris-Thermador Corp.
92	Condec Corp.	5	North American Aviation, Inc.
49	Continental Motors Corp.	18	Northrop Corp.
68	Continental Oil Co.	45	Ogden Corp.
69	Control Data Corp.	58	Olin Mathieson Chemical Corp.
59	Curtiss-Wright Corp.	33	Pan American World Airways, Inc.
75	Cutler-Hammer, Inc.	24	Radio Corp. of America.
100	Day & Zimmerman, Inc.	14	Raytheon Co.
31	Douglas Aircraft Co.	51	Republic Aviation Corp.
50	Du Pont (E. I.) de Nemours & Co.	97	Rich (F. D.) Co., Inc.
96	Dynallectron Corp.	85	Richfield Oil Corp.
56	Eastman Kodak Co.	88	Ryan Aeronautical Co.
37	FMC Corp.	52	Signal Oil & Gas Co.
86	Firestone Tire & Rubber Co.	42	Socony Mobil Oil Co.
84	Flying Tiger Line, Inc.	10	Sperry Rand Corp.
12	Ford Motor Co.	89	Standard Kollsman Industries, Inc.
2	General Dynamics Corp.	39	Standard Oil Co. (California).
4	General Electric Co.	76	Standard Oil Co. (Indiana).
19	General Motors Corp.	32	Standard Oil Co. (New Jersey).
41	General Precision Equipment Corp.	80	Stanford Research Institute. <sup>1</sup>
22	General Telephone & Electronics Corp.	64	Sverdrup & Parcel, Inc.
13	General Tire & Rubber Co.	60	System Development Corp. <sup>1</sup>
43	Goodyear Tire & Rubber Co.	47	T R W, Inc.
9	Grumman Aircraft Engineering Corp.	79	Teledyne, Inc.
82	Gulf Oil Corp.	36	Texaco, Inc.
67	Gyrodyns Co. of America, Inc.	66	Texas Instruments, Inc.
78	Hayes International Corp.	27	Textron, Inc.
40	Hercules Powder Co.	35	Thiokol Chemical Corp.
44	Honeywell, Inc.	26	Todd Shipyards Corp.
15	Hughes Aircraft Co.	73	Union Carbide Corp.
29	International Business Machines Corp.	95	Union Oil Co. of California.
72	International Harvester Co.	6	United Aircraft Corp.
25	International Telephone & Telegraph Corp.	71	Vitro Corp. of America.
61	Johns Hopkins University. <sup>1</sup>	99	Webb (Del E.) Corp.
23	Kaiser Industries Corp.	55	Western Union Telegraph Co.
74	Kaman Aircraft Corp.	17	Westinghouse Electric Corp.
94	Koppers Co., Inc.	87	White Motor Corp.

<sup>1</sup> Nonprofit contractors.

\* Joint venture.

## 100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1965

[July 1, 1964-June 30, 1965]

Rank and companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
U.S. total <sup>1</sup> .....	\$24, 177. 9	100. 0	100. 0
Total, 100 companies and their subsidiaries <sup>2</sup> .....	16, 662. 1	68. 9	68. 9
1. Lockheed Aircraft Corp.....	1, 598. 2	6. 6	.....
Lockheed Shipbuilding & Construction Co.....	116. 8	0. 5	.....
Total.....	1, 715. 0	7. 1	7. 1
2. General Dynamics Corp.....	1, 178. 6	4. 9	12. 0
3. McDonnell Aircraft Corp.....	845. 6	3. 5	.....
Glass Technology Co.....	( <sup>3</sup> )	( <sup>4</sup> )	.....
Hycon Mfg. Co.....	10. 0	( <sup>4</sup> )	.....
Tridea Electronics, Inc.....	. 2	( <sup>4</sup> )	.....
Total.....	855. 8	3. 5	15. 5
4. General Electric Co.....	824. 3	3. 4	18. 9
5. North American Aviation, Inc.....	745. 8	3. 1	22. 0
6. United Aircraft Corp.....	632. 1	2. 6	24. 6
7. American Telephone & Telegraph Co.....	136. 3	. 6	.....
Chesapeake & Potomac Telephone Co.....	2. 1	( <sup>4</sup> )	.....
Mountain States Telephone & Telegraph Co.....	1. 5	( <sup>4</sup> )	.....
New England Telephone & Telegraph Co.....	. 6	( <sup>4</sup> )	.....
New Jersey Bell Telephone Co.....	. 5	( <sup>4</sup> )	.....
New York Telephone Co.....	. 2	( <sup>4</sup> )	.....
Northwestern Bell Telephone Co.....	. 5	( <sup>4</sup> )	.....
Pacific Northwest Bell Telephone Co.....	. 1	( <sup>4</sup> )	.....
Pacific Telephone & Telegraph Co.....	. 4	( <sup>4</sup> )	.....
Southern Bell Telephone & Telegraph Co.....	2. 0	( <sup>4</sup> )	.....
Southwestern Bell Telephone Co.....	1. 0	( <sup>4</sup> )	.....
Teletype Corp.....	18. 5	. 1	.....
Western Electric Co.....	423. 9	1. 7	.....
Total.....	587. 6	2. 4	27. 0
8. Boeing Co.....	583. 3	2. 4	29. 4
9. Grumman Aircraft Engineering Corp.....	353. 4	1. 5	30. 9
10. Sperry Rand Corp.....	318. 4	1. 3	32. 2
11. Martin-Marietta Corp.....	298. 5	1. 2	.....
Bunker-Ramo Corp.....	17. 1	. 1	.....
Total.....	315. 6	1. 3	33. 5
12. Ford Motor Co.....	86. 3	. 4	.....
Philco Corp.....	225. 7	. 9	.....
Total.....	312. 0	1. 3	34. 8
13. General Tire & Rubber Co.....	6. 5	( <sup>4</sup> )	.....
Aerofjet-Delft Corp.....	1. 0	( <sup>4</sup> )	.....
Aerofjet-General Corp.....	278. 7	1. 2	.....
Aerofjet-General Nucleonics.....	1. 2	( <sup>4</sup> )	.....
Aerofjet-General Shipyards, Inc.....	2. 1	( <sup>4</sup> )	.....
Batesville Manufacturing Co.....	. 2	( <sup>4</sup> )	.....
General Tire International Co.....	. 3	( <sup>4</sup> )	.....
Space Electronics Corp.....	. 1	( <sup>4</sup> )	.....
Space-General Corp.....	11. 9	( <sup>4</sup> )	.....
Total.....	302. 0	1. 2	36. 0
14. Raytheon Co.....	281. 8	1. 2	.....
Amana Refrigeration, Inc.....	( <sup>3</sup> )	( <sup>4</sup> )	.....
Machlett Laboratories, Inc.....	10. 6	( <sup>4</sup> )	.....
Micro State Electronics Corp.....	. 4	( <sup>4</sup> )	.....
Penta Laboratories, Inc.....	. 6	( <sup>4</sup> )	.....
Total.....	293. 4	1. 2	37. 2
15. Hughes Aircraft Co.....	278. 3	1. 2	38. 4

See footnotes at end of table, p. 32.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1965—Continued

Rank and companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
16. Ling-Temco-Vought, Inc.-----	\$249.3	1.0	-----
Continental Electronics Manufacturing Co.-----	4.3	( <sup>1</sup> )	-----
Continental Electronics Systems, Inc.-----	.5	( <sup>1</sup> )	-----
Kentron Hawaii, Ltd.-----	3.2	( <sup>1</sup> )	-----
Saturn Electronics Corp.-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
Spectral Dynamics Corp.-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
LTV Electrosystems, Inc.-----	7.3	( <sup>1</sup> )	-----
LTV Ling Altec, Inc.-----	.1	( <sup>1</sup> )	-----
Total-----	264.7	1.1	39.5
17. Westinghouse Electric Corp.-----	259.6	1.1	-----
Bryant Electric Co.-----	.5	( <sup>1</sup> )	-----
Hagan Controls Corp.-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
Thermo King Corp.-----	.7	( <sup>1</sup> )	-----
Westinghouse Broadcasting Co., Inc.-----	.1	( <sup>1</sup> )	-----
Total-----	260.9	1.1	40.6
18. Northrop Corp.-----	245.7	1.0	-----
Astro Technology Corp.-----	1.1	( <sup>1</sup> )	-----
Hydrospace Services, Inc.-----	.2	( <sup>1</sup> )	-----
Page Communications Engineers, Inc.-----	8.9	( <sup>1</sup> )	-----
Total-----	255.9	1.1	41.7
19. General Motors Corp.-----	254.4	1.0	42.7
20. Bendix Corp.-----	229.1	1.0	-----
Bendix Field Engineering Corp.-----	5.4	( <sup>1</sup> )	-----
Bendix-Westinghouse Automotive Air Brake Co.-----	0.1	( <sup>1</sup> )	-----
Microwave Devices, Inc.-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
Sheffield Corp.-----	.3	( <sup>1</sup> )	-----
Total-----	234.9	1.0	43.7
21. Avco Corp.-----	234.2	1.0	44.7
22. General Telephone & Electronics Corp.-----	0	0	-----
Automatic Electric Corp.-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
Automatic Electric Sales Corp.-----	7.1	( <sup>1</sup> )	-----
General Telephone & Electronics Laboratories, Inc.-----	.2	( <sup>1</sup> )	-----
General Telephone Co. of California-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
General Telephone Co. of the Southeast-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
General Telephone Co. of the Southwest-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
Lenkurt Electric Co., Inc.-----	6.6	( <sup>1</sup> )	-----
Sylvania Electric Products, Inc.-----	208.6	.9	-----
Total-----	222.5	.9	45.6
23. Kaiser Industries Corp.-----	.4	( <sup>1</sup> )	-----
Kaiser Aerospace & Electronics Corp.-----	2.2	( <sup>1</sup> )	-----
Kaiser Jeep Corp.-----	195.3	.8	-----
Kaiser Steel Corp.-----	1.3	( <sup>1</sup> )	-----
National Steel & Shipbuilding Co. <sup>2</sup> -----	19.6	.1	-----
Total-----	218.8	.9	46.5
24. Radio Corp. of America-----	213.9	.9	47.4
25. International Telephone & Telegraph Corp.-----	85.7	.4	-----
American Cable & Radio Corp.-----	2.0	( <sup>1</sup> )	-----
Barton Instrument Corp.-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
Federal Electric Corp.-----	70.5	.3	-----
International Electric Corp.-----	5.2	( <sup>1</sup> )	-----
International Standard Engineering, Inc.-----	.1	( <sup>1</sup> )	-----
Jennings Radio Manufacturing Corp.-----	.4	( <sup>1</sup> )	-----
Puerto Rico Telephone Co.-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
ITT Bell & Gossett, Inc.-----	.1	( <sup>1</sup> )	-----
ITT Cannon Electric, Inc.-----	.9	( <sup>1</sup> )	-----
ITT General Controls, Inc.-----	.9	( <sup>1</sup> )	-----
ITT Gilfillan, Inc.-----	40.3	.2	-----
ITT Technical Services, Inc.-----	.6	( <sup>1</sup> )	-----
ITT Terryphone Corp.-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
ITT Suprenant, Inc.-----	( <sup>1</sup> )	( <sup>1</sup> )	-----
Total-----	206.7	.8	48.2
26. Todd Shipyards Corp.-----	196.6	.8	49.0

See footnotes at end of table, p. 32.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1965—Continued

Rank and companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
27. Textron, Inc. ....	\$6.8	(4)	-----
Accessory Products Corp. ....	(2)	(4)	-----
Bell Aerospace Corp. ....	185.2	0.8	-----
Dalmo Victor Co. ....	1.2	(4)	-----
Durham Manufacturing Co. ....	.1	(4)	-----
Jones & Lamson Machine Co. ....	.7	(4)	-----
Nuclear Metals, Inc. ....	.2	(4)	-----
Pittsburgh Steel Foundry Corp. ....	.1	(4)	-----
Textron Electronics, Inc. ....	1.3	(4)	-----
Textron Oregon, Inc. ....	.1	(4)	-----
Townsend Co. ....	(2)	(4)	-----
Total .....	195.7	.8	49.8
28. Litton Industries, Inc. ....	8.2	(4)	-----
Adler Electronics, Inc. ....	11.6	(4)	-----
Aero Service Corp. ....	.1	(4)	-----
Airtron, Inc. ....	.2	(4)	-----
Clifton Precision Products Co., Inc. ....	.1	(4)	-----
Ingalls Shipbuilding Corp. ....	56.5	.3	-----
Litton Electron Tube Corp. ....	.4	(4)	-----
Litton Precision Products, Inc. ....	2.4	(4)	-----
Litton Systems, Inc. ....	108.4	.5	-----
McKiernan-Terry Corp. ....	(2)	(4)	-----
Mellonics Systems Development, Inc. ....	.6	(4)	-----
Monroe Calculating Machine Co., Inc. ....	.2	(4)	-----
Monroe International, Inc. ....	(2)	(4)	-----
Profexray, Inc. ....	.6	(4)	-----
Westrex Corp. ....	.6	(4)	-----
Total .....	189.9	.8	50.6
29. International Business Machines Corp. ....	185.8	.8	-----
Science Research Associates. ....	.3	(4)	-----
Service Bureau Corp. ....	.1	(4)	-----
Total .....	186.2	.8	51.4
30. Newport News Shipbuilding & Dry Dock Co. ....	184.8	.8	52.2
31. Douglas Aircraft Co. ....	170.1	.7	52.9
32. Standard Oil Co. (New Jersey) ....	.0	0	-----
American Cryogenics, Inc. ....	1.3	(4)	-----
Esso International Inc. ....	93.3	.4	-----
Esso Research & Engineering Co. ....	2.9	(4)	-----
Esso Standard Oil Co. (Puerto Rico) ....	2.9	(4)	-----
Humble Oil & Refining Co. ....	63.6	.3	-----
Total .....	164.0	.7	53.6
33. Pan American World Airways, Inc. ....	157.7	.6	54.2
34. Collins Radio Co. ....	141.1	.6	54.8
35. Thiokol Chemical Corp. ....	136.2	.6	-----
Shawnee Industries, Inc. ....	(2)	(4)	-----
Total .....	136.2	.6	55.4
36. Texaco, Inc. ....	33.1	.1	-----
Caltex Oil Products Co. * ....	36.2	.2	-----
Caltex Philippines, Inc. * ....	.1	(4)	-----
Jefferson Chemical Co., Inc. ....	.2	(4)	-----
Paragon Oil Co. ....	2.7	(4)	-----
Texaco Experiment, Inc. ....	1.9	(4)	-----
Texaco Export, Inc. ....	48.1	.2	-----
Texaco Puerto Rico, Inc. ....	1.4	(4)	-----
Texaco Trinidad, Inc. ....	.2	(4)	-----
White Fuel Co., Inc. ....	.3	(4)	-----
Total .....	124.2	.5	55.9
37. F M C Corp. ....	124.0	.5	56.4
38. Massachusetts Institute of Technology ....	123.7	.5	56.9

See footnotes at end of table, p. 32.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year 1965—Continued

Rank and companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
39. Standard Oil Co. (California).....	\$69.2	0.3	-----
Cal Ky Oil Co.....	2.9	( <sup>o</sup> )	-----
California Chemical Co.....	.4	( <sup>o</sup> )	-----
California Oil Co.....	2.9	( <sup>o</sup> )	-----
Caltex Oil Products Co. <sup>o</sup> .....	36.2	.2	-----
Caltex Philippines, Inc. <sup>o</sup> .....	.1	( <sup>o</sup> )	-----
Community Oil Co., Inc.....	.1	( <sup>o</sup> )	-----
Hoffman Fuel Co., Inc.....	( <sup>o</sup> )	( <sup>o</sup> )	-----
Standard Oil Co. of Texas.....	3.0	( <sup>o</sup> )	-----
Total.....	114.8	.5	57.4
40. Hercules Powder Co.....	100.4	.4	-----
Haveg Industries, Inc.....	.3	( <sup>o</sup> )	-----
M H D Research, Inc.....	.6	( <sup>o</sup> )	-----
Total.....	101.3	.4	57.8
41. General Precision Equipment Corp.....	0	0	-----
General Precision, Inc.....	96.4	.4	-----
Graflex, Inc.....	.5	( <sup>o</sup> )	-----
Strong Electric Corp.....	1.0	( <sup>o</sup> )	-----
Tele Signal Corp.....	2.6	( <sup>o</sup> )	-----
Total.....	100.5	.4	58.2
42. Socony Mobil Oil Co.....	85.5	.4	58.6
43. Goodyear Tire & Rubber Co.....	20.9	.1	-----
Goodyear Aerospace Corp.....	61.5	.3	-----
Kelly-Springfield Tire Co.....	( <sup>o</sup> )	( <sup>o</sup> )	-----
Motor Wheel Corp.....	.1	( <sup>o</sup> )	-----
Total.....	82.5	.4	59.0
44. Honeywell, Inc.....	82.5	.4	59.4
45. Ogden Corp.....	0	0	-----
Avondale Shipyards, Inc.....	81.2	.3	-----
Eimco Corp.....	1.0	( <sup>o</sup> )	-----
Total.....	82.2	.3	59.7
46. Chrysler Corp.....	80.9	.3	60.0
47. TRW, Inc.....	79.1	.3	-----
Ramsey Corp.....	( <sup>o</sup> )	( <sup>o</sup> )	-----
TRW Semiconductors, Inc.....	.5	( <sup>o</sup> )	-----
Total.....	79.6	.3	60.3
48. Aerospace Corp.....	77.5	.3	60.6
49. Continental Motors Corp.....	58.3	.3	-----
Continental Aviation & Engineering Corp.....	18.6	.1	-----
Wisconsin Motors Corp.....	.5	( <sup>o</sup> )	-----
Total.....	77.4	.3	60.9
50. Du Pont (E. I.) de Nemours & Co.....	11.1	( <sup>o</sup> )	-----
Remington Arms Co., Inc.....	59.5	.3	-----
Total.....	70.6	.3	61.2
51. Republic Aviation Corp.....	70.1	.3	61.5
52. Signal Oil & Gas Co.....	5.7	( <sup>o</sup> )	-----
Garrett Corp.....	61.5	.3	-----
Petroleum Heat & Power, Inc.....	( <sup>o</sup> )	( <sup>o</sup> )	-----
Southland Oil Corp.....	.1	( <sup>o</sup> )	-----
Space Petroleum Corp.....	1.8	( <sup>o</sup> )	-----
Total.....	69.1	.3	61.8
53. Magnavox Co.....	60.4	.3	62.1
54. Asiatic Petroleum Corp.....	57.8	.3	62.4
55. Western Union Telegraph Co.....	51.8	.2	62.6
56. Eastman Kodak Co.....	49.9	.2	-----
Eastman Kodak Stores, Inc.....	.1	( <sup>o</sup> )	-----
Recordak Corp.....	.8	( <sup>o</sup> )	-----
Total.....	50.8	.2	62.8

See footnotes at end of table, p. 32.

30 ECONOMIC IMPACT OF FEDERAL PROCUREMENT—1966

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year, 1965—Continued

Rank and companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
57. Lear-Siegler, Inc.	\$46.0	0.2	-----
Astek Instrument Corp.	.4	(4)	-----
Lear-Siegler Service, Inc.	3.1	(4)	-----
Total	49.5	.2	63.0
58. Olin Mathieson Chemical Corp.	49.4	.2	63.2
59. Curtiss-Wright Corp.	49.3	.2	63.4
60. System Development Corp.	48.9	.2	63.6
61. Johns Hopkins University	48.5	.2	63.8
62. Bath Iron Works Corp.	47.9	.2	64.0
63. Bethlehem Steel Corp.	47.6	.2	-----
Bethlehem Steel Export Corp.	.3	(4)	-----
Total	47.9	.2	64.2
64. Sverdrup & Parcel, Inc.	.6	(4)	-----
A R O, Inc.	46.4	.2	-----
Total	47.0	.2	64.4
65. Morrison-Knudsen Co., Inc.; Utah Construction & Mining Co.; Perini Corp.; and C. H. Leavell & Co.	46.6	.2	64.6
66. Texas Instruments, Inc.	43.8	.2	-----
Metals & Controls, Inc.	(3)	(4)	-----
Texas Instruments Supply Co.	(3)	(4)	-----
Total	43.8	.2	64.8
67. Gyrodyne Co. of America, Inc.	39.3	.2	65.0
68. Continental Oil Co.	33.4	.1	-----
American Agricultural Chemical Co.	.1	(4)	-----
Douglas Oil Co. of California	4.8	(4)	-----
Western Oil & Fuel Co.	.9	(4)	-----
Total	39.2	.2	65.2
69. Control Data Corp.	32.0	.1	-----
Control Corp.	.1	(4)	-----
Data Display, Inc.	.4	(4)	-----
Datatrol Corp.	.5	(4)	-----
TRG, Inc.	6.1	(4)	-----
Total	39.1	.2	65.4
70. Mitre Corp.	38.5	.2	65.6
71. Vitro Corp. of America	35.3	.2	-----
Vitre Minerals & Mining Corp.	1.1	(4)	-----
Total	36.4	.2	65.8
72. International Harvester Co.	33.7	.1	-----
Hough (Frank G.) Co.	1.6	(4)	-----
MacLeod & Co.	.5	(4)	-----
Total	35.8	.2	66.0
73. Union Carbide Corp.	35.2	.2	66.2
74. Kaman Aircraft Corp.	35.1	.1	66.3
75. Cutler-Hammer, Inc.	34.5	.1	66.4
76. Standard Oil Co. (Indiana)	0	0	-----
American Oil Co.	32.9	.1	-----
Amoco Chemicals Corp.	.2	(4)	-----
Midwest Oil Corp.	.1	(4)	-----
Total	33.2	.1	66.5
77. Norris-Thermador Corp.	31.4	.1	66.6
78. Hayes International Corp.	31.2	.1	66.7
79. Teledyne, Inc.	22.7	.1	-----
Ameleo, Inc.	(3)	(4)	-----
Electro Development Co.	(3)	(4)	-----
McCormick Selph Associates, Inc.	.2	(4)	-----
Ordnance Specialties, Inc.	.2	(4)	-----
Teledyne Industries, Inc.	1.2	(4)	-----
Teledyne Systems Corp.	4.2	(4)	-----
United Electrodynamics, Inc.	2.2	(4)	-----
Total	30.7	.1	66.8

See footnotes at end of table, p. 32.

100 companies and their subsidiaries listed according to net value of military prime contract awards, fiscal year, 1965—Continued

Rank and companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
80. Stanford Research Institute.....	\$30.7	0.1	66.9
81. Burroughs Corp.....	30.1	(*)	-----
Burroughs Control Corp.....	.3	(*)	-----
Total.....	30.4	.1	67.0
82. Gulf Oil Corp.....	29.1	.1	-----
Callery Chemical Co.....	.9	(*)	-----
Gulf Oil Trading Co.....	.3	(*)	-----
Gulf Research & Development Co.....	(*)	(*)	-----
Total.....	30.3	.1	67.1
83. Cities Service Co.....	.0	.0	-----
Cities Service Gas Co.....	.5	(*)	-----
Cities Service Oil Co.....	29.0	.1	-----
Cities Service Tankers Corp.....	.5	(*)	-----
Total.....	30.0	.1	67.2
84. Flying Tiger Line, Inc.....	29.9	.1	67.3
85. Richfield Oil Corp.....	29.1	.1	-----
American Mineral Spirits Co., Western.....	.2	(*)	-----
Total.....	29.3	.1	67.4
86. Firestone Tire & Rubber Co.....	26.7	.1	-----
Dayton Tire & Rubber Co.....	.3	(*)	-----
Latex Products, Inc.....	(*)	(*)	-----
Ravenna Arsenal, Inc.....	1.8	(*)	-----
Total.....	28.8	.1	67.5
87. White Motor Corp.....	28.4	.1	-----
Minneapolis-Moline, Inc.....	.2	(*)	-----
Total.....	28.6	.1	67.6
88. Ryan Aeronautical Co.....	26.9	.1	67.7
89. Standard Kollsman Industries, Inc.....	.0	.0	-----
Kollsman Instrument Corp.....	26.8	.1	-----
Kollsman Motor Corp.....	.1	(*)	-----
Total.....	26.9	.1	67.8
90. Atlantic Research Corp.....	26.6	.1	-----
Northeastern Engineering, Inc.....	.1	(*)	-----
Total.....	26.7	.1	67.9
91. Motorola, Inc.....	24.3	.1	-----
Motorola Communications & Electronics, Inc.....	2.4	(*)	-----
Total.....	26.7	.1	68.0
92. Condec Corp.....	26.0	.1	-----
Consolidated Controls Corp.....	.3	(*)	-----
Total.....	26.3	.1	68.1
93. Chamberlain Corp.....	25.9	.1	68.2
94. Koppers Co., Inc.....	25.7	.1	-----
General Industries, Inc.....	.1	(*)	-----
Hardinge Co., Inc.....	.1	(*)	-----
Total.....	25.9	.1	68.3
95. Union Oil Co. of California.....	25.6	.1	68.4
96. Dynalectron Corp.....	24.9	.1	68.5
97. Rich (F. D.) Co., Inc.....	24.8	.1	68.6
98. Morrison-Knudsen Co., Inc.....	3.3	(*)	-----
Morrison-Knudsen of Asia, Inc.....	.1	(*)	-----
Morrison-Knudsen Overseas, Inc.....	1.7	(*)	-----
National Steel & Shipbuilding Co.....	19.6	.1	-----
Total.....	24.7	.1	68.7
99. Webb (Del E.) Corp.....	24.3	.1	68.8
100. Day & Zimmerman, Inc.....	24.3	.1	68.9

See footnotes at end of table, p. 32.



32 ECONOMIC IMPACT OF FEDERAL PROCUREMENT—1966

<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 U.S. companies for work overseas.

Procurement actions include definitive contracts, the obligated portions of 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 indefinite quantity contracts that have not been translated into specific orders on business firms, nor do they 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 stock ownership 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, 1965. Only those subsidiaries are shown for which procurement actions have been reported.

<sup>3</sup> Less than \$50,000.

<sup>4</sup> Less than 0.05 percent.

<sup>5</sup> Stock ownership is equally divided between Kaiser Industries Corp. and Morrison-Knudsen Co., Inc.; half of the total of military awards is shown under each of the parent companies.

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

NEGOTIATED AND ADVERTISED PROCUREMENT ACTIONS

Negotiated procurements for fiscal year 1965 were 82 percent of total awards with business firms in the United States, down over 3 percent from the previous year. Significantly, the DOD states that when items can be procured competitively the savings are about 25 percent.

TABLE 10.—*Net value of military procurement actions, with business firms for work in the United States, classified by method of procurement, fiscal years 1951-65*

Fiscal year	Total net value (millions)	Formally advertised procurement		Negotiated procurement	
		Millions	Percent	Millions	Percent
1951.....	\$30,823	\$3,720	12.1	\$27,103	87.9
1952.....	41,482	4,479	10.8	37,003	89.2
1953.....	27,822	3,089	11.1	24,733	88.9
1954.....	11,448	1,789	15.6	9,659	84.4
1955.....	14,930	2,386	16.0	12,544	84.0
1956.....	17,750	2,815	15.9	14,935	84.1
1957.....	19,133	3,321	17.4	15,812	82.6
1958.....	21,827	3,115	14.3	18,712	85.7
1959.....	22,744	3,089	13.6	19,655	86.4
1960.....	21,302	2,978	14.0	18,324	86.0
1962.....	22,992	2,770	12.0	20,222	88.0
1963.....	26,147	3,412	13.1	22,735	86.9
1964.....	27,143	3,538	13.0	23,605	87.0
1965.....	26,221	3,889	14.8	22,332	85.2
1965.....	25,281	4,660	18.4	20,621	81.6
Total, 1951-65.....	357,045	49,050	13.7	307,995	86.3

Source: "Military Prime Contract Awards and Subcontract Payments or Commitments, July 1964-June 1965," Office of the Secretary of Defense.

Three types of negotiation authority account for more than half of all procurement in fiscal 1965 as compared to three-fifths in fiscal 1964. The results for fiscal years 1964 and 1965 follow:

*Contract awards by statutory authority (excerpt from table 11) <sup>1</sup>*

	Percent	
	1964	1965
Impracticable to secure competition by formal advertising.....	14.5	14.4
Experimental, developmental, test, or research.....	17.8	16.6
Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	28.4	23.0
Total.....	60.7	54.0

<sup>1</sup> Over 31 percent of all negotiated procurement is obtained by price competition.

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

[Dollars in thousands]

Statutory authority (10 U.S.C. 2304(a))	July 1963-June 1964						July 1964-June 1965							
	Total	Total per cent	Army	Navy	Air Force	Defense Supply Agency	Other defense agencies	Total	Total per cent	Army	Navy	Air Force	Defense Supply Agency	Other defense agencies
Total.....	\$28,796,284		\$6,240,373	\$8,994,557	\$10,546,444	\$2,701,243	\$313,667	\$27,997,037		\$6,075,653	\$8,968,550	\$9,658,648	\$3,042,379	\$251,807
Intragovernmental.....	561,746		151,179	166,452	211,440	23,703	8,972	612,470		111,620	278,303	199,478	23,069	0
Total, except intragovernmental.....	28,234,538	100.0	6,089,194	8,828,105	10,335,004	2,677,540	304,695	27,384,567	100.0	5,964,033	8,690,247	9,459,170	3,019,310	251,807
Formally advertised.....	4,071,587	14.4	1,516,883	1,192,990	349,264	1,012,298	152	4,817,214	17.6	1,563,378	1,709,438	431,132	1,113,266	0
Other authority (subtotal).....	24,162,951	85.6	4,572,311	7,635,115	9,985,740	1,665,242	304,543	22,567,353	82.4	4,400,655	6,980,809	9,028,038	1,906,044	251,807
(1) National emergency (subtotal).....	321,793	1.1	113,453	51,879	56,265	100,196	0	236,999	.9	71,073	50,710	39,137	76,079	0
(a) Labor surplus area and industry set-aside.....	254,145	.9	76,895	35,171	47,391	94,688	0	158,166	.6	36,110	26,127	24,595	71,334	0
(b) Small business set-aside (unilateral).....	62,342	.2	32,838	16,673	7,868	4,963	0	62,215	.2	30,351	24,479	6,053	1,332	0
(c) Balance of payments program.....	5,306	(*)	3,720	35	1,006	545	0	16,618	.1	4,612	104	8,489	3,413	0
(2) Public exigency.....	585,523	2.1	154,777	167,168	236,140	27,438	0	1,104,298	4.0	415,255	238,673	364,870	85,439	61
(3) Purchases not more than \$2,500.....	1,337,665	4.7	366,551	448,930	308,386	213,798	0	1,392,963	5.1	378,499	443,970	344,145	226,339	0
(4) Personal or professional services.....	113,752	.4	37,421	61,638	12,996	0	1,697	78,820	.3	35,023	31,051	12,746	0	0
(5) Services of educational institutions.....	412,438	1.5	76,040	153,506	146,980	149	35,763	431,284	1.6	78,912	150,391	181,715	0	20,266
(6) Purchases outside United States.....	957,504	3.4	474,206	84,688	146,506	250,280	1,824	1,036,916	3.8	484,819	104,293	185,474	261,063	1,267
(7) Medicines and medical supplies.....	54,865	.2	738	687	2,048	51,392	0	67,353	.2	1,114	1,556	1,836	62,847	0
(8) Supplies purchased for authorized resale.....	157,589	.5	53,096	14,576	73,032	16,885	0	170,674	.6	49,795	25,662	76,879	18,338	0
(9) Perishable or nonperishable subsistence.....	684,747	2.4	50,058	17,367	121,627	495,695	0	801,857	2.9	56,464	50,759	141,305	553,329	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	3,929,339	14.4	526,351	1,470,132	1,552,010	177,796	203,050
(11) Experimental, developmental test or research.....	5,016,641	17.8	881,620	879,451	3,218,473	0	37,097	4,556,792	16.6	908,649	834,971	2,789,104	20	24,048
(12) Classified purchases.....	217,184	.8	134,902	70,426	11,856	0	0	115,000	.4	78,409	35,801	790	0	0
(13) Technical equipment requiring standardization and interchangeability of parts.....	38,281	.1	16,749	20,875	168	489	0	52,400	.2	6,109	30,315	15,976	0	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	6,284,334	23.0	672,178	2,977,359	2,634,797	0	0
(15) Negotiation after advertising.....	1,409	(2)	0	242	1,167	0	0	1,616	(2)	0	793	806	17	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	337,241	1.2	47,430	56,301	233,494	16	0
(17) Otherwise authorized by law (sub-total).....	1,830,027	6.5	630,173	367,083	443,042	386,550	3,179	1,969,477	7.2	590,575	478,072	452,954	444,761	3,115
(a) Joint small business set-asides.....	1,222,070	4.3	418,602	220,198	224,203	358,934	133	1,401,931	5.1	441,427	282,147	267,727	410,630	0
(b) Other.....	607,957	2.2	211,571	146,885	218,839	27,616	3,046	567,546	2.1	149,148	195,925	185,227	34,131	3,115

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

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

The distribution of military prime contract awards of \$10,000 or more by States and the District of Columbia for experimental, developmental, test, and research work shows (see also tables 12 and 12(a)):

Percent of total:	Number of States
30 to 40.....	1
10 to 15.....	1
5 to 10.....	3
4 to 5.....	2
3 to 4.....	2
2 to 3.....	5
1 to 2.....	3
0 to 1.....	34

TABLE 12.—Military prime contract awards of \$10,000 or more for experimental, developmental, test and research work, by region and State, and by type of contractor, fiscal year 1965

(Dollar amounts in thousands)

Region and State	Type of contractor							
	Total		Educational institutions		Other nonprofit institutions <sup>1</sup>		Business firms	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
United States total.....	\$4,707,612	100.0	\$369,907	100.0	\$315,198	100.0	\$4,022,507	100.0
New England.....	514,245	10.9	139,618	37.7	40,336	12.8	334,291	8.3
Maine.....	3	(?)	\$ -10	.....	0	0	13	(?)
New Hampshire.....	15,189	.3	571	.2	0	0	14,618	.4
Vermont.....	3,239	.1	123	(?)	0	0	3,116	(?)
Massachusetts.....	401,978	8.5	134,940	36.5	39,091	12.4	227,947	5.7
Rhode Island.....	10,044	.2	3,080	.8	19	(?)	6,945	.2
Connecticut.....	83,792	1.8	914	.2	1,226	.4	81,652	2.0
Middle Atlantic.....	693,886	14.7	53,446	14.4	28,684	9.1	611,756	15.2
New York.....	285,411	6.1	29,336	7.9	18,608	5.9	237,467	5.9
New Jersey.....	195,171	4.1	5,943	1.6	343	.1	188,885	4.7
Pennsylvania.....	213,304	4.5	18,167	4.9	9,733	3.1	185,404	4.6
East North Central.....	358,069	7.6	41,434	11.2	20,883	6.6	295,752	7.4
Ohio.....	131,562	2.8	6,524	1.8	9,534	3.0	115,504	2.9
Indiana.....	40,732	.9	2,530	.7	1,111	.4	37,091	.9
Illinois.....	57,146	1.2	14,017	3.8	9,935	3.2	33,194	.8
Michigan.....	111,052	2.4	16,162	4.4	104	(?)	94,786	2.4
Wisconsin.....	17,577	.4	2,201	.6	199	.1	15,177	.4
West North Central.....	109,625	2.3	5,083	1.4	8,300	2.8	95,712	2.4
Minnesota.....	50,378	1.1	1,827	.5	144	(?)	48,407	1.2
Iowa.....	2,722	.1	1,115	.3	0	0	1,607	(?)
Missouri.....	42,221	.9	1,764	.5	8,686	2.8	31,771	.8
North Dakota.....	23	(?)	11	(?)	0	0	12	(?)
South Dakota.....	550	(?)	63	(?)	0	0	487	(?)
Nebraska.....	\$ -50	.....	53	(?)	0	0	\$ -103	.....
Kansas.....	13,781	.3	250	.1	0	0	13,531	.3
South Atlantic.....	674,671	14.3	69,679	18.8	35,895	11.4	569,097	14.1
Delaware.....	4,274	.1	259	.1	0	0	4,015	(?)
Maryland.....	198,342	4.2	51,225	13.8	4,881	1.5	142,236	3.5
District of Columbia.....	40,825	.9	10,051	2.7	15,535	4.9	15,239	.4
Virginia.....	51,243	1.1	982	.3	10,722	3.4	39,539	1.0
West Virginia.....	9,749	.2	216	(?)	2,379	.8	7,154	.2
North Carolina.....	102,725	2.2	3,261	.9	794	.3	98,670	2.5
South Carolina.....	95	(?)	95	(?)	0	0	0	0
Georgia.....	16,565	.4	610	.2	1,565	.5	14,390	.4
Florida.....	250,853	5.3	2,980	.8	1,179	(?)	247,854	6.2
South Central.....	525,380	11.2	10,583	2.9	6,172	2.0	508,625	12.6
Kentucky.....	1,008	(?)	306	.1	0	0	702	(?)
Tennessee.....	49,074	1.0	840	.2	0	0	48,234	1.2
Alabama.....	15,158	.3	671	.2	604	.2	13,883	.3

See footnotes at end of table, p. 37.

TABLE 12.—Military prime contract awards of \$10,000 or more for experimental, developmental, test and research work, by region and State, and by type of contractor, fiscal year 1965—Continued

[Dollar amounts in thousands]

Region and State	Type of contractor							
	Total		Educational institutions		Other nonprofit institutions <sup>1</sup>		Business firms	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
South Central—Continued								
Mississippi.....	\$521	(?)	\$472	.1	\$49	(?)	0	0
Arkansas.....	56	(?)	33	(?)	0	0	\$23	(?)
Louisiana.....	1,413	(?)	666	.2	0	0	747	(?)
Oklahoma.....	12,237	.3	1,267	.3	236	.1	10,734	.3
Texas.....	445,913	9.5	6,328	1.7	5,283	1.7	434,302	10.8
Mountain.....	225,388	4.9	12,398	3.4	4,363	1.4	208,622	6.2
Montana.....	1,740	(?)	221	(?)	0	0	1,519	(?)
Idaho.....	155	(?)	79	(?)	76	(?)	0	0
Wyoming.....	95	(?)	0	0	0	0	95	(?)
Colorado.....	149,255	3.2	5,366	1.5	1,037	.3	142,852	3.6
Utah.....	16,965	.4	2,129	.6	0	0	14,836	.4
Nevada.....	2,436	(?)	10	(?)	1,059	.3	1,367	(?)
New Mexico.....	24,161	.5	3,556	1.0	1,643	.5	18,962	.5
Arizona.....	30,576	.7	1,037	.3	548	.2	28,991	.7
Pacific.....	1,602,808	34.0	35,028	9.5	169,632	53.8	1,398,148	34.8
Washington.....	99,391	2.1	4,407	1.2	65	(?)	94,919	2.4
Oregon.....	1,376	(?)	1,325	.4	0	0	51	(?)
California.....	1,502,041	31.9	29,296	7.9	169,567	53.8	1,303,178	32.4
Alaska and Hawaii.....	3,545	.1	2,638	.7	403	.1	504	(?)
Alaska.....	2,204	(?)	1,918	.5	286	.1	0	0
Hawaii.....	1,341	(?)	720	.2	117	(?)	504	(?)

<sup>1</sup> Includes contracts with other Government agencies.

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

<sup>3</sup> The negative value results from contract cancellations in excess of new awards.

TABLE 12(a).—Military prime contract awards of \$10,000 or more for experimental, developmental, test, and research work in order of rank by State and the District of Columbia, fiscal year 1965

	Percent	Total percent		Percent	Total percent
1 Nebraska <sup>1</sup> .....	—	0	27 New Hampshire.....	.4	2.5
2 Alaska.....	0	0	28 Wisconsin.....	.4	2.9
3 Idaho.....	0	0	29 Utah.....	.4	3.3
4 Mississippi.....	0	0	30 New Mexico.....	.5	3.8
5 South Carolina.....	(?)	0	31 Arizona.....	.7	4.5
6 Arkansas.....	(?)	0	32 Illinois.....	.8	5.3
7 Colorado.....	(?)	0	33 Missouri.....	.8	6.1
8 Delaware.....	(?)	0	34 Indiana.....	.9	7.0
9 Hawaii.....	(?)	0	35 Virginia.....	1.0	8.0
10 Iowa.....	(?)	0	36 Minnesota.....	1.2	9.2
11 Kentucky.....	(?)	0	37 Tennessee.....	1.2	10.4
12 Louisiana.....	(?)	0	38 Connecticut.....	2.0	12.4
13 Maine.....	(?)	0	39 Michigan.....	2.4	14.8
14 Montana.....	(?)	0	40 Washington.....	2.4	17.2
15 Nevada.....	(?)	0	41 North Carolina.....	2.5	19.7
16 North Dakota.....	(?)	0	42 Ohio.....	2.9	22.6
17 Oregon.....	(?)	0	43 Maryland.....	3.5	26.1
18 South Dakota.....	(?)	0	44 Colorado.....	3.6	29.7
19 Vermont.....	(?)	0	45 Pennsylvania.....	4.6	34.3
20 Rhode Island.....	0.2	0.2	46 New Jersey.....	4.7	39.0
21 West Virginia.....	.2	.4	47 Massachusetts.....	5.7	44.7
22 Alabama.....	.3	.7	48 New York.....	5.9	50.6
23 Kansas.....	.3	1.0	49 Florida.....	6.2	56.8
24 Oklahoma.....	.3	1.3	50 Texas.....	10.8	67.6
25 District of Columbia.....	.4	1.7	51 California.....	32.4	100.0
26 Georgia.....	.4	2.1			

<sup>1</sup> The negative value results from contract cancellations in excess of new awards.

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

## FIXED PRICE VERSUS COST REIMBURSEMENT CONTRACTS

Notable progress was made during the past 2 fiscal years in the use of fixed-price contracts with an increase of 6.3 percent in fiscal year 1964 and 5.3 percent in fiscal year 1965. Since fiscal year 1961 the increase has been 18.6 percent.

TABLE 13.—*Net value of military procurement actions, by type of contract pricing provisions,<sup>1</sup> fiscal years 1952-65*

[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
1965	24,331	18,619	76.5	5,711	23.5

<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 intragovernmental procurement. Excludes procurement actions less than \$10,000 in value. Also excludes some Navy letters of intent (on which pricing provisions had not been determined) during fiscal year 1952.

Source: "Military Prime Contract Awards and Subcontract Payments or Commitments, July 1964-June 1965," 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 1965 the amount of utilization has steadily risen from \$213 to \$1,460 million and still greater improvement is expected in the future as service requirements are matched with inventory stocks through the use of uniform cataloging with modern data processing equipment.

TABLE 14.—Utilization of DOD assets, fiscal years 1958-65

[In millions]

Utilization of DOD assets	Fiscal year—							
	1958	1959	1960	1961	1962	1963	1964	1965
DOD interservice supply support program (wholesale).....	\$32	\$119	\$141	\$228	\$353	\$420	\$396	\$357
Intraservice utilization of military service declared excess property...	117	232	408	616	637	626	769	1 799
Interservice utilization of military service declared excess property...	64	134	117	131	122	111	160	304
Total.....	213	485	666	975	1, 112	1, 157	1, 325	1, 460

<sup>1</sup> Includes reutilization of supply system inventories.

Source: Office of Secretary of Defense.

## DISPOSITION OF DOD SURPLUS STOCKS

The volume of disposal of surplus DOD personal property has declined about 20 percent from fiscal year 1958 to fiscal year 1965 (table 15) while the percent of total gross proceeds to the total acquisition cost has declined from 3.38 to 2.72 percent and the percent of proceeds to acquisition cost (other than scrap and salvage) has increased about ½ percent (table 16.) Meanwhile the costs of sales, although decreasing slightly during fiscal year 1965, have more than trebled as a percent of gross proceeds from fiscal year 1958 to fiscal year 1965 (table 17).

TABLE 15.—Total dispositions<sup>1</sup> (at acquisition cost) of DOD surplus personal property, fiscal years 1958-65

[In millions]

	Fiscal year—							
	1958	1959	1960	1961	1962	1963	1964	1965
Utilized by other Government agencies and MAP....	\$168	\$361	\$141	\$349	\$271	\$188	\$194	\$395
Abandoned or destroyed.....	62	99	118	44	50	74	117	129
Authorized donations.....	221	314	347	276	258	233	273	282
Sales (other than scrap and salvage).....	2, 465. 8	2, 789. 2	2, 356. 4	1, 771. 3	1, 236. 2	891. 6	960	975
Expended to scrap.....	2, 993. 7	4, 576. 8	3, 626. 7	4, 331. 8	2, 233. 1	2, 537. 8	3, 818	2, 983
Total dispositions.....	5, 911	8, 141	6, 589	6, 791	4, 061	3, 041	5, 399	4, 769

<sup>1</sup> Exclusive of DOD Interservice Transfers.



40 ECONOMIC IMPACT OF FEDERAL PROCUREMENT—1966

TABLE 16.—*Proceeds from disposal sales of surplus personal property by the military departments, fiscal years 1958-65*

[In millions]

Proceeds from disposal	Fiscal year—							
	1958	1959	1960	1961	1962	1963	1964	1965
From sale (other than scrap and salvage).....	\$128	\$140	\$124	\$106	\$87	\$59	\$61	\$55
From sale of other property.....	55	72	70	61	48	40	42	53
Total.....	183	212	194	167	135	99	103	108
Acquisition cost (total).....	5,460	7,366	5,983	6,123	3,482	3,446	4,815	3,958
Percent of total gross proceeds to total acquisition cost.....	3.38	2.88	3.24	2.71	3.87	2.87	2.14	2.72
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	5.64

TABLE 17.—*Costs of disposal sales of surplus property by the military departments, fiscal years 1958-65*

[In millions]

Costs of disposal sales of surplus property	Fiscal year—							
	1958	1959	1960	1961	1962	1963	1964	1965
Cost for demilitarization.....	\$24.0	\$20.5	\$26.6	\$19.1	\$9.1	\$9.5	\$12.7	\$13.2
Costs for preparation and selling.....	18.5	37.8	51.8	65.5	69.0	62.6	64.6	65.1
Total.....	42.5	58.3	78.4	84.6	78.1	72.1	77.3	78.3
Gross proceeds.....	183.0	212.0	194.0	167.0	135.0	90.0	103.0	108.0
Percent of sales costs to gross proceeds.....	23.0	27.5	40.4	50.6	58.0	75.2	75.0	72.5

## APPENDIX 1

### Updated summary of Department of Defense cost reduction program <sup>1</sup>

[In millions of dollars]

	Estimated savings to be realized in— <sup>1</sup>				
	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965	Fiscal year 1966	Fiscal year 1969
<b>A. Buying only what we need:</b>					
1. Refining requirement calculations:					
(a) Major items of equipment <sup>2</sup> .....	90	487	1,060	747	-----
(b) Initial provisioning.....	163	218	368	184	-----
(c) Secondary items.....	481	643	626	799	-----
(d) Technical manuals.....	-----	10	9	8	-----
(e) Technical data and reports.....	-----	2	6	2	-----
(f) Production base facilities.....	35	14	18	-----	-----
2. Increased use of excess inventory in lieu of new procurement:					
(a) Equipment and supplies.....	-----	57	169	75	-----
(b) Idle production equipment.....	1	-----	4	-----	-----
(c) Excess contractor inventory.....	18	14	8	3	-----
3. Eliminating "Goldplating" (value engineering).....					
	72	76	204	83	-----
4. Inventory item reduction.....					
	-----	-----	83	72	-----
<b>Total buying only what we need.....</b>	<b>860</b>	<b>1,621</b>	<b>2,555</b>	<b>1,973</b>	<b>2,591</b>
<b>B. Buying at the lowest sound price:</b>					
1. Shift from noncompetitive to competitive procurement:					
Total percent competitive <sup>3</sup> .....	(37.1)	(39.1)	(43.4)	-----	-----
Total amount of savings.....	237	448	641	414	-----
2. Shift from CPFF to fixed or incentive price:					
Total percent CPFF <sup>4</sup> .....	(20.7)	(12)	(9.4)	-----	-----
Total amount of savings.....	-----	100	436	599	-----
3. Direct purchase breakout.....					
	-----	5	6	2	-----
4. Multiyear procurement.....					
	-----	-----	67	-----	-----
<b>Total buying at lowest sound price..</b>	<b>237</b>	<b>553</b>	<b>1,150</b>	<b>1,015</b>	<b>1,17</b>
<b>C. Reducing operating costs:</b>					
1. Terminating unnecessary operations.....					
	123	334	484	551	-----
2. Consolidation and standardization:					
(a) DSA operating expense savings <sup>5</sup> .....	31	42	59	57	-----
(b) Consolidation of contract administration.....	-----	-----	-----	-----	-----
(c) Departmental operating expense savings.....	-----	95	186	95	-----
3. Increasing efficiency of operations:					
(a) Improving telecommunications management.....	80	131	118	129	-----
(b) Improving transportation and traffic management.....	24	7	35	35	-----
(c) Improving equipment maintenance management.....	-----	65	117	108	-----
(d) Improving noncombat vehicle management.....	2	18	24	21	-----
(e) Reduced use of contract technicians.....	-----	20	26	27	-----
(f) Improving military housing management.....	6	13	16	14	-----
(g) Improving real property management.....	23	25	46	27	-----
(h) Packaging, preserving, and packing.....	-----	7	8	3	-----
<b>Total reducing operating costs.....</b>	<b>289</b>	<b>757</b>	<b>1,119</b>	<b>1,067</b>	<b>2,205</b>
<b>D. Military assistance program (MAP): Total MAP.....</b>					
	-----	-----	19	-----	125
<b>Total program.....</b>	<b>1,386</b>	<b>2,831</b>	<b>4,843</b>	<b>4,055</b>	<b>6,091</b>

<sup>1</sup> Includes certain one-time savings not expected to recur in the same amounts in future years.

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

<sup>3</sup> Fiscal year 1961 was 32.9 percent. Fiscal year 1964 actual was 43.4 percent. Savings are 25 percent per dollar converted.

<sup>4</sup> First 9 months of fiscal year 1961 was 38 percent. Fiscal year 1965 actual was 9.4 percent. Savings are 10 percent per dollar converted.

<sup>5</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; \$51,000,000 in fiscal year 1964.

<sup>6</sup> Amount reflected in the original fiscal year 1966 budget.

Source: From testimony of Secretary McNamara to subcommittee on Jan. 24, 1966.

APPENDIX 2

UPDATED PROGRESS REPORT OF THE DEFENSE SUPPLY AGENCY OF THE DEPARTMENT OF DEFENSE\*

THE DEFENSE SUPPLY AGENCY

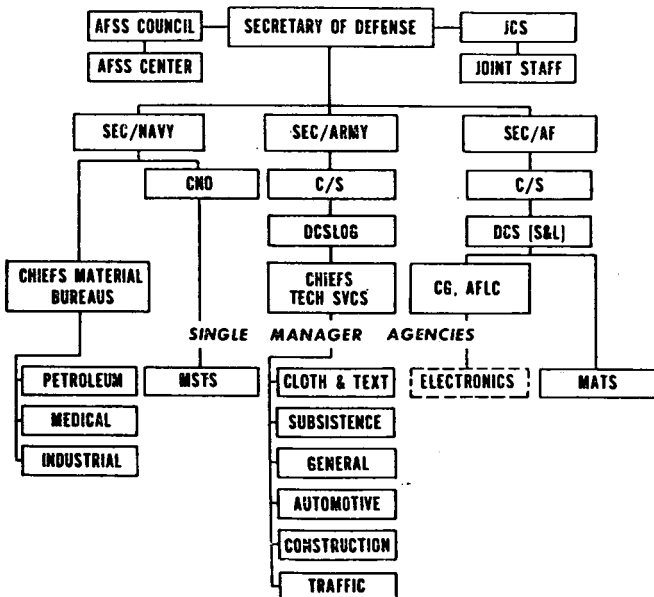
The Defense Supply Agency has been in operation since January 1962 and is performing effectively all assigned missions and tasks. As a major segment of the Defense Logistics Establishment, the Agency provides responsive and efficient service to its customers at less cost and has fully justified its establishment.

PRE-DSA ORGANIZATION

Prior to the establishment of the Defense Supply Agency, the Secretaries of the military departments were designated single managers of selected supply and service activities for all components of the Department of Defense (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 to the military services with significant reductions in operating costs and inventories. Their experience demonstrated the merits of a single agency, furnishing common supplies and services to all military departments.

FIGURE 1

SINGLE MANAGER SYSTEM



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 in dotted line 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 defensewide cataloging, standardization, and materiel utilization

\*Source: Director, Defense Supply Agency.

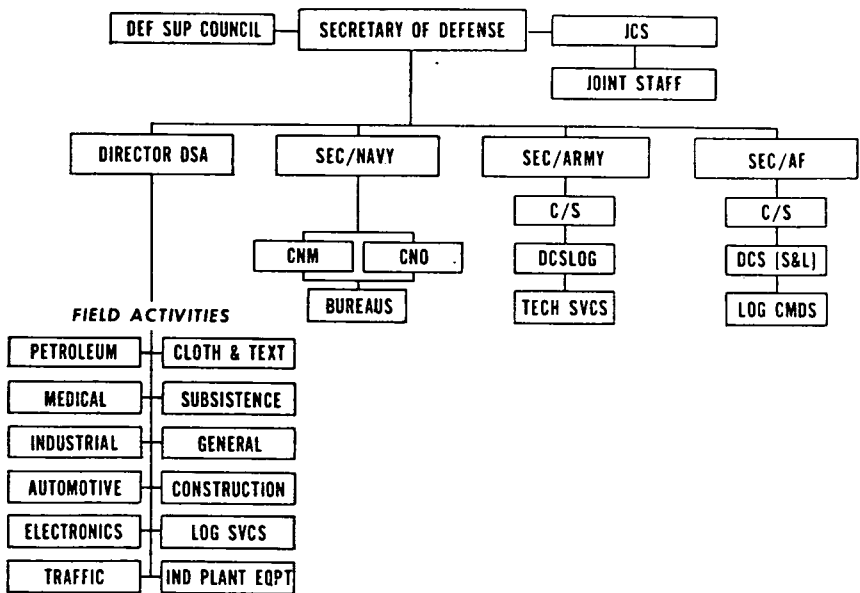
programs and conducted integrated management studies. Also transferred to the Defense Supply Agency, but not shown in figure 1, are the property disposal offices of the military departments. The Military Air and Military Sea Transport Services, shown in figure 1 as single-manager agencies, have remained in the Departments of the Air Force and Navy.

DSA ORGANIZATION

Figure 2 depicts the changes in the defense supply and logistics service organization, authorized by the end of 1962. The departmental single managers were taken over in place, as field activities of the Defense Supply Agency, 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, a DSA field activity. Figure 3 depicts the DSA organization today.

FIGURE 2

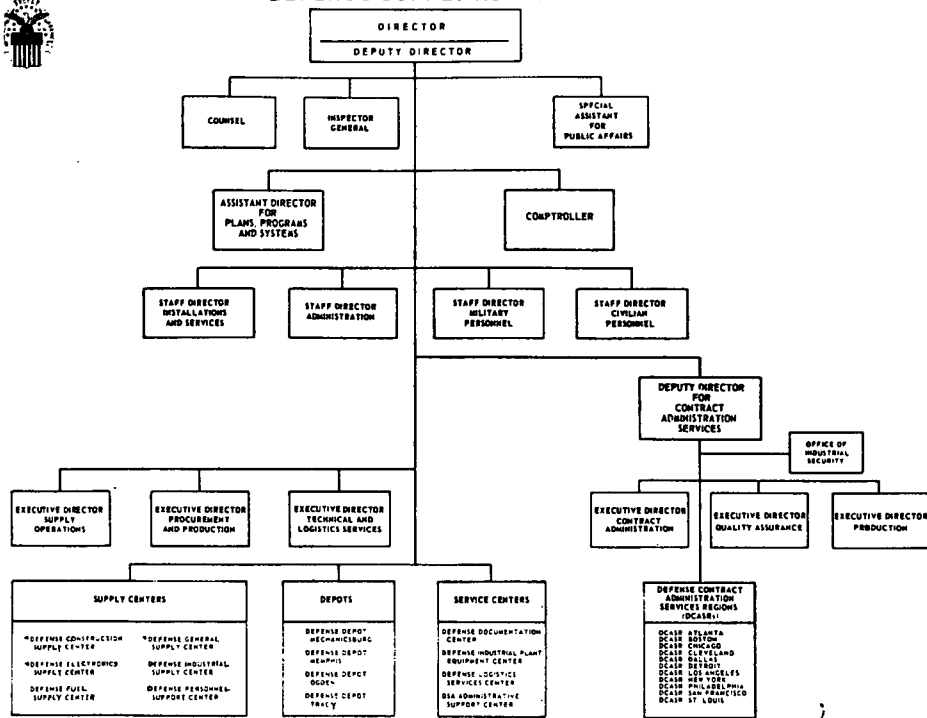
DoD LOGISTICAL SYSTEM - 1962



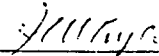
Only in the case of headquarters was it necessary to create an entirely new organization. During the first 3 months of the Agency's existence, the headquarters staff consisted of a planning group, most of whom were on loan from the military departments and the Office of the Secretary of Defense. Selection 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 management 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, with each of the military departments 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

FIGURE 3

DEFENSE SUPPLY AGENCY



\* Centers with Depot Operations

APPROVED   
 J. H. KYLE  
 Vice Admiral SC USN  
 Director  
 3 December 1965

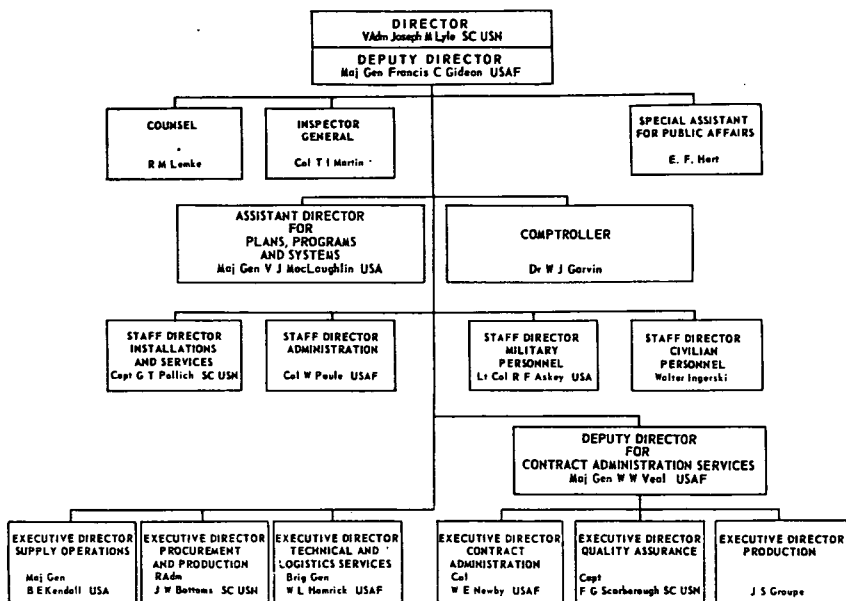


areas. The Deputy Director for contract administration services acts for the Director, DSA, and in exercising management and operating control over CAS missions, operating programs, and supporting field activities, is assisted by Executive Directors for contract administration, quality assurance, and production. The Staff Directors for installations and services, administration, military personnel, and civilian personnel, the counsel, Inspector General, and special assistant for public affairs perform the staff support functions of a major headquarters.

The field establishment is comprised of 25 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 military services. The geographical locations of the 25 major DSA field activities are depicted in figure 6.

FIGURE 4

HEADQUARTERS DEFENSE SUPPLY AGENCY



1 January 1966

FIGURE 5.—MAJOR FIELD ACTIVITIES

<i>Activity</i>	<i>Activity Head</i>
Defense Construction Supply Center.....	Rear Adm. I. R. Haddock, USN
Defense Electronics Supply Center.....	Rear Adm. R. H. Northwood, USN
Defense Fuel Supply Center.....	Lt. Gen. W. O. Senter, USAF
Defense General Supply Center.....	Maj. Gen. R. J. Laux, USA
Defense Industrial Supply Center.....	Brig. Gen. J. M. Kenderdine, USA
Defense Logistics Services Center.....	Col. F. Mercer, USAF
Defense Personnel Support Center.....	Maj. Gen. O. C. Harvey, USA
Defense Documentation Center.....	Dr. R. B. Stegmaier, Jr.
Defense Depot, Mechanicsburg.....	Capt. A. M. McCrone, USN
Defense Depot, Memphis.....	Col. S. L. Gillette, USA
Defense Depot, Ogden.....	Capt. A. J. Fisher, USN
Defense Depot, Tracy.....	Capt. G. W. Clegg, USN
Defense Industrial Plant Equipment Center.....	Col. F. H. Sitler, USAF (acting)
DSA Administrative Support Center.....	Col. W. Paule, USAF
Defense Contract Administration Serv- ices—	
Region Atlanta.....	Capt. R. D. White, USN
Region Boston.....	Col. F. A. Bogart, USA
Region Chicago.....	Col. J. P. Gibbons, USAF
Region Cleveland.....	Col. N. T. Dennis, USA
Region Dallas.....	Col. C. F. Burley, USAF
Region Detroit.....	Capt. W. W. Tolson, USN
Region Los Angeles.....	Brig. Gen. A. E. Exon, USAF
Region New York.....	Brig. Gen. C. W. Clapsaddle, Jr., USA
Region Philadelphia.....	Col. W. S. Collison, USAF
Region San Francisco.....	Col. B. O. Montgomery, USAF
Region St. Louis.....	Col. R. I. Felch, USA

## DSA OBJECTIVES

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

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.

FIGURE 6  
**DSA MAJOR FIELD ACTIVITIES**

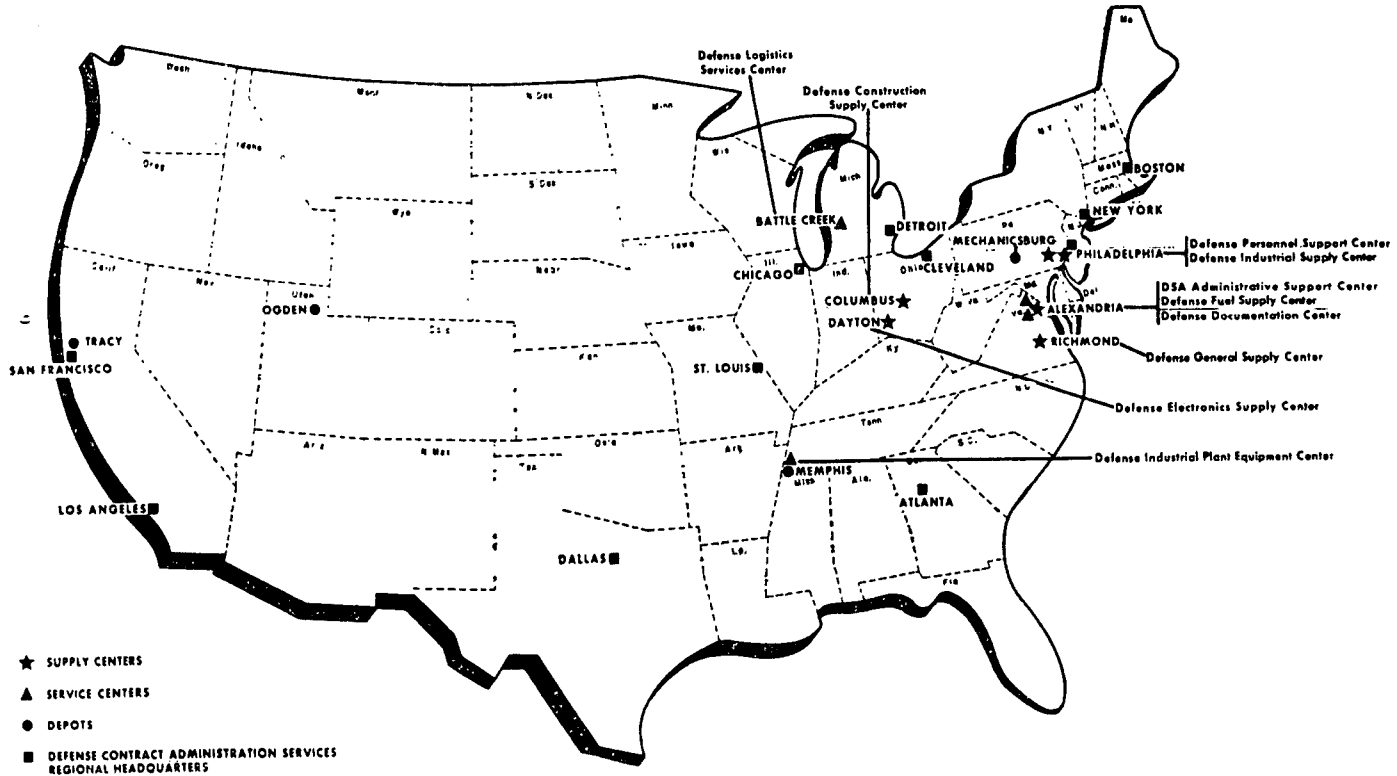




FIGURE 7  
Indicators of DSA growth

	End January 1962	End January 1963	End fiscal year 1963	End fiscal year 1964	End fiscal year 1965, actual	End fiscal year 1966, plan
Items centrally managed (thousands).....	87	472	1,029	1,328	1,369	1,401
Inventory (millions).....	\$1,588	\$2,004	\$2,412	\$2,232	\$1,977	\$2,021
Procurement (millions).....		\$1,839	\$2,670	\$2,701	\$3,042	\$4,587
Personnel.....	9,500	24,459	25,970	31,141	34,128	55,031

<sup>1</sup> Current OSD allocation (Dec. 31, 1965).

#### GROWTH OF DSA

DSA has made rapid progress in the assumption of assigned functions, as indicated in figure 7. In January 1962, DSA took over wholesale management of 87,000 items with an inventory value of more than \$1.58 billion. By the end of fiscal year 1965, the number of items centrally managed (excluding items designated for local purchase) exceeded 1.36 million, with a value of over \$1.97 billion, and will approximate 1.40 million items by the end of fiscal year 1966. At that time, the inventory value is expected to be over \$2.02 billion, and the annual rate of procurement will increase to over \$4.58 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, DSA personnel had increased to 34,128, and will increase further, by end of fiscal year 1966, to over 55,000. By the end of fiscal year 1965, DSA has taken over management of all assigned commodities and services, except for 45 selected Federal supply classes. Items in these 45 classes, along with service-retained items in other DSA classes, are being reviewed against DOD-approved item management coding criteria.

#### DSA ACHIEVEMENTS IN REDUCING COSTS OF OPERATIONS

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 with a view toward providing the military services with better support at less cost.

The President's budget for fiscal year 1963 was based on the expectation that the functions transferred to DSA would be performed at a cost of \$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 clothing factories produced an additional saving of \$0.9 million, resulting from a reduction of 146 personnel spaces, for a total fiscal year 1963 operating expense saving of \$31.3 million. During fiscal year 1964, this \$31.3 million was augmented by additional savings, realized from reorganization of the distribution system, improved use of automatic data processing equipment, consolidation of the defense automotive and construction supply centers, and closing of certain defense surplus sales offices, for a total of \$39.6 million. Fiscal year 1965 saw these savings raised to the level of \$57.1 million, which, due to their continuing nature, becomes the base for projected operating expense savings in future years.

In addition to savings in operating expenses, other savings have been realized through a net change in inventory investment or the ratio of defense stock fund sales to obligations. At the end of fiscal year 1965, the net investment change over the 4 years of DSA's existence had reached a cumulative total of \$512.2 million.

#### INVENTORY CONTROL POINTS

DSA manages six supply centers, distributed geographically as shown in figure 8:  
 Defense Construction Supply Center, Columbus, Ohio.  
 Defense Electronics Supply Center, Dayton, Ohio.  
 Defense Fuel Supply Center, Washington, D.C.

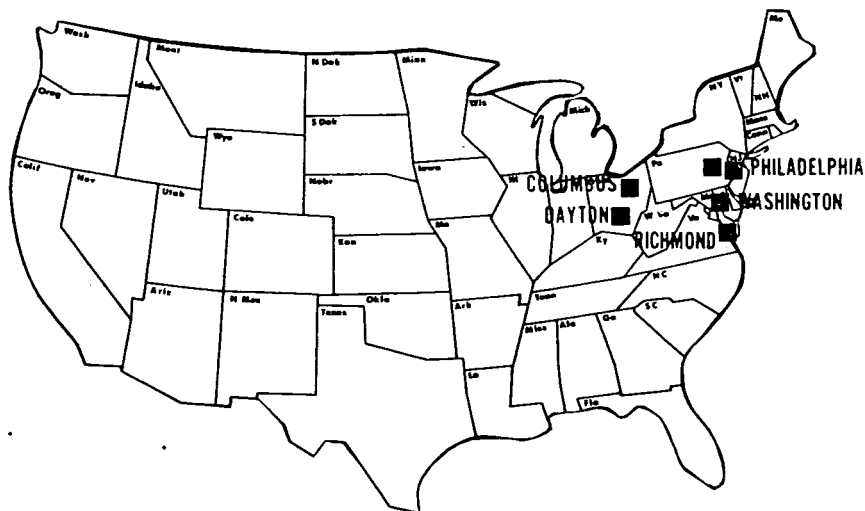
Defense General Supply Center, Richmond, Va.  
 Defense Industrial Supply Center, Philadelphia, Pa.  
 Defense Personnel Support Center, Philadelphia, Pa.

The fuel supply center computes requirements for and procures bulk and solid fuels but does not control inventories. Management of DSA inventories is currently distributed among the remaining five inventory control points, which compute replenishment requirements for assigned items, maintain inventory and transaction records, receive and edit requisitions, procure materiel, and direct shipment or procurement action, as appropriate. More than 6,000 personnel are employed in these functions. Other center personnel are engaged in related activities, such as cataloging, standardization, and installation management. Assignments of commodities to centers were determined through separate commodity studies conducted over a 6-year period. Among centers, wide variations existed in the numbers of items managed and in the mix of technical, personnel-related, and bulk materiel items. Functional and commodity assignments, as well as location of centers at specified military installations, have been influenced by the availability of space and facilities and by considerations of improved customer service and reductions in operating costs. During 1965, DSA consolidated the functions of the Medical Supply Center, Brooklyn, the Subsistence Supply Center, Chicago, and the Clothing and Textile Supply Center, Philadelphia, into the Defense Personnel Support Center at Philadelphia. This consolidation has resulted in a reduction of 483 civilian and 38 military spaces, with a planned net savings during fiscal year 1966 of approximately \$4.2 million, exclusive of one-time costs. Also during 1965, inventory management, except for procurement, of packaged petroleum, gas cylinders, and chemical supplies was transferred from the fuel supply center to the general supply center. Procurement responsibilities for packaged petroleum remained with those for bulk petroleum at the fuel supply center.

Early in 1966, as a result of the phase-out of DSA special purchase offices and Air Force logistic control groups, the supply centers completed the assumption of purchasing responsibilities for decentralized and nonstandard items in DSA-managed classes of materiel required for support of Army and Air Force activities overseas.

FIGURE 8

## SUPPLY CENTERS



## PROCUREMENT AND PRODUCTION

Our procurement program objectives are generally being met as indicated below:

*Small business.*—Awards to small business during the first 5-month period of fiscal year 1966 amounted to \$830 million or 43.4 percent of total awards to U.S. firms, exceeding the DSA goal for fiscal year 1966 of 39.8 percent. It is anticipated that the current rate will not be maintained at its present high level for the balance of the fiscal year due to the fact that large requirements have been outstripping plant capacity of small business firms in many commodity areas. Notwithstanding this, however, it is expected that we will meet or exceed the established goal.

*Labor surplus area awards.*—Awards (\$10,000 and above) to labor surplus areas during the first 5-month period of fiscal year 1966 amounted to \$258 million—15.7 percent of total dollar awards within the United States and possessions. This is 1.7 percent in excess of the established fiscal year 1966 goal of 14 percent.

*Competitive awards.*—Competition remains at a high rate of 92.9 percent of total awards subject to competition during the first 5-month period of fiscal year 1966. This is 1.9 percent in excess of our established goal. It is expected that the rate will continue at or above the goal for the entire fiscal year 1966.

*Formal advertising.*—Formal advertising has suffered to some extent due to the necessity to procure in many cases by negotiation to meet high priority requirements for southeast Asia. Every effort will continue to be made to formally advertise procurements to the extent feasible consistent with overriding high priority support demands for southeast Asia.

*Cost reduction—shift from sole source.*—Savings reported under this category using the difference between the previous sole source and the now competitive prices for the 4-month period July through October 1965 amounted to \$1.1 million. The DSA portion of the fiscal year 1966 DoD cost-reduction program goal of shifting from sole source to competitive procurement is \$3 million.

The southeast Asia situation has had significant impact on procurement and production activity. During the first 5 months of fiscal year 1966, 320,000 contracts, aggregating \$2.2 billion, were awarded. This represents an increase of 80,000 awards and \$641 million over the comparable period of fiscal year 1965. It is anticipated that procurement volume for fiscal year 1966 will exceed \$4.5 billion compared with actual fiscal year 1965 volume of \$3.04 billion.

DSA recognized early that procurement of greatly increased requirements resulting from escalation of military operations in southeast Asia would have serious impact on industry, leading to disruption of normal processes, tight supply situations, and price rises. A number of actions to mitigate this impact without serious effect on support were taken in the following areas:

(a) Changes were made, with service concurrence, in Government specifications to permit procurement of acceptable commercial products, wherever possible, to broaden the production base.

(b) Substitutes have been procured on an interim basis to meet urgent requirements when specification changes were inappropriate.

(c) Production of short supply items has been increased at Government-operated facilities.

(d) Industry is being furnished advance information of anticipated quantitative and delivery requirements.

(e) Accelerated delivery procurement has been limited to immediate operational support need.

(f) Payment of premium prices for accelerated deliveries has been avoided wherever possible by reevaluation of such requirements with the services.

As a result of the above, the prices paid have been consistent with commercial market conditions, and there has been no disproportionate price escalation for materials. Production and delivery problems have been and will continue to be experienced in certain commodity areas; however, these are being overcome through strengthened surveillance, full use of the Defense materiel system, and special assistance by the Business and Defense Service Administration. BDSA provided assistance in 115 cases during the first 6 months of this fiscal year.

## DISTRIBUTION SYSTEM

For assigned commodities, 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.

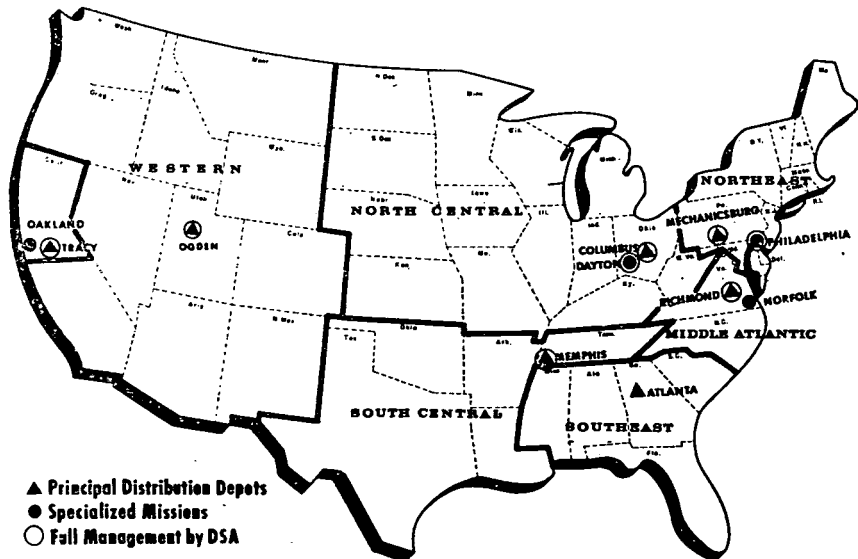
The centers perform all supply management functions such as requisition processing, inventory accountability, financial accounting, reporting, billing, and collecting.

The DSA Distribution System consists of seven principal depots and four specialized support depots (fig. 9).

*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.

FIGURE 9  
DSA DISTRIBUTION SYSTEM



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

- Defense Electronics Supply Center, Dayton, Ohio.
- Defense Personnel Support 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. (9)) 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 on-base industrial and maintenance requirements, fleet units, assigned Navy overseas 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 DAS 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 December 20 1965, DSA materiel was stored at 21 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.

#### ITEM ENTRY CONTROL

DSA has implemented item entry control screening procedures which were 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 to internal DSA actions to control entry of new items, in DSA classes, the DOD Item Entry Control Office, established within DSA to develop item entry control procedures for application to all commodity areas, conducted a series of studies of the various aspects of item entry control on a DOD-wide basis.

One of these studies resulted in the DOD item entry control pilot test of seven Federal supply classes at five military service and DSA activities. This test, conducted during the period July 1964 to February 1965, established the effectiveness of a technical review of proposed new items prior to Federal stock number assignment. As a result of the test, the technical review has been continued for all proposed new items in three Federal supply classes.

Another study conducted by the DOD Item Entry Control Office (DIECO), in coordination with the services, indicated the feasibility and desirability of merging Project Shakedown into the DOD item entry control program. Project Shakedown was initiated to perform technical review/analysis on items of supply within selected Federal supply classes with the following objectives:

- (1) Elimination of items in the DOD Supply System;
- (2) Disclosure of commonality of items between military services;
- (3) Identification of interchangeable and substitutable items;
- (4) Improvement of item identifications for Federal cataloging purposes;
- (5) Increased use of the descriptive method of identification;
- (6) Correction of reference numbers.

These objectives are to be accomplished in three phases: (a) the compilation of technical data; (b) the removal of unnecessary items from the system; and (c) the screening of new items entering the system. The merger of Project Shakedown with the DOD item entry control program was approved October 23, 1965.

In coordination with the military services, DIECO has prepared a plan for expanding the technical review of proposed new items to 66 high-growth Federal supply classes. The plan has been agreed to by the military services and DSA, subject to obtaining resources required for implementation. The plan provides for screening of proposed new items prior to making a procurement commitment. This screening, approved December 3, 1965, will be progressively implemented as the military services are able to revise their internal provisioning procedures to accommodate this review.

Techniques and systems are being devised to improve item entry control reviewing techniques through use of products of the Federal item identification guides program, use of DOD systems for rapid retrieval of technical data, and the accelerated development of military standards in high-growth commodity areas for use by designers and parts selectors. Management and operating procedures required to effect item entry control are being studied with a view to utilizing a higher degree of automation when equipments are available and volume of work warrants such automation.

DSA ITEM WITHDRAWALS

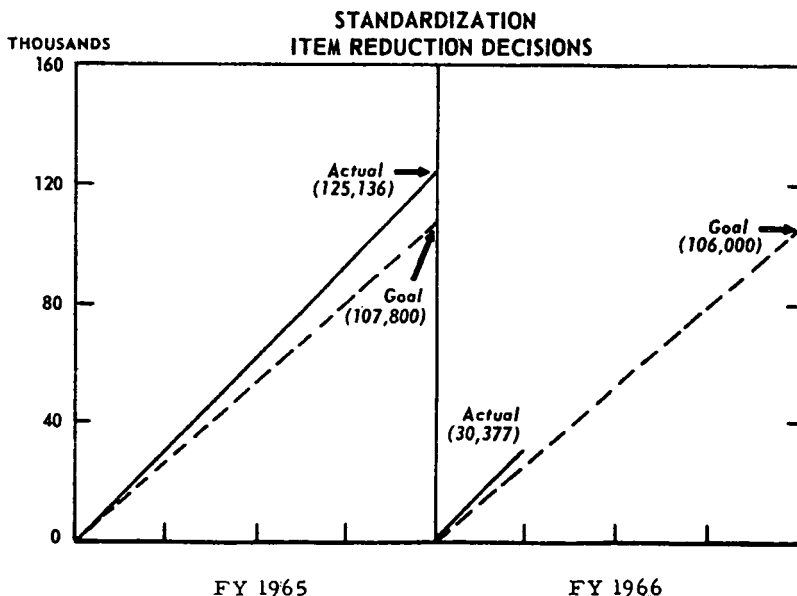
During fiscal year 1965, a net total of 147,992 DSA-managed items were deleted from the supply system and from the DOD section of the Federal catalog. The deletions were the result of inventory manager reviews (chiefly reviews of requirements for inactive items), standardization actions, and catalog improvement efforts. DSA's goal for deletions in fiscal year 1966 is 135,000 items. The efforts of DSA in item reduction continue to contribute significantly to checking the growth of DOD items in the Federal catalog.

STANDARDIZATION AND CATALOGING

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 (Installations and Logistics). The Defense Supply Agency will continue to have standardization management responsibility, however, for approximately 2.5 million items or 64 percent of the 3.9 million DOD items in the Federal supply system.

DSA is continuing to give major attention to the reduction in the number of items in assigned commodity classes. In fiscal year 1965, as a result of identification of duplicate or similar items and of standardization actions, decisions were made and concurred in by the military departments to eliminate 125,136 items (fig. 10). These decisions were based on a review of 412,984 items during the 12-month period. The goal for fiscal year 1966 is a total of 106,000 decisions, to be based on a review of approximately 315,400 items. By the end of the first quarter of fiscal year 1966, DSA had completed review and coordination of 60,324 items, and the military services had concurred in the elimination of 30,377 items from the supply system. This represented 19 percent of the fiscal year 1966 item review goal of 315,400 items and 28 percent of the reduction decision goal of 106,000 items.

FIGURE 10



The favorable downward trend in the size of the Federal catalog achieved in the second half of calendar year 1964 continued into calendar year 1965. In the first half of 1965, 159,587 items were added to the Defense catalog and 261,305 items deleted—a net decrease of 101,718 DOD items. This trend continued during the second half of the year. In the period July–November 1965, 120,222 items were added and 170,940 items deleted—a net decrease of 50,718 for a total decrease through November 1965 of 152,436. As of November 30, 1965, there were 3,788,049 items in the Defense catalog, compared with 3,940,485 on January 1, 1965.

#### MATERIEL UTILIZATION

Efforts toward improvement and refinement of mechanized procedures designed to screen releasable assets of military service inventory control points against military service inventory control point requirements is continuing. Inter-service and intraservice reutilization resulting from this process, conducted centrally at the Defense Logistics Services Center, and from direct interrogations between inventory control points, totaled \$609 million for fiscal year 1965 (\$357 million interservice reutilization and \$252 million intraservice reutilization).

Utilization of military service declared excess which is screened primarily through manual rather than mechanized procedures, amounted to \$851 million in fiscal year 1965. Progress has been made in the establishment of mechanized procedures to process the input of declared excess from military service reporting activities to the extent that the need for detailed description by reporting activities of items having a Federal stock number has, to a considerable extent, been eliminated. Mechanized processes now provide the means for the Defense Logistics Services Center to develop descriptions of the property for use in utilization screening within DOD, as well as for screening by the General Services Administration.

A program providing for special handling of excess and potential excess items of comparatively high value (exceeding \$10,000) became operational during fiscal year 1965. The program centers around the publication of special utilization "flyers" containing full data on an item, including photographs, tailoring the description of these "flyers" to specially selected potential users, and making a special effort toward utilization through telephone contact, as well as through research to determine substitute and interchangeable uses for an item.

#### WEAPONS SYSTEMS PROGRAM

Administered by the Defense Supply Agency in cooperation with the military services, the weapons systems materiel utilization program promotes defensewide redistribution and utilization of military weapons systems assets and other large aggregations of special high-cost materiel generating from phaseouts, tactical withdrawals, and program terminations.

Major objective of the DOD weapons systems utilization program is the achievement of maximum reutilization of materiel by the military services and other Federal agencies. This objective is accomplished through (1) close working relationships and liaison between DSA and all echelons of the military, defense agencies, and other Federal agencies; (2) the development of early planning intelligence regarding military systems to be phased out or otherwise discontinued; (3) the development of new or alternate uses and applications of the materiel; (4) the distribution of illustrated brochures and "flyers"; and (5) the promotional efforts by DSA personnel.

DOD reutilization of phased-out weapons systems assets through intraservice and interservice transfers has been substantially improved under the weapons systems utilization program. Weapons systems phased-out assets in excess of \$1.4 billion have been allocated and utilized by Department of Defense activities during the period of January 1961 through December 1965. Major participants include Air Force, Army, Navy, Marine Corps, Defense Atomic Support Agency, and Defense Supply Agency. In addition to materiel utilized by the military departments, materiel valued in excess of \$290 million was received by other Federal agencies, including National Aeronautics and Space Administration, National Science Foundation, Federal Aviation Agency, National Guard, and Atomic Energy Commission.

#### SUBSIDIARY PROGRAMS

Subsidiary materiel utilization programs operated in conjunction with the basic mechanized and manual screening programs include:

A final asset screening of surplus items immediately prior to these items being offered for final disposal by sale.

The identification and use of interchangeable and substitutable relationships on items to increase utilization through use of materiel for other than the purpose originally intended.

A test underway for the purpose of determining the feasibility of retaining potential DOD excess in a hold status to fill anticipated 5-year funded and non-funded military assistance program requirements.

A test now nearing completion to determine improvements that can be made in screening contractor inventory excess against DOD requirements, and in furnishing DOD releasable assets on a Government-furnished basis to fill contractor requirements.

A program under development to mechanically screen releasable assets and requirements of conventional ammunition throughout the Department of Defense by inclusion of this special category of property in the normal mechanized screening 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.

#### VALUE ENGINEERING

Elimination of "gold plating" in specifications, despite limited technical resources, has made substantial progress. Cost reductions aggregating \$14 million were achieved in fiscal year 1965, and a \$15 million goal will be proposed for fiscal year 1966. Although additional opportunities will be presented as new commodities are assigned, a plateau is being reached as more of the assigned commodities have been subjected to value engineering analysis. To reap the benefit of desirable changes normally requires some adjustment in item specifications. Adjustment in item specifications is the responsibility of the military departments, since it is closely related to qualitative requirements over which they have exclusive jurisdiction. Accordingly, DSA must rely upon the military departments for prompt action on desirable changes which can be made without impairing performance. During the first quarter of fiscal year 1966, cost reductions in this program totaled \$4 million. The recent revision of the ASPR to increase contractor incentive and the augmentation of present staffing, authorized by the Secretary of Defense on May 28, 1965, form the basis for an optimistic outlook insofar as meeting the increased goals.

#### 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. Requisitions received by the Defense supply centers during the months of June through November 1965 averaged 1.65 million lines per month, as compared to 1.42 million lines received in March through May 1965. This represents a workload increase of 16 percent. Included in these increased demands were numerous requests for items for which there was little demand prior to the Vietnam buildup. As a result, there was a steady decrease in overall stock availability, from an average of 92.5 percent (March-May 1965) to 89.3 percent (June-November 1965) compared to a target of 92 percent.

DSA's second indicator of effectiveness, on-time fill, measures supply system responsiveness by determining the percentage of items shipped within the time limits established by the DOD uniform materiel issue priority system. On-time fill during the period March through May 1965 averaged 87 percent, exceeding the then established target of 85 percent. However, the increased number of requisitions being received and the large volume of high priority requests experienced from June through November 1965 have caused on-time fill to decline, as did stock availability. During this period, on-time fill averaged 82 percent compared to a revised target of 89 percent.



## CONTRACT ADMINISTRATION SERVICES

The Defense contract administration services mission was assigned to DSA after extensive study of the then existing system of contract administration. This assignment represents one of the most significant efforts of the Defense Department to improve logistics management in recent years. The consolidation does not embrace, or affect, the procurement function itself, but rather the administration of contracts in the field after they have been executed by the contracting offices of the military services and DSA.

During 1962 and part of 1963 a study, known as Project 60, was conducted under the policy guidance of high level Department of Defense military and civilian personnel. The study indicated the existence of considerable overlap and duplication in contract administration services functions, and further, it indicated the feasibility of consolidating the functions for management on a centralized basis. A pilot test region established at Philadelphia, Pa., in April 1964, demonstrated the feasibility and potential advantages of consolidating contract administration services functions on a nationwide basis. On the basis of the results of the pilot test, the Secretary of Defense, on June 4, 1964, assigned responsibility for these functions to DSA.

A national planning group, composed of temporary duty personnel from the military services and DSA, developed a national implementation plan (NIP) which was approved by the Secretary on December 28, 1964. The planning group formed the nucleus of what is now the headquarters element of the DCAS organization. During the development of the NIP, a memorandum of understanding was developed with the National Aeronautics and Space Administration (NASA) concerning CAS performance on NASA contracts.

The NIP provided for gradual permanent staffing of the DCAS headquarters element and for a time-phased schedule for consolidating and merging the contract administration services components of the military services and DSA into 11 Defense contract administration services regions (DCASR's), responsible for administering contracts under the centralized management concept. The headquarters element was established on a permanent basis on February 1, 1965, and is now staffed with the 325 military and civilian personnel authorized. Provision has also been made for required augmentation of the DSA common staff in areas where support services are furnished to DCAS. Conversion and organization of the DCAS field structure was completed on December 1, 1965, with the activation of the last two of the DCASR's at Los Angeles and San Francisco.

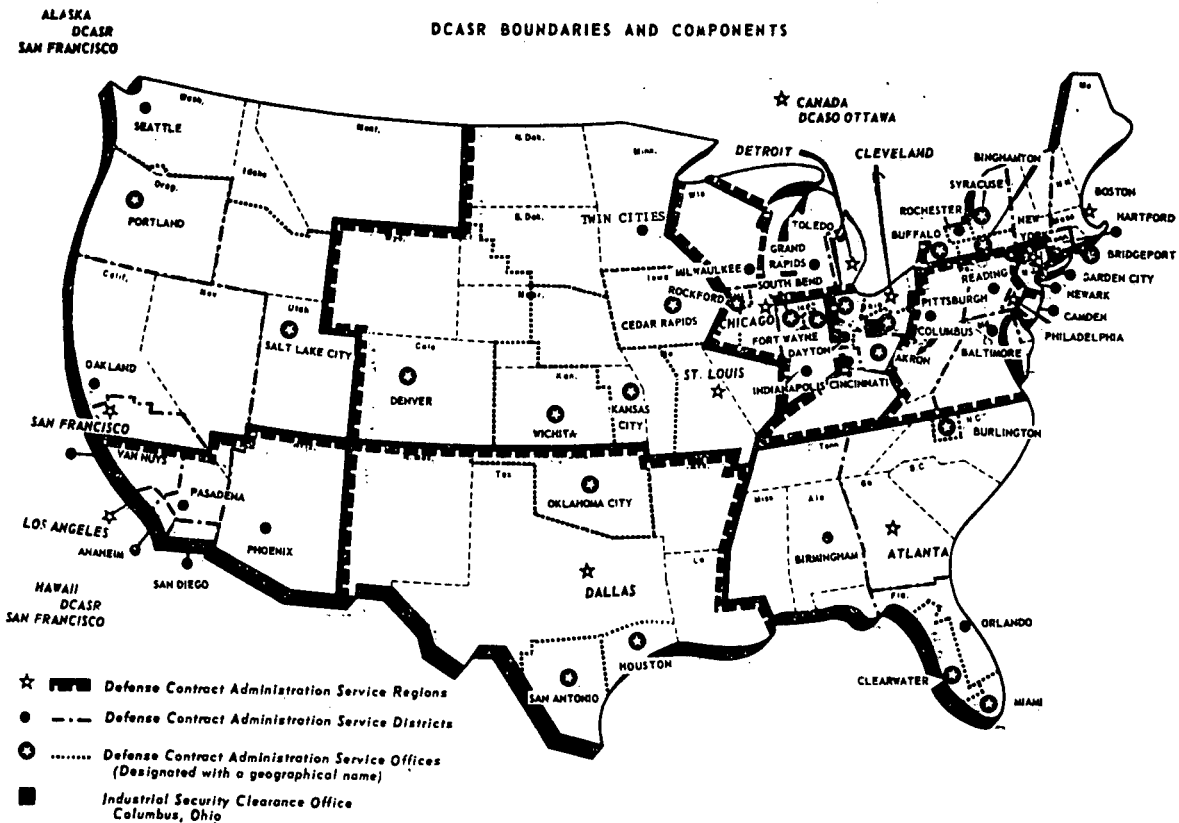
The current organizational structure of the headquarters element of DCAS is shown in figure 4 above. The geographical alignment of the Defense contract administration services regions is depicted in figure 11 below, which also shows the districts and service offices within each region. The commanders of the regions are identified in figure 5.

Consolidation of contract administration services function within DSA involved the merging of 165 military service and DSA contract management offices, and the approximately 20,000 people identified by the military services and DSA as performing contract administration services functions. The consolidation resulted in a reduction in the number of contract management offices from 165 to approximately 100, and in a saving of approximately 10 percent in the number of personnel formerly engaged in contract administration functions. Despite the many problems associated with a conversion effort of such magnitude, the transition was made with full consideration of the functional transfer rights and interests of all civilian personnel concerned. During the time-phased activation of the DCASR's, some of the civilian personnel identified as having transfer rights retired, resigned, or were given offers of employment in other Government agencies. All of the remaining personnel were given offers of employment in DSA (CAS) and 92.8 percent of them accepted the offers made. A positive placement program was developed and administered under provision of the DSA responsible employer program and the DOD priority placement program. During the transition period, contract administration functions and operations were continued without interruption or impairment of the Government's interest.

DCAS is responsible for providing a wide variety of support services to the purchasing offices of the military services, and NASA, including preaward surveys, review of contractor purchasing systems, industrial security, quality assurance and inspection, property administration, production surveillance and reporting, transportation, payments to contractors, and other functions required in connection with industry performance on defense contracts. Responsibility for initial award of contracts and for all decisions with respect to the nature and quantity

FIGURE 11

DCASR BOUNDARIES AND COMPONENTS



of items and services to be purchased remains with the military service, DSA and NASA buying offices; DCAS performs those procurement support functions that can best be handled at or in close proximity to the contractor's plant. In addition to retaining responsibility for contract awards, the military services are responsible for the administration of those categories of contracts not included in the mission assignment to DSA; for example, contracts involving perishable subsistence items, basic research studies, military and civilian construction, repair and overhaul of naval vessels, small purchases, and purchases in certain plant cognizance assigned facilities.

It is estimated that by the end of fiscal year 1966 the DCAS will be administering approximately 225,000 contracts valued at about \$45 billion. Some savings in the cost of Defense contract administration have been realized from the very outset of operations under the consolidated management concept. These direct savings are expected to reach a recurring rate of approximately \$19 million a year, beginning in fiscal year 1969. Additional indirect savings are also expected in the form of reduced contract costs through the sharing of part of the cost benefits which contractors will receive from having contract administration operations performed under the uniform procedures provided by DCAS.

During fiscal year 1965 DCAS operations were financed through reimbursement to DSA from military department appropriations. Fiscal year 1966 financing is being accomplished through transfers of funds from the pertinent military department appropriations and through reimbursements for services rendered in support of NASA. SDA will budget and fund for the program in fiscal year 1967 and thereafter.

To summarize, the Defense contract administration services mission has been implemented and successfully incorporated into the DSA organization. Contract administration services functions are being performed effectively and efficiently, and with some savings in costs over the previous methods. More significant benefits and improved performance are expected to be achieved as the DCAS organization stabilizes and gains additional experience and performance data in operations under the project 60 concept. Conversion to the current DCAS organization was achieved without any significant adverse impact upon the Government organizations and personnel involved.

#### DSA/GSA SUPPLY RELATIONSHIPS

Under terms of the DOD/GSA agreement reached at the end of 1964, a joint DSA/GSA committee has been established and has begun application of the criteria contained in the agreement to the Federal supply groups, classes, and items designated for integrated management within the Department of Defense. As the result of the committee's actions, a significant number of additional commodity groups are expected to be, by the end of this fiscal year, identified as susceptible to management by GSA.

With regard to the provision of the agreement dealing with DSA support of civil agencies, studies have indicated the feasibility of DSA's providing Government-wide support in the areas of clothing and textiles; electronics, and petroleum supplies. Plans are being developed, including the identification of economies that will result, and will be submitted to the Secretary of Defense and the Administrator of General Services for their consideration. Examination of the feasibility of DSA's support of civil agencies in the areas of medical and subsistence supplies has indicated, however, that additional study is needed, due to variations in specifications and packaging requirements. It has also been determined that support of perishable subsistence can best be accomplished by individual cross-servicing arrangements between civil agency activities (mainly hospitals) and the nearest DSA subsistence regional headquarters.

#### CIVIL DEFENSE LOGISTICS

Effective August 30, 1965, the Civil Defense Materiel Division was transferred to Headquarters, DSA. This Division is responsible for the administration of all logistics operations for the Office of Civil Defense. The major activity involves the development of requirements and budgets for these operations, including accounting for materiel, and distribution of fallout shelter supplies for public shelters located throughout the country. Similar logistical services are also provided for the Office of Civil Defense engineering stockpile and for the radiological training and shelter instrument programs.

SUMMARY

DSA has not and will not solve all supply and logistics services problems; some of these are bound up in the complex relationships of strategy and economics, the forward sweep of technology, and the rapid obsolescence of military materiel. We believe, however, that the Agency has maintained, or improved upon, the high standards of responsiveness to customer demands established by the single managers. In so doing, DSA has equaled or exceeded the goals set for it when the Agency was established, in terms of both effective support of the military services and operational economy.

In summary, by the end of calendar year 1965, DSA had demonstrated effective and efficient supply and logistics support of the military services in the combat environment of Vietnam.

APPENDIX 3

*U.S. General Accounting Office index of reports on defense activities issued to the Congress during the period Mar. 1, 1965 through Dec. 31, 1965*

Index No.	Report file No.	Date	Title of report	Department
1	B-146732..	Mar. 15, 1965	Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by the Westinghouse Electric Corp., Defense and Space Center, Baltimore, Md.	Defense.
2	B-146976..	Mar. 19, 1965	Unnecessary Costs Incurred in the Noncompetitive Procurement of Traveling Wave Electron Tubes.	Navy.
3	B-154811..	Mar. 22, 1965	Unnecessary Transportation Expenditures for Privately Owned Vehicles Transshipped Between U.S. Ports.	Defense.
4	B-146973..	Mar. 24, 1965	Additional Costs Resulting From Unnecessary Procurement of a Diesel Engine for the Military 5-Ton Truck.	Army.
5	B-146979..	Mar. 25, 1965	Unnecessary Costs Incurred for Commercial Protective Service Used for Shipments of Classified Material.	Do.
6	B-146978..	Mar. 30, 1965	Failure to Collect Forfeitures of Pay Imposed by Court-Martial Sentences.	Do.
7	B-146977..	Mar. 31, 1965	Excessive Costs Incurred in the Procurement of Ball Powder for .30 Caliber Blank Ammunition from Olin Mathieson Chemical Corp., East Alton, Ill.	Do.
8	B-146987..	Apr. 1, 1965	Potential Savings Through Use of Government-Owned Housing To Meet Military Requirements in the Orlando, Fla., Area.	FHA and Defense.
9	B-146986..	Apr. 2, 1965	Unnecessary Costs Incurred Because of Acceptance of Physically Unqualified Enlisted Members in the Armed Forces.	Defense.
10	B-146969..	.....do.....	Unnecessary Costs Incurred in the Indirect Procurement of Selected Subsystems and Accessories for the P-3 Aircraft.	Navy.
11	B-146876..	Apr. 6, 1965	Increased Cost Resulting From Acquisition of Maintenance Trucks Produced by the Boeing Co., Seattle, Wash., for the MINUTEMAN Intercontinental Ballistic Missile Program.	Air Force.
12	B-146980..	Apr. 7, 1965	Failure To Utilize Available Excess Components in the Production of Aircraft Arresting Barriers.	Do.
13	B-133058..	Apr. 14, 1965	Unnecessary Requisitioning of Aeronautical Parts by the Naval Supply Depot, Subic Bay, Republic of the Philippines, Western Pacific Area.	Navy.
14	B-131587..	Apr. 15, 1965	Inconsistent Practices in the Administration of the Government Schools Program in London, England.	Defense.
15	B-114839..	.....do.....	Unnecessary Costs Incurred Through the Duplication of Shipping Services to the Panama Canal Zone by the Military Sea Transportation Service and the Panama Canal Company.	Do.
16	B-146778..	Apr. 19, 1965	Unnecessary Costs Resulting From Failure To Promptly Record Decisions To Eliminate Unneeded Items From the Supply System.	Do.
17	B-152600..	Apr. 20, 1965	Unnecessary costs Incurred in the Procurement of Selected Subsystems for F-4 Type of aircraft.	Air Force and Navy.
18	B-125037..	.....do.....	Ineffective Administration of Military Leave at Richards-Gebaur Air Force Base, Mo.	Air Force.

## U.S. General Accounting Office index of reports on defense activities issued to the Congress during the period Mar. 1, 1965, through Dec. 31, 1965—Continued

Index No.	Report file No.	Date	Title of report	Department
19	B-133177..	Apr. 21, 1965	Costs Incurred in the Premature Introduction of a New Finish for Cotton Duck Cloth.	Army.
20	B-146761..	.....do.....	Overpricing of Ammunition Components Purchased from Honeywell, Inc., Hopkins, Minn.	Do.
21	B-133324..	Apr. 22, 1965	Procurements of Spare Parts and Assemblies in Excess of Current Needs by the U.S. Marine Corps.	Navy.
22	B-146988..	.....do.....	Unnecessary Retention of High-Value Land, Fort Gordon, Ga.	Army.
23	B-146778..	Apr. 23, 1965	Unnecessary Costs Resulting from the Entry into the Military Supply System of Items Identical or Similar to Items Previously Eliminated or to Standard Items that Were Retained.	Defense.
24	B-146972..	.....do.....	Unnecessary Costs Incurred in the Production of T208 Telescope Mounts as a Result of an Inaccurate and Incomplete Technical Data Package.	Army.
25	B-133177..	Apr. 26, 1965	Additional Costs Incurred in the Procurement of Dress Raincoats with Expensive Back Vents.	Defense.
26	B-146896..	Apr. 26, 1965	Lack of Proper Inspection and Effective Maintenance Practices for Communication and Electronic Equipment in Certain Strategic Army Corps Units at Fort Hood, Tex.	Army.
27	B-146761..	.....do.....	Excessive Costs Incurred by the Government for Purchases of Electronic Equipment from Honeywell, Inc., Denver Division, Denver, Colo.	Defense, AEC, and NASA.
28	B-146934..	Apr. 27, 1965	Failure to Modify Pallets To Avoid Unnecessary Procurements, Defense Supply Agency.	Defense.
29	B-146992..	.....do.....	Failure To Use Available Warehouse Platform Trailers To Avoid Unnecessary Procurements of Similar Equipment.	Do.
30	B-146946..	Apr. 28, 1965	Unnecessary Costs Incurred in the Indirect Procurement of Selected Subsystems and Assemblies for A-4 Aircraft and Other Types.	Navy.
31	B-135295..	.....do.....	Unnecessary Retention of High-Value Land for Recreation, Reserve Forces Training, and Military Housing Purposes at Fort DeRussy, Waikiki Beach, Hawaii.	Army.
32	B-146944..	Apr. 29, 1965	Overpricing of Aircraft Identification Equipment Under Contract AF-30 (635)-13712 with Bell Aerosystems Co., a Division of Bell Aerospace Corp., Wheatfield, N. Y.	Air Force.
33	B-146989..	.....do.....	Ineffective Interservice Utilization of Aircraft Jet Engine Parts.	Defense.
34	B-146716..	Apr. 30, 1965	Unnecessary Costs Incurred for Modernization of Combat Tanks.	Do.
35	B-146975..	.....do.....	Potential Savings Through Procurement of Office Furniture from General Services Administration Sources by Lockheed Missiles & Space Co., Sunnyvale, Calif.	Do.
36	B-146902..	.....do.....	Excessive Aircraft Assigned to Fort Wolters as a Result of Overstated Requirements.	Army.
37	B-132990..	.....do.....	Inadequate Maintenance and Supply Support of Aviation Units of the 8th U.S. Army, Korea.	Do.
38	B-146987..	May 10, 1965	Potential Savings Through Use of Government-Owned Housing To Meet Military Requirements in the Tampa, Fla., Area.	FHA and Defense.
39	B-146975..	May 13, 1965	Potential Savings Through Procurement of Operating Supplies from General Services Administration Sources by Lockheed Missiles & Space Co., Sunnyvale, Calif.	Defense.
40	B-134739..	May 17, 1965	Excess Cost and Inequities Due To Furnishing Flight Meals Without Charge to Certain Personnel of the Military Services.	Do.
41	B-146987..	.....do.....	Potential Savings Through Use of Government-Owned Housing To Meet Military Requirements in the Jacksonville, Fla., Area.	FHA, VA, and Defense.
42	B-146934..	May 19, 1965	Inadequate Management of Special Purpose Ammunition Pallets Resulted in Unnecessary Procurement Actions.	Navy.
43	B-146921..	.....do.....	Unnecessary Costs Resulting from the Failure To Furnish Available Parts to a Contractor Engaged in the Production of 34-Ton Trucks.	Army.
44	B-146912..	May 21, 1965	Excessive Payments of Temporary Lodging Allowances to Uniformed Personnel on the Island of Oahu, Hawaii.	Defense and Treasury.

U.S. General Accounting Office index of reports on defense activities issued to the Congress during the period Mar. 1, 1965, through Dec. 31, 1965—Continued

Index No.	Report file No.	Date	Title of report	Department
45	B-133025..	May 25, 1965	Unnecessary Procurement of Air Passenger Service on Scheduled Commercial Airliners from Japan and Korea to the United States.	Defense.
46	B-139011..	May 26, 1965	Loss of Revenue Resulting from Inadequate Negotiations for Communication Services Between Alaska and the U.S. Mainland.	Army.
47	B-146997..	....do.....	Unnecessary Procurement of Hawk and Nike-Hercules Missile Spare Components Because of Deficiencies in Requirements Computations.	Do.
48	B-146999..	June 2, 1965	Duplicate Payments to Westclox Division of General Time Corp. for Artillery Fuzes Destroyed in Testing.	Do.
49	B-156521..	June 4, 1965	Loss of Time Discounts on Payments Made by the Los Angeles Contract Management District.	Air Force.
50	B-146973..	June 11, 1965	Possible Additional Costs Resulting From Failure To Competitively Procure Gasoline Engines for the Military 5-Ton Truck.	Army.
51	B-146993..	June 15, 1965	Unnecessary Costs Incurred in the Indirect Procurement of Selected Aircraft Subsystems for A-5 Type Aircraft.	Navy.
52	B-146846..	June 17, 1965	Overstated Costs Included in Price of Nuclear Components Through Failure To Obtain and Review Subcontract Cost Data During Contract Negotiations.	Do.
53	B-146756..	June 24, 1965	Unnecessary Costs Incurred in Accelerating Construction of Polaris Submarines.	Do.
54	B-133025..	....do.....	Unnecessary Procurement of Air Passenger Service on Scheduled Commercial Airliners From Europe to the United States.	Defense.
55	B-154814..	June 25, 1965	Patent Royalty Costs Improperly Charged for Use of Auxiliary Fuel Tank Invention Developed Under Government Contracts With Lockheed Aircraft Corp., Burbank, Calif.	Do.
56	B-148772..	June 28, 1965	Failure To Obtain and Consider Cost Data in the Procurement of HY-80 Steel Plate Used in the Construction of Nuclear Submarines.	Navy.
57	B-125037..	June 29, 1965	Erroneous Dislocation Allowance Payments to Military Personnel Who Moved Their House Trailers at Government Expense.	Defense.
58	B-133313..	June 30, 1965	Possible Additional Procurement Costs Resulting From Award of Subcontract for Radio Antenna Systems on a Sole-Source Basis.	Army.
59	B-156733..	July 15, 1965	Failure To Recover Needed Aircraft Parts Previously Determined To Be Government Surplus.	Do.
60	B-156819..	July 26, 1965	Review of the Use of Government-Owned Aircraft by the Army Mobility Command and Army Tank-Automotive Center.	Do.
61	B-133019..	Aug. 12, 1965	Shipment of Excess Aeronautical Spare Parts to Oklahoma City Air Materiel Area by Air Force Bases.	Air Force.
62	B-146911..	....do.....	Review of Collection of Excess-Weight Costs Incurred in Shipping Household Goods.	Army.
63	B-156639..	....do.....	Cost of Indirect Procurement of F-105 Aircraft Multiple-Ejector Bomb-Rack Assemblies.	Air Force.
64	B-156531..	....do.....	Retention of Obsolete Telephone Cable.	Army.
65	B-154547..	Aug. 18, 1965	Need for Increased Use of Quarters in Air Force-Leased Hotels by Military Personnel on Official Duty in London, England.	Defense.
66	B-146981..	Aug. 19, 1965	Questionable Need for Purchase of Commercial Computer Time by the Air Force Cambridge Research Laboratories, Bedford, Mass.	Air Force.
67	B-146727..	Aug. 30, 1965	Procurement of Aircraft Engine Cylinder Assemblies Without Consideration of Actual Usage Experience.	Navy.
68	B-156750..	Aug. 31, 1965	Review of Procedures and Practices for Terminating Procurement of Excess Missile Spare Parts, U.S. Army Missile Command.	Army.
69	B-146832..	Sept. 20, 1965	Readiness of Combat and Combat Support Equipment Assigned to the 2d Marine Division and Force Troops, Camp Lejeune, N.C., U.S. Marine Corps.	Navy.
70	B-146990..	....do.....	Need for Improvement in Pricing of Change Orders for Construction of Naval Vessels.	Do.
71	B-152600..	Sept. 21, 1965	Potential Savings by Direct Rather than Indirect Procurement of Selected Subsystems for F-4 Type of Aircraft.	Do.

*U.S. General Accounting Office index of reports on defense activities issued to the Congress during the period Mar. 1, 1965, through Dec. 31, 1965*

Index No.	Report file No.	Date	Title of report	Department
72	B-146966	Sept. 30, 1965	Costs Incurred in Procuring Madrec Electronic System Components Manufactured by Midwestern Instruments, Inc., from Lockheed-Georgia Co.	Air Force.
73	B-152600	-----do-----	Potential Savings Through Use of an Over-supply of Stabilator Assemblies for F-4 Aircraft.	Navy.
74	B-153785	-----do-----	Need for Improved Administration of Allowances Paid for Uniforms of Cadets in the Reserve Officers' Training Corps.	Army and Air Force.
75	B-157274	Oct. 20, 1965	Review of Procurement of Fault Locating Indicators for the Nike-Hercules Guided Missile.	Army.
76	B-125037	Oct. 22, 1965	Review of Causes for Overpayments and Underpayments of Mileage Reimbursements for Travel of Service Members and Their Dependents.	Army and Air Force.
77	B-157137	-----do-----	Potential Savings by Direct Rather than Indirect Purchase of Selected Major Subsystems for A-6A Type of Aircraft.	Navy.
78	B-146987	Nov. 29, 1965	Need for Current Evaluation of Available Community Housing Prior to Construction of Military Housing.	Do.
79	B-157373	-----do-----	Army Aircraft Grounded Because of Lack of Required Repair Parts.	Army.
80	B-133063	Dec. 14, 1965	Improvement in Administrative Audit of Accrued-Leave Payments to Reenlistees by the Finance Center, U.S. Army, Fort Benjamin Harrison, Indianapolis, Ind.	Do.
81	B-146729	Dec. 17, 1965	Potential Savings Through Improved Management Controls Over Allowances Paid to Members of Shore Patrols.	Navy.
82	B-146890	Dec. 27, 1965	Review of the Assignment of Enlisted Personnel to Nonmilitary Activities.	Defense.

#### APPENDIX 4

DIGESTS OF U.S. GENERAL ACCOUNTING OFFICE REPORTS ON DEFENSE ACTIVITIES ISSUED TO THE CONGRESS DURING THE PERIOD MARCH 1, 1965 THROUGH DECEMBER 31, 1965

(Filed in chronological order)

Index No. 1, C-65-135.

B-146732, March 15, 1965.

Unnecessary Costs to the Government in the Leasing of Electronic Data Processing Systems by the Westinghouse Electric Corp., Defense and Space Center-Baltimore, Md., Department of Defense.

Our review of leasing of electronic data processing systems by the Westinghouse Electric Corp., Defense and Space Center, Baltimore, Md., 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 would exceed purchase costs by about \$1.8 million over a 5-year period and about \$8.5 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.

The contractor generally disagreed with our finding that the Government was incurring unnecessary costs through the leasing of electronic data processing equipment and commented upon the economic advantages of leasing rather than purchasing from its own standpoint as an individual Government contractor.

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 originally 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, 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. Subsequently, on May 21, 1964, the Department of Defense, in commenting on the subject of lease versus purchase, advised us that it agreed 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 for 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 Westinghouse-Baltimore or (2) limiting the amounts that Westinghouse-Baltimore is permitted to charge to Government contracts to an appropriate allocation of the cost of ownership.

We further recommended that Department of Defense Directive 4105.55, dated September 28, 1963, be amended to include a requirement that consideration be given also to purchasing equipment installed at contractors' plants, such as Westinghouse-Baltimore, where most of the cost of such equipment becomes a part of Government contract prices. Currently this directive applies only to contractors' facilities where such equipment is acquired and operated solely on Government work. 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.

Index No. 2, C-65-136.

B-146976, March 19, 1965.

Unnecessary costs incurred in the noncompetitive procurement of traveling wave electron tubes, Department of the Navy.

Our examination into the procurement of USN-7640 traveling wave electron tubes by the Electronics Supply Office, disclosed that the Government incurred unnecessary costs of at least \$180,000 in four noncompetitive procurements of the tubes primarily because the specification was lost within the Department of the Navy for more than a year and because of a further delay of about 8 months in having compatibility tests performed on tubes produced by a new supplier. These unnecessary costs could have been prevented had adequate procedures and proper controls been established over specification development and testing requirements by the Bureau of Ships, Washington, D.C., and the Electronics Supply Office, Great Lakes, Ill.

About \$160,000 of the unnecessary costs were incurred in 3 noncompetitive procurements of 200 tubes during 1961. Contracts for these procurements were awarded to the original supplier on a sole-source basis because a military specification had not been prepared for this tube. However, the actual preparation of the specification for this tube was a relatively simple matter and only required several days to process once appropriate action was taken. Under Department of Defense regulations, military specifications must be developed for items of this nature before they are offered for competitive bids.

The unit prices of the tubes procured under three 1961 procurements were \$2,640, \$2,580, and \$2,620. These prices were negotiated on the basis that the amounts quoted were not in excess of prices quoted to others for like items,



quantities, and delivery rates. After a military specification was issued and other sources of supply were solicited for competitive bids in December 1961, a price reduction of approximately 30 percent, or about \$800 a tube, was obtained from the original supplier. Although the original supplier was the successful bidder in response to this first advertised procurement at \$1,819 a tube, a subsequent award in August 1962 was made to another supplier at \$1,100 a tube under another advertised procurement. Thus, competitive bidding caused the price of the tube to drop from \$2,640 paid on a sole-source procurement in January 1961 to \$1,100 on an advertised procurement in August 1962, a decrease of \$1,540 per tube or about 58 percent under the January 1961 sole-source price.

The remaining \$20,000 unnecessary cost were incurred because the Navy took about 2 months to decide that the tube produced by a new supplier would have to be tested in the equipment for compatibility and required another 6 months to have the tests performed and to approve the tubes.

The delay in issuing a military specification by the Bureau of Ships and the failure of the Electronics Supply Office to promptly follow up on the specification while it was in the process of being developed indicate a need for improved procedures in the issuance and control of military specifications. Also, the indecision by the Bureau of Ships in determining whether a product produced by a new supplier would have to be tested for compatibility with the equipment in which it is to be used indicates a need for the establishment of a firm policy as to the necessity for performing such tests.

The Navy informed us that additional followup systems and scheduling procedures were being established within both the Bureau of Ships and the Electronics Supply Office to provide adequate control over specification development. The Navy informed us also that a firmer policy would be established for testing a product produced by a new supplier for compatibility with the equipment in which it would be used. The effectiveness of the actions taken will be evaluated in our subsequent examinations of Navy procurement activities.

### Index No. 3.

B-154811, March 22, 1965.

Unnecessary transportation expenditures for privately owned vehicles transshipped between U.S. ports, Department of Defense.

In our review of shipments at Government expense of privately owned vehicles of personnel of military departments, we found that the Department of Defense had incurred excess transportation costs in calendar years 1960 through 1963 estimated to be over \$1 million to transship nearly 3,400 privately owned vehicles between continental U.S. ports after delivery from overseas, although the military regulations either specifically prohibit or apparently do not authorize such transshipments. These excess costs were incurred primarily because military authorities failed to (1) comply with the regulations of the military departments, (2) establish adequate management controls over the selection of destination ports, and (3) use through service from overseas ports to the destination ports.

From our examination of shipping documents at the Brooklyn Army Terminal, Brooklyn, N. Y., we found that 48 vehicles had been received from Labrador and Iceland and transshipped by the Brooklyn Army Terminal to other continental U.S. ports, such as the ports at New Orleans, La., and Oakland, Calif. The total cost to the Government for these unauthorized transshipments was \$35,287, or an average cost of over \$700 for each vehicle.

We found also that in many cases the ports—primarily west coast ports—to which the vehicles had been consigned on transshipment from Atlantic or gulf coast ports were as far or farther from the servicemen's new duty stations as were the initial continental U.S. ports and apparently had been selected for the convenience of the servicemen, rather than in the best interest of the Government. For instance, an Air Force officer's 1929 Rolls Royce, shipped from England to New Orleans, was transshipped from New Orleans to Oakland at a cost of about \$925, although his new duty station in Ohio was 2,396 miles from Oakland, but only 885 miles from New Orleans. The officer's leave address was Fullerton, Calif.

Our review also disclosed that, where through service was available from the overseas ports to the final continental U.S. port to which the vehicles had been transshipped, direct shipments would have resulted in substantial savings to the Government in transportation costs. In a number of cases, we found that the vehicles were transshipped to the west coast on the same vessels which had delivered them to the initial continental U.S. port. For instance in August 1961,

17 vehicles were shipped aboard the SS *Green Mountain State* from Bremerhaven, Germany, to New Orleans, where they were unloaded. The vehicles were subsequently reloaded on the same vessel and transshipped to Oakland. Had these vehicles been routed through to Oakland from Bremerhaven, savings in unloading, loading, handling, and transportation costs approximating \$4,600 would have been realized.

We were advised by the Department of Defense that it believed that our findings and conclusions were valid and that it concurred generally with our suggestions. In view of the corrective actions taken or proposed by the Department of Defense, we made no recommendations, but we will review the revised regulations of the military departments, when issued, and continue to periodically examine Department of Defense records covering shipments of privately owned vehicles.

Index No. 4, C-65-137.

B-146973, March 24, 1965.

Additional costs resulting from unnecessary procurement of a diesel engine for the military 5-ton truck, department of the Army.

Our review of selected procurements of engines for the military 5-ton truck by the Department of the Army, disclosed that the Government had incurred additional costs of about \$1.6 million because the Army, to meet its fiscal year 1962 requirements, unnecessarily procured 5-ton trucks equipped with diesel engines instead of gasoline engines. At the time this action was taken, in June 1962, development of a multifuel engine capable of using either gasoline or diesel fuel was nearly completed and there were strong indications that trucks procured in fiscal year 1963, and thereafter, could be equipped with this new engine. All the 5-ton trucks in the military system in June 1962 were equipped with gasoline engines. The introduction of commercial-model diesel engines, in a relatively small quantity of trucks, resulted in unnecessary costs for (1) the additional cost of the diesel engines over the cost of gasoline engines, (2) training aids and maintenance tools for the diesel engine, (3) training and publications related to the introduction of a new item into the supply system, and (4) storage, distribution, and maintenance of new items in the supply system. These unnecessary costs were incurred because management officials did not give adequate consideration to all the pertinent factors involved in the decision to procure the diesel engine in view of the pending introduction of a new multifuel engine within 1 year.

It was the Department of the Army's opinion that the decision to procure the diesel engine was prudent, wise, and in the public interest. In general, the Department of the Army believes that the procurement of diesel engines was warranted because there was some question regarding the availability of the multifuel engine and because the Congress had expressed its desire that the Army dieselize its fleet of trucks. The Army acknowledged that over \$3 million of additional costs had been incurred to introduce the diesel engine into the supply system but stated that fuel and maintenance economies inherent in the diesel engine would more than offset these additional costs.

We believe that the Army's decision to procure diesel engines in 1962 was not justified in view of the circumstances existing at the time the decision was made. Although Army officials recognized that diesel engines were somewhat more economical and provided greater cruising range than that of gasoline engines, they were also aware that substantial additional costs would be incurred by procuring vehicles equipped with diesel engines. Moreover, competent technical personnel had advised the Army that problems encountered in the multifuel engine development were understood and well on the way to solution. Had Army officials fully considered the imminent introduction of the multifuel engine, they would have realized that only a relatively small number of diesel engines would ever be introduced into the system. Since only a small number of vehicles would ever be procured with diesel engines, the operational benefits would be more than offset by the problems inherent in the introduction of any new item into the supply system. Thus, it should have been apparent to management officials that the additional costs for diesel engines could not reasonably be justified and were not in the best interests of the Government.

Our evaluation of the Army's comments revealed that fuel and maintenance savings resulting from the utilization of diesel engines instead of gasoline engines would not offset all the additional costs incurred. We have considered these economies, and several other factors, in our computation of additional costs of \$1.6 million.

We recommended that the Secretary of Defense, to prevent possible recurrence of the type of deficiency disclosed in our report, issue instructions requiring that procurement officials fully consider the merits of alternative courses of action, and related cost factors, in light of current developments before introducing new items of expected limited usefulness.

Index No. 5.

B-146979, March 25, 1965.

Unnecessary costs incurred for commercial protective service used for shipments of classified material, Department of the Army.

In our review of the use of commercial express protective services by the Department of the Army in the transportation of classified material within the continental United States, we found that during a 3-year period the Army paid over \$500,000 in extra charges for the most expensive commercial protective service. For practical purposes, this material could have been shipped by a much less expensive commercial protective service which is used by the other military departments for transporting material of the same level of security. On many shipments of material classified secret, the Army used REA Express armed guard service at a cost of \$5.55 an hour; whereas the Navy and the Air Force, with rare exception, used REA Express armed surveillance service for secret material at a considerably lower charge of 64 cents per hundredweight shipped.

For example, the Army tendered a classified shipment of 280 pounds to REA Express on January 4, 1963, at San Bernardino, Calif., to be transported to Hoboken, N.J., under armed guard service. The armed guard charge amounted to \$530, computed on 95½ hours of guard time at \$5.55 an hour. For a shipment of the same level of classification, the Navy or the Air Force normally would have ordered armed surveillance service at a cost of only \$2.57, or more than \$525 less than the Army's cost on this single shipment.

We brought our findings to the attention of the Secretary of Defense and suggested that he inquire into the Army's policy and practices for the protection of classified shipments via commercial carriers so as to (1) more precisely evaluate the degree of protection afforded by the various protective services of REA Express and of any other commercial carriers offering such services and (2) establish sound criteria for the selection of the service most appropriate for the security requirements of the classified material.

The Deputy Assistant Secretary of the Army (Installations and Logistics) Logistics, informed us by letter dated November 4, 1964, that the Department of Defense concurred generally with our suggestions. He stated that the Department of the Army was revising its regulations to cite the various transportation security services available and to fix responsibility for the selection of the most economical method of security compatible with the material being transported. Under the revised regulations, the responsible commanders would be authorized to select the appropriate commercial security services up to the level of armed surveillance service. The approval of the Chief of Transportation, Department of the Army, must be obtained for commercial armed guard service.

Since the regulations when revised should provide improved guidelines concerning the various available transportation security services, and since the Army's use of armed guard service will be more tightly controlled by requiring shipping officers to obtain prior approval for its use from the Office, Chief of Transportation, we made no further recommendations. We will, however, review the new regulations when issued, and we will continue to examine Department of Defense records for shipments of classified material to evaluate the effectiveness of the new procedures.

Index No. 6, C-65-139.

B-146978, March 30, 1965.

Failure to collect forfeitures of pay imposed by court-martial sentences, Department of the Army.

Selective reviews by the General Accounting Office and the administrative audits by the Department of the Army of the collection of fines and forfeitures of pay have disclosed the failure of Army installations to collect in full the forfeitures of pay imposed upon service members by court-martial sentences. These reviews, covering fiscal years 1957 through 1964, disclosed that insufficient collections were occurring at an average annual rate of over \$140,000.

Most of these errors were caused by the failure of clerks in the personnel offices to enter necessary information on the pay records of convicted offenders so that collection action could be taken and the failure of clerks in the finance offices to take collection action or to complete collections even when the necessary information had been shown.

We have reported over a period of several years on various deficiencies in the administration of pay and allowances, although our reports have not dealt specifically with the collection of forfeitures of pay ordered by courts-martial.

Our selective examination and the administrative audit made during fiscal year 1964 show that errors have continued to occur even though the Department of the Army has been fully aware of the results of previous reviews conducted by its Finance Center and by this Office during fiscal years 1957 through 1963.

The Assistant Secretary of Defense (Manpower) concurred in our proposal that the Secretary of the Army issue instructions to insure that internal audit and review groups include collection of forfeitures of pay as an area of special interest in their reviews pertaining to military pay and allowances. The Assistant Secretary advised us that, in accordance with our proposal, our finding had been brought to the attention of officials responsible for similar activities in the Department of the Air Force and the Navy for the purpose of determining whether similar deficiencies existed in those services. He advised us that action had been taken to put the proposals into effect and he listed a number of specific actions to improve the overall administration of military pay and allowances being taken by the Department of the Army as a result of our April 1963 and more recent reports

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Index No. 7, C-65-140.

B-146977, March 31, 1965.

Excessive costs incurred in the procurement of ball powder for .30 caliber blank ammunition from Olin Mathieson Chemical Corp., East Alton, Ill., Department of the Army.

The Government incurred excessive costs that we estimate at over \$1 million because the Department of the Army permitted Remington Arms Co., Inc., a contractor with a cost-plus-a-fixed-fee contract, to procure the powder from a sole-source subcontractor, Olin Mathieson Chemical Corp., without taking appropriate action to determine if the price was reasonable. Although the Government had previously procured similar powder at about \$0.90 a pound, the Army contracting officer approved Remington Arms' purchases at \$1.72 a pound without requesting a review of Olin Mathieson's cost. Remington Arms took no action to have the Army review Olin Mathieson's costs even though it had not previously procured powder of this type and had no valid basis for ascertaining the reasonableness of Olin Mathieson's price. Furthermore, even after the excessive prices were disclosed by the Army Audit Agency, contracting officials did not take timely action to obtain a lower price from Olin Mathieson.

Olin Mathieson earned profits amounting to about 162 percent of the cost of powder sold to Remington Arms during the period December 1958 to January 1962. When the excessive prices were eventually disclosed by an Army Audit Agency review, Olin Mathieson and the Army negotiated a significantly lower price for deliveries of powder beginning in April 1962. On the basis of the actual costs incurred, and by applying the rate of profit negotiated in 1962, we estimate that Olin Mathieson's billings of \$2.1 million for powder sold to Remington Arms from December 1958 to January 1962 were overstated by over \$1 million. In June 1962, and again in December 1963, the Department of the Army requested that Olin Mathieson make a voluntary refund of the excessive profits realized. However, Olin Mathieson refused, on the grounds that its overall profit pattern in recent years on defense business had been considerably below levels it considered acceptable for purposes of renegotiation.

The Army agreed that Olin Mathieson had earned excessive profits and informed us that it had initiated further discussions with Olin Mathieson with the objective of obtaining an equitable adjustment. We were subsequently informed that Olin Mathieson had again refused to make any adjustment. On February 4, 1965, the Department of the Army notified Olin Mathieson that, in view of Olin Mathieson's refusal to enter into bona fide negotiations, this matter would be referred to the Department of Justice, the Army Contractor Performance Evaluation Group, and the Renegotiation Board for such action as those organizations deemed appropriate.

We believe that Olin Mathieson took unreasonable advantages of a sole-source procurement situation and established a price that resulted in profits greatly in excess of those considered normal in Government procurements. The fact that a contractor has not earned what it considers to be adequate profits on previous Government contracts does not justify its obtaining unreasonable profits on subsequent contracts. It is an established rule of Government procurement that each contract must "stand on its own" since contracts are sometimes intentionally undertaken at a loss to acquire production know-how, to obtain profitable follow-on contracts, or to broaden the contractor's production base on which to distribute fixed charges. However, in view of the actions already taken by the Department of the Army, we are making no further recommendations.

Both the Department of the Army and Remington Arms, Inc., disagreed with our conclusion that Remington Arms had not adequately protected the interests of the Government, pointing out that Remington Arms had initially attempted to obtain competition and had accepted Olin Mathieson's price quotation in good faith. However, our review disclosed that Remington Arms had information available to it indicating that the Government had previously purchased similar powder at a substantially lower price, yet took no action to have the Army look into the reasonableness of Olin Mathieson's price. In view of this, we do not believe that Remington Arms properly discharged its contractual responsibilities to protect the interests of the Government.

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Index No. 8, C-65-141.

B-146987, April 1, 1965.

Potential savings through use of Government-owned housing to meet military requirements in the Orlando, Fla., area, Federal Housing Administration, Housing and Home Finance Agency, and Department of Defense.

In our examination into the possible use of available Government-owned housing in the Orlando, Fla., area, we found that annual savings of about \$1.3 million in basic allowances for quarters could be realized through the use of such housing by the military departments.

At July 31, 1964, there were more than 1,700 houses owned by the Federal Housing Administration, Housing and Home Finance Agency, in the Orlando area awaiting sale. In view of the size of the housing inventory, the prospects for sale in the near future do not appear bright because a local demand for housing is lacking. Many of these houses could be used to meet military requirements, as there are nearly 4,200 military personnel living off base who are eligible for Government quarters or housing. The Department of Defense does not have sufficient housing facilities in the Orlando area to accommodate all eligible military personnel and therefore must pay basic allowances for quarters to those military personnel eligible for but not assigned to Government quarters or housing. Thus, the Government finds itself in the paradoxical position of paying to maintain vacant owned by the Federal Housing Administration while, in effect, paying to rent privately owned houses.

We brought our findings to the attention of the Department of Defense and the Federal Housing Administration and proposed that the Department of Defense take all reasonable steps to promote maximum use of the available Government-owned housing by encouraging its military personnel to rent such housing individually.

The Commissioner, Federal Housing Administration, informed us that the Federal Housing Administration would cooperate to the maximum extent possible in providing rental housing to military personnel and that the Federal Housing Administration had executed lease agreements with the military departments in a number of localities. In reply, dated February 16, 1965, the Deputy Assistant Secretary of Defense (Family Housing) stated that it was the Department of Defense view that, although it was currently making maximum use of houses owned by the Federal Housing Administration on a leased basis to the extent authorized by law, it felt that greater use of the houses might be made by individual military personnel on a voluntary lease basis, if the Federal Housing Administration were to make the houses more attractive in cost and condition and more available.

Under current law, the Department of Defense is authorized to lease a limited number of housing facilities for occupancy by military personnel. The authority to lease housing is limited primarily to locations at which tactical troop units are stationed. Therefore, so that full use may be made of available Government-

owned housing in areas such as Orlando, Fla., and potential savings resulting from the use of such housing as military housing may be realized, we recommended that the Congress consider exempting houses owned by the Federal Housing Administration and the Veterans' Administration from current leasing restrictions imposed on the Department of Defense and that the Department of Defense use such housing, if exempted, as public quarters for military personnel.

We recommended also that, to realize savings possible under existing legislation (1) the Department of Defense take all reasonable steps to promote maximum use of the available Government-owned housing by encouraging its military personnel to rent such housing individually and (2) the Federal Housing Administration and the Department of Defense establish procedures to closely monitor progress on a leasing and rental program in the field, to assure that it is aggressively pursued.

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Index No. 9, C-65-142.

B-146986, April 2, 1965.

Unnecessary costs incurred because of acceptance of physically unqualified enlisted members in the Armed Forces, Department of Defense.

We found that the Government is incurring unnecessary costs of over \$1.5 million per year because the armed services are accepting physically unqualified personnel for active duty. We estimate that about 3,250 enlisted personnel were separated from the services during fiscal year 1963 shortly after entering active duty because of physical defects that should have been disclosed before they were accepted for service. The causes of the acceptance of these physically unqualified enlisted personnel into the armed services are (1) failure by the Armed Forces examining stations to adhere to prescribed medical procedures during the physical examinations, (2) inadequate scheduling of examinees through the Armed Forces examining stations, and (3) failure of the National Guard and Army Reserve Forces to secure an adequate physical examination for their personnel prior to accepting them for service.

The Assistant Secretary of Defense (Manpower) generally concurred with our findings and has advised us of a number of positive actions being taken to correct the deficiencies disclosed by our report. He stated that he shares our view that the uneven workload imposed upon Armed Forces examining stations is a major factor affecting the performance of physical examinations. Although he did not comment directly on our proposal that a joint regulation be issued requiring coordination between the State directors of selective service and the Armed Forces examining station commanders in scheduling the workload of the examining stations, he included as an attachment to his comments a copy of his memorandum to the Secretaries of the Army, Navy, and Air Force emphasizing the importance of liaison between all concerned in scheduling examinations within the capacity of the examining stations.

The Director of the Selective Service System, in commenting on our proposal for a joint regulation, stated that he did not believe that additional instructions to the State directors would remedy the situation outlined in our report. As shown in our report, however, there has historically been an uneven flow of examinees to the Armed Forces examining stations. In our opinion a compulsory regulation governing both the State directors of selective service and the Armed Forces examining station commanders, would enhance the possibility for an even flow of examinees within the rated capacities of the examining stations.

We proposed that the Secretary of Defense and the Director of Selective Service issue a joint regulation requiring the State directors of selective service and the Armed Forces examining station commanders to schedule the workload of the examining stations so as to provide an even flow of examinees within their capacity.

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Index No. 10, C-65-143.

B-146969, April 2, 1965.

Unnecessary costs incurred in the indirect procurement of selected subsystems and accessories for the P-3 aircraft, Department of the Navy.

Our review of the procurement of certain subsystems, components, and accessories for installation in P-3 and another type of aircraft being produced under contracts awarded by the Department of the Navy disclosed that, during the 5-year period ended June 30, 1964, unnecessary costs of about \$857,000 were incurred because the Department of the Navy did not purchase the items from the actual equipment manufacturers. The unnecessary costs are comprised of fees

paid the airframe manufacturer for procuring the items of equipment 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.

We submitted our findings, together with certain specific proposals, to the Department of Defense and the Lockheed Aircraft Corp. for their review and comments. 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 of Naval Weapons has undertaken specific interim and long-range studies and has initiated action to develop improved procedures to increase the procurement of aircraft subsystems and accessories by the Government.

On the basis of the Navy's plans, at the time of our review, for procurement of additional aircraft, and assuming that fee rates and prices paid would approximate those established under the fiscal year 1964 production contract, we estimated that the Government would incur additional unnecessary costs totaling about \$890,000 during fiscal years 1965 through 1969 in the procurement of six of the items covered in our review. The Navy, subsequent to our review, has advised us that four of these six items will be furnished to the prime contractor on future procurements. As to the seventh item of equipment discussed in our report—the attitude heading reference system—the Navy previously initiated action to furnish this item to the airframe manufacturer in fiscal year 1964 as Government-furnished equipment. As a result of these actions, the Government will realize savings of as much as \$850,000 in the direct procurement of these five items for the P-3 aircraft.

The Navy did not agree that the other two items—a cabin pressurization system and a data display indicator—were susceptible to direct procurement by the Government at this time. Since no substantive evidence to the contrary has been offered by the Navy, we still believe that these two items could be furnished by the Government with a resultant reduction of about \$400,000 in the cost of the P-3 aircraft program. Moreover, we believe that the fees ranging from 13 to 14 percent negotiated on the purchase cost of these two items of equipment are excessive in view of the limited services and cost risks required of the airframe manufacturer in the procurement of these items.

To attain the maximum cost reductions in the P-3 aircraft program, we recommended that the Secretary of the Navy direct the Bureau of Naval Weapons to conduct further studies on the feasibility of providing these two items as Government-furnished equipment on future planned procurements of P-3 aircraft. If the Bureau's studies clearly show that indirect procurement of these two items of equipment is still warranted, we recommended that the Secretary of the Navy give consideration to reducing the fee rates to be negotiated for them on future procurements to an amount that is commensurate with the contractor's actual contribution and a realistic evaluation of risk factors, if existent, in the design, development, manufacture, and administration of the subcontracted items.

Index No. 11, C-65-144.

B-146876, April 6, 1965.

Increased cost resulting from acquisition of maintenance trucks produced by the Boeing Co., Seattle, Wash., for the Minuteman intercontinental ballistic missile program, Department of the Air Force.

The Government incurred increased costs of at least \$868,000 under the Minuteman intercontinental ballistic missile program because the Department of the Air Force permitted the Boeing Co., Seattle, Wash., to produce two types of maintenance trucks, without inviting competition from outside suppliers. This report, one of a series we have submitted to the Congress on wasteful practices disclosed by our review of the Minuteman intercontinental ballistic missile program, demonstrates the need for more effective controls over contractors who are authorized to design, develop, or fabricate equipment outside their normal field of production.

The Government incurred costs of at least \$1,309,000 for 32 maintenance trucks produced by Boeing. Had the Air Force required Boeing to obtain competition for these trucks from suppliers of this type of equipment, rather than allowing Boeing to produce them without inviting competition, we estimate that the trucks could have been acquired at a cost of about \$441,000. Competitive procurement of these trucks from outside suppliers should have been feasible since Boeing had already designed, developed, and fabricated and assem-

bled—at Government expense—prototypes of the two types of trucks which it described as revised standard commercial vehicles. Less than 2 months after it authorized Boeing to produce the 32 trucks without obtaining competition, the Air Force directed the company to obtain competition for additional requirements of these vehicles. Similar quantities were purchased competitively at prices which were much lower than the costs incurred by Boeing in producing the 32 trucks. For example, one type of mechanical maintenance truck was produced by Boeing at a cost of approximately \$40,600 each; however, when additional quantities of these trucks were acquired through competition they cost only \$10,600 each.

The Air Force has authorized Boeing to furnish about 15 types—comprising approximately 500 units—of transportation equipment and substantial quantities of material handling equipment for the Minuteman program. Since our examination into the acquisition of two of these items produced by Boeing disclosed that the Government incurred costs which were substantially higher than would have been incurred had the items been acquired from outside suppliers through competition, we believe that the Government may have incurred additional costs in acquiring other items of transportation equipment produced by Boeing for the Minuteman program.

Substantial savings should be available to the Government through the use of suppliers experienced in specialized fields of production. We recommend, therefore, that the Secretary of Defense take appropriate action to require (1) that contracting officials obtain—prior to approving a contractor's proposal to design, develop, or fabricate items outside its normal field of production for which significant costs will be borne by the Government—firm price quotations from the contractor for comparison with price quotations from established suppliers for furnishing the items and (2) that the contractor be paid no more than the prices quoted for such items unless payment of higher amounts can be justified as being in the Government's interest. We recommend also that contracting officials be required to document the nature of their evaluation of make-or-buy proposals and the considerations upon which their decisions are made.

Index No. 12, C-65-145.

B-146980, April 7, 1965.

Failure to utilize available excess components in the production of aircraft arresting barriers, Department of the Air Force.

Our review of the procurement of aircraft arresting barriers disclosed that between 1960 and 1963 the contractor producing the barriers under two Air Force contracts and one Navy contract was permitted to subcontract for brake assemblies, a component of the barriers, although the Air Force had sufficient B-52 aircraft brake assemblies excess to its operating requirements which could have been furnished to the contractor for this purpose. As a result, the cost of the barriers procured under these contracts was increased by about \$879,000.

Various organizations within the Air Force must share the responsibility for not having taken advantage of the savings which could have been realized at the time of these procurements. Initially, the Air Force Systems Command, which reviews planned acquisitions and establishes specifications for this type of equipment, should have identified the B-52 aircraft brake as a component of the arresting barriers and designated it for consideration as a Government-furnished item since it was already a standard item in the Air Force supply system. Subsequently, numerous officials at various levels in the Systems Command and the Logistics Command had access, over a 3-year period, to ample information to have made them aware that significant savings in contract costs could be realized if the barrier manufacturer were to utilize excess Air Force brakes in production. However, during the 3-year period nothing was done within the Air Force to take advantage of the potential savings.

In January 1964, we called the attention of agency officials to the availability of excess brakes in the Air Force inventory, and, as a result, brake assemblies valued at more than \$840,000 are being furnished in subsequent arresting barrier procurements. We recognize that, had the Air Force furnished the brakes required for the barrier procurements between 1960 and 1963, there might not have been a sufficient quantity still available by January 1964 for all the subsequent barrier procurements; however, our review disclosed that at least a portion of the brakes required for these subsequent contracts could have been provided, without adversely affecting the Air Force's supply-support position.



As far back as February 1960, we reported to the Congress that the Air Force had not given consideration to the extent to which \$8.4 million worth of excess helicopter spare parts could have been used by contractor in the production of helicopters (B-133274). Subsequently, the Air Force published policies and procedures which recognized the economic benefits to be obtained by furnishing excess assemblies and components to contractors for use in the production of equipment. Regulations were established to provide for the use of excess serviceable material or that which could economically be made serviceable. Our findings with respect to the brake assemblies lead us to conclude that the Air Force procedures and regulations are still not effective in obtaining the maximum utilization of excess material.

In commenting on our findings, the Deputy Assistant Secretary of Defense (Supply and Services) informed us that the Department of Defense agreed that utilization of excess assets is a Defense-wide problem. In this regard, a joint military departments/Defense Supply Agency study was established to determine methods and procedures for increasing reutilization of contractor and Department of Defense assets. We were also told that the individual services were studying means of improving existing procedures.

In submitting our findings to the attention of the Secretary of Defense, we made several suggestions for procedures which would provide greater assurance that adequate consideration would be given to the use of excess inventories in the production of equipment. We recommended that consideration be given to these suggestions in the studies that are currently under way in the Department of Defense and the military services and that relate to the utilization of available Department of Defense assets.

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Index No. 13, C-65-147.

B-133058, April 14, 1965.

Unnecessary requisitioning of aeronautical parts by the Naval Supply Depot, Subic Bay, Republic of the Philippines, Western Pacific Area, Department of the Navy.

Our review of the management by the Department of the Navy of aeronautical spare parts in the Western Pacific area disclosed that the Naval Supply Depot, Subic Bay, Republic of the Philippines, requisitioned about \$332,000 worth of aeronautical parts that were in excess of requirements under existing criteria. For the most part, these items were unnecessarily requisitioned because the supply depot failed to adjust the computation of its future needs to the lesser quantities indicated by prior actual usage of the parts.

The unnecessary requisitioning of material can lead to additional costs for purchase of parts to maintain the desired inventory level in other segments of the supply system and will lead to additional costs for interest and for supply management on the additional items purchased. Moreover, such requisitioning, if allowed to continue, could result in unnecessary transportation, handling, and storage costs and in obsolescence and deterioration of the excessive spare parts. After being advised of our finding, officials at the supply depot canceled unnecessary requisitions for \$228,000 worth of parts, but the remaining \$104,000 worth of requisitioned parts had already been delivered. Had the Subic Bay requisitions for the parts valued at \$228,000 not been canceled, projected future needs could have been overstated and the Navy might have prematurely purchased these parts.

The Assistant Secretary of the Navy, Financial Management, advised us on November 5, 1964, that the Navy concurred in our findings and conclusions. He stated that inventory managers and fleet commanders would be requested to review and update directives concerning levels of supply for materials under their management or for which they are responsible. He stated also that the Navy was in the process of modifying its inventory management policies to increase the surveillance of overseas base inventories by central headquarters.

Index No. 14, C-65-148.

B-131587, April 15, 1965.

Inconsistent practices in the administration of the Government schools program in London, England, Department of Defense.

The several U.S. military services are applying inconsistent criteria in connection with the administration of the Government schools program in London, England. Owing to the inconsistent criteria, dependents of Navy personnel are permitted to attend private schools at Government expense whereas dependents of Air Force personnel living in the same areas under similar conditions must utilize the Government schools. Although the dependents of Navy personnel could have been accommodated in three Government schools operated by the Air Force in London, tuition payments for attendance at private schools were authorized on the basis that commuting time to the Government schools was unreasonable. The Navy authorizes tuition payments if the commuting time to the Government schools is more than 30 minutes for children in grades 1 through 6 and more than 45 minutes for children in grades above the sixth. The Air Force on the other hand sets distance from the schools as the determining criterion. Under the Air Force criterion, dependents of Air Force personnel living within 20 miles of the Government school, regardless of the grade level or commuting time, are required to use the school or attend private schools at their own expense.

If the Air Force mileage criterion was uniformly applied to all military services in London, fewer dependents would be permitted to attend private schools at Government expense. In this respect, we estimate that the Government paid about \$122,000 for tuition for dependents of Navy personnel who attended private schools during the 1962-63 and 1963-64 school years. Conversely, if the Navy criteria were uniformly applied a substantial number of dependents of Air Force personnel now attending the Government schools would be permitted to attend private schools at Government expense.

The Assistant Secretary of Defense (Manpower) stated that the conditions encountered by Navy and Air Force personnel in London are too diverse and that the peculiarities involved in one command indicated the use of distance criteria and peculiarities involved in the other indicated the use of traveltime criteria. He stated also that our proposal for a review of the overseas dependents school program is not concurred in since the Department of Defense does not agree that a problem exists in the London area in the sense intended by our report.

Our review disclosed that the Navy and the Air Force are applying different criteria to highly similar conditions in London to implement Department of Defense policy on the use of three Government schools and an established school transportation system. We agree with Department of Defense policy which provides that, once established, Government schools should be used to the maximum extent possible. However, we believe that it is unreasonable for the military services to follow different criteria in implementing this policy in the same locations under similar conditions.

Accordingly, we recommended that the Secretary of Defense reconsider the position expressed by the Assistant Secretary of Defense (Manpower) and take appropriate action to:

1. Prescribe uniform criteria to be followed by all military services in London in approving tuition applications for dependents of military personnel to attend private schools at Government expense.
2. Review the overseas dependent school program to determine whether the deficiency discussed in our report exists in other areas.

Index No. 15, C-65-149.

B-114839, April 15, 1965.

Unnecessary costs incurred through the duplication of shipping services to the Panama Canal Zone by the Military Sea Transportation Service and the Panama Canal Company, Department of Defense.

Unnecessary costs of as much as \$1.2 million are being incurred annually because duplicate transportation services have been established by the Panama Canal Company and the Military Sea Transportation Service for transporting cargo between New Orleans, La., and the Panama Canal Zone.

The Canal Company operates a passenger/cargo steamship between New Orleans and the Panama Canal Zone to provide necessary passenger and cargo services for

its own organization, the Canal Zone Government, and other Federal agencies. The Military Sea Transportation Service operates two cargo ships between New Orleans, Puerto Rico, and the Canal Zone and employs commercial carriers to provide similar cargo services for the military departments.

The consolidation of these services should result in a savings of as much as \$1.2 million annually to the Government through eliminating the use of one ship and by substantially reducing the use of commercial carriers for transporting cargo between New Orleans and the Canal Zone. Although the Military Sea Transportation Service and the Canal Company officials have been aware of the duplication of shipping services between New Orleans and the Canal Zone for some time, and despite the fact that unnecessary costs of as much as \$1.2 million annually could be eliminated by consolidation of these services, we found no evidence that these officials made a concerted effort to study and evaluate the situation with a view to removing the duplication and reducing the transportation costs to the Government. Since the Military Sea Transportation Service and the Canal Company have been providing duplicate shipping services between New Orleans and the Canal Zone since April 1961, the unnecessary costs incurred in the past 3 years as a result of this duplication could exceed \$3 million.

The Panama Canal Company advised us of its agreement with the factual data contained in our report. The Department of Defense has agreed that there is some duplication between the operations of the Military Sea Transportation Service and the Panama Canal Company in the Caribbean area. The Deputy Assistant Secretary has advised us that all possible alternatives for eliminating the duplication in shipping services and the attendant unnecessary costs should be explored, particularly in the light of military requirements. The Department of Defense is therefore requesting the Secretaries of the Army and the Navy to undertake a joint study for this purpose. The Deputy Assistant Secretary has stated that we will be advised of the final decision in the matter when the study is completed.

In its report of June 23, 1961, on "Discontinuance of Transportation of Commercial Cargo and Passengers by the Panama Line," the Subcommittee on Panama Canal, Committee on Merchant Marine and Fisheries, House of Representatives, recommended that those charged with the responsibility of supplying the defense needs of the country on an economical basis take prompt steps to eliminate duplication of service between the United States and the Panama Canal Zone. In addition, the subcommittee agreed in the decision of the Canal Company to reduce the operation of the Panama Canal Line to a one-ship service between the Canal Zone and New Orleans for carrying company employees and cargo. The subcommittee stated, however, that the necessity and economic advantage for continuing this service remained to be determined on the basis of future experience and felt that a close watch of the situation was warranted.

Index No. 16, C-65B-150.  
B-146778, April 19, 1965.

Unnecessary costs resulting from failure to promptly record decisions to eliminate unneeded items from the supply system, Department of Defense.

Our review of a selected number of the item reduction projects processed since 1959 under the defense standardization program disclosed that potential savings of over \$30 million in supply-management costs were lost as a result of administrative delays by the Army, Navy, and Air Force in recording decisions providing for the elimination of unneeded supply items. This amount is based on the Department of Defense estimate of \$1,000 a year to manage an item of supply.

The processes through which military users of supply items consider and decide which of a variety of similar items are to be retained and which are to be eliminated is time consuming and costly. The failure of responsible individuals to process the necessary paperwork on a timely basis to put these decisions into effect results in continuing management costs which should be avoided. Further, responsible officials either were not aware of the situation or failed to accomplish the necessary corrective action in a timely manner.

We found that the services delayed on an average of almost 1 year the recording in the Federal catalog system of more than 35,000 finalized item reduction decisions. In addition, we noted approximately \$52,000 in unnecessary supply-management costs because of the failure to record item reduction decisions in supply records to avoid future procurement. In one case at an Army supply operation, the failure to properly annotate supply records as to item reduction

decisions resulted in procurement valued at \$445,000, involving 13 supply items. These procurements took place during a 22-month period after the decisions were made to eliminate the items.

The Department of Defense expressed general concurrence in the conclusion of our report and advised that revised procedures had been issued to insure proper implementation of item reduction decisions and to correct previously existing deficiencies. We plan to evaluate the effectiveness of these revised procedures after a period of implementation.

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Index No. 17, C-65-151.

B-152600, April 20, 1965.

Unnecessary costs incurred in the procurement of selected subsystems for F-4 type of aircraft, Departments of the Air Force and the Navy.

Our review of the procurement of selected subsystems for installation in F-4 type of aircraft produced for the Departments of the Air Force and the Navy, undertaken in response to a request dated September 16, 1963, from the former chairman of the Committee on Appropriations, House of Representatives, disclosed that unnecessary costs of about \$2.3 million had been incurred in the procurement of three subsystems because of items were procured through McDonnell Aircraft Corp.—an airframe manufacture—rather than furnished by the Government. The \$2.3 million of unnecessary costs represents the fees allowed McDonnell on the cost of these subsystems. On the basis of our findings, we estimated that the Government would incur additional unnecessary costs of about \$2.5 million for F-4 aircraft planned for procurement in fiscal years 1965 through 1967 if the Air Force and the Navy continued to purchase the items included in our review through the airframe manufacturer.

With regard to our findings on the three subsystems discussed in our report, the Air Force and the Navy advised us that they had initiated action to provide the three items as Government-furnished equipment to McDonnell under the fiscal year 1965 and subsequent production contracts. As a result of these actions by the Air Force and the Navy, we estimate that the Government will realize savings of about \$2.5 million in future planned procurements of the F-4 aircraft.

We recommend that the Secretary of Defense give consideration to the establishment of necessary policies and criteria to insure that the fees negotiated with the contractors for the procurement of such items of equipment are based on the contractors' actual contributions in the design development, and manufacture of the subcontracted items, rather than solely on the basis of the cost of the items involved.

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Index No. 18, C-65-152.

B-125037, April 20, 1965.

Ineffective administration of military leave at Richards-Gebaur Air Force Base, Mo., Department of the Air Force.

Our review of the administration of military leave at Richards-Gebaur Air Force Base, Mo., disclosed weaknesses which were resulting in errors in the leave records of servicemen representing potentially erroneous payments of about \$160,000 a year. The errors disclosed by our review were attributable primarily to improper application of control techniques in the mechanized system of balancing leave accounts at the yearend, lack of training of personnel responsible for computing amounts of leave taken in conjunction with travel, and inadequate supervision and review by management of the performance of these functions.

We have been advised that action has been taken at Richards-Gebaur Air Force Base to strengthen controls and correct the deficiencies noted in our review. Deficiencies in the administration of military leave, however, have been cited in previous reports and procedural corrections have been made or promised, yet numerous errors continue to be made.

The issuance of directives and new procedures will not result in significant improvements unless there is continuous attention by management to the manner in which the procedures are applied. In this connection, we are concerned that our recent reviews at base level have shown that audits by resident Auditor General staffs either had not dealt with military leave accounting at base level or had not detected many of the types of errors disclosed by our audit.

The Department of the Air Force has advised us that, in accordance with our suggestions, an Air Force-wide examination of military leave control and accounting procedures is being conducted by the Auditor General and that the administration of military leave at base level is to be examined in depth by teams from the Air Force Military Personnel Center.

We intend to evaluate the effectiveness of the corrective actions taken by the Air Force as part of our continuing interest in military leave matters.

Index No. 19, C-65-153.

B-133177, April 21, 1965.

Costs incurred in the premature introduction of a new finish for cotton duck cloth, Department of the Army.

Our review of the supply management of clothing, textiles, footwear, and related equipment disclosed that the Government had incurred costs of about \$315,800 during fiscal years 1963 and 1964, and had planned to spend an additional \$497,600, to apply a new finish to duck cloth although a 5½-year supply of cloth with an older but acceptable type of finish was on hand. Responsible officials of the Army failed to consider that the advantages of that new finish were minor, especially in relation to the additional costs to be incurred. The Defense Clothing and Textile Supply Center, although initially opposed to applying a new finish to the untreated duck cloth, acquiesced to the Army's demands without referring this matter to the Director, Defense Supply Agency, who has the authority for controlling the entry of new items into the supply system.

As a result of our bringing this matter to its attention, the Army directed the Clothing Center to use the treated duck cloth in long supply instead of applying the new finish to the untreated duck cloth. The Clothing Center then canceled a pending procurement and planned procurements amounting to \$497,600 for the application of the new finish.

As a result of prior reviews, we have found that the introduction of new items before stocks of the older, acceptable items are depleted results, in many instances, in those items being declared excess and disposed of for a small fraction of the Government's costs. Also, the Government incurs, at a minimum, unnecessary interest costs on the amount invested prematurely in the items involved, and additional unnecessary costs could result because of obsolescence or deterioration.

The Deputy Assistant Secretary of Defense (Supply and Services) by letter dated January 19, 1965, advised us that, with respect to the matters covered in our report, the Defense Clothing and Textile Supply Center did not refer its disagreement with the Army to the Defense Supply Agency for resolution because procedures in effect during 1962-63 did not require it. The Deputy Assistant Secretary advised us, however, that action is being taken to require all defense supply centers, under the command jurisdiction of the Defense Supply Agency, to refer to that Agency any disagreements concerning the entry of new items or other supply matters.

Index No. 20, C-65-154.

B-146761, April 21, 1965.

Overpricing of ammunition components purchased from Honeywell, Inc., Hopkins, Minn., Department of the Army.

Our review disclosed that the Government incurred unnecessary costs of \$722,400 because Honeywell's contract repricing proposal contained errors totaling \$172,600 and was not adjusted for significant cost reductions of \$549,800 occurring between the proposal date of January 31, 1962, and the conclusion of repricing negotiations on September 12, 1962. The unnecessary costs are attributable primarily to (1) Honeywell's failure to furnish the latest available cost or pricing data to the Government negotiators, as required by the contract terms, despite its knowledge of this information and its certification that such data were made available and (2) the Army's failure to make an adequate review of Honeywell's repricing proposal after the audit agency advised that it had not made a quantitative analysis of labor hours included in the proposal. In addition, the Army would undoubtedly have realized that another contract repricing was desirable after September 1962 if Honeywell had furnished quarterly cost statements as provided by the terms of the contract.

The Deputy Assistant Secretary of the Army for Logistics advised us on December 11, 1964, that the Army concurred with our recommendation to take appropriate action to recover the unwarranted profits of \$722,400, realized by Honeywell under contract DA-11-022-ORD-3865, as well as any other amounts that may be due the Government. However, he advised us that the amount of \$722,400 should be reduced by \$34,900, since the requirement for certain dies involved was based upon sound engineering experience. We disagree with the Army position with regard to the allowance of \$34,900 for the dies, and further details on the circumstances involved are contained in our report.

The Deputy Assistant Secretary also did not agree that the unnecessary costs were attributable directly to the Army's failure to perform a quantitative analysis of labor hours included in the proposal. In support of the Army position, he stated that a cost analysis performed at the contractor's plant in June 1962 was extensive and thorough and, although a quantitative analysis of labor hours was not performed at that time, it had been performed in June and December 1961. We believe, however, that an analysis of the latest available labor cost should have been performed prior to the close of negotiations in September 1962, particularly since it was known that, in January 1962, Honeywell's operation was moved to another location to promote efficiency. Thus, it should have been obvious that the reviews of labor-hours standards (time estimated for the performance of a given operation) made before January 1962 were inadequate for evaluation of costs to be incurred subsequent to that date.

Honeywell considers that the individual items are minor or insignificant and that hindsight was used in the development of the extent of overpricing. We believe that overpricing of over \$700,000 is substantial and significant. Also, the overpricing of \$722,400 was based entirely on data in Honeywell's possession prior to completion of the repricing negotiations. However, the information was not disclosed to the contracting officer, as of the effective date of the pricing certificate. At that time, Honeywell certified that all significant changes in cost or pricing data had been made known to the Government negotiator.

We recommended that the Secretary of the Army (1) reconsider the Army position regarding the recovery of \$34,900 of excess tooling (die) costs since, we believe, all information with regard to existing dies and production capacity of existing dies was not considered by the Government engineer in his tooling survey and (2) take appropriate action to recover the total unwarranted profits of \$722,400 realized by Honeywell under contract 3865, as well as any other amounts that may be due the Government under existing statutes.

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Index No. 21, C-65-155.

B-133324, April 22, 1965.

Procurements of spare parts and assemblies in excess of current needs by the U.S. Marine Corps, Department of the Navy.

The Marine Corps Supply Activity, Philadelphia, Pa., at the time of our review, had procured or was in the process of procuring spare parts and assemblies, costing more than \$1.2 million, which were excess to current needs. These procurement actions resulted from (1) erroneous requirements determinations which overstated assemblies and parts needed, (2) the use of incorrect demand and asset data, and (3) failure of stock analysts to review and question substantial changes in assets and requirements reported by the supply centers. We discussed our findings with the supply activity officials during our review, and action was taken to cancel planned procurements amounting to \$814,000.

The Navy concurred with our findings and stated that the procurements cited in our report were due to some admitted inadequacies of the Marine Corps supply system. Further, the Navy agreed with our proposals for correcting procedural deficiencies.

The Navy advised us that new procedures were being implemented to assist stock analysts in reconciling significant and abnormal fluctuations in asset and requirement data. However, the target date for full implementation is July 1, 1966. We recommended to the Secretary of the Navy, therefore, that interim procedures be established to require reconciliation of questionable supply data by means of direct communication between stock management personnel of the supply activities and the supply centers.

We also recommended to the Commandant of the Marine Corps that our report be distributed to all personnel authorized to recommend or approve procurement actions as illustrative of conditions that can result from the failure of these

individuals to manage procurements so as to insure the most effective and economical results to the Government.

The current audit program being used by the Navy internal audit staff for the review of requirements does not include evaluation and verification of the stock status report data used by the Marine Corps Supply Activity in determining the quantities of items to be procured. In view of the significant amount of over-purchases we found at the supply activity, we recommended that future Navy audits of this activity emphasize reviews of requirements determinations, including evaluation and verification of questionable asset and demand data.

Index No. 22, C-65-156.

B-146988, April 22, 1965.

Unnecessary retention of high-value land, Fort Gordon, Ga., Department of the Army.

Approximately 258 acres of expensive land valued at about \$1.9 million is being unnecessarily retained by the Department of the Army at Fort Gordon, Ga., principally to provide an 18-hole golf course for personnel stationed there. We believe that the retention and utilization of this valuable land known as the Oliver area, primarily for recreational purposes, is contrary to Department of Defense policy.

We reported this matter to the Secretary of Defense in October 1964 and proposed that the land be declared excess and disposed of, in accordance with normal Government disposal procedures, and be made available for its best use.

The Deputy Assistant Secretary of the Army (Installations) commenting on our findings and proposals has stated that (1) the golf course facility is providing essential morale and recreational support that otherwise would not be generally available to military personnel and dependents residing in the Augusta area and (2) the release of this facility before suitable accommodations are available at Fort Gordon would have a serious impact on already overtaxed facilities and would have an extremely adverse effect on troop morale.

We question that the retention of the golf course is a major morale factor in view of the fact that only about 1.4 percent of the military personnel assigned to the installation are members and since a 9-hole golf course at Fort Gordon and two 18-hole public golf courses are available in the Augusta area. Also, 3d U.S. Army officials have advised us that a new 18-hole golf course will be constructed at Fort Gordon. This construction is to be financed entirely from nonappropriated funds.

The Deputy Assistant Secretary stated further that our evaluation of the property at \$1.9 million appears overly optimistic, particularly in view of the fact that in 1961 the Army released 58.1 acres in this area which sold for an average of \$2,084 an acre. Actually, we found that the average price of the land sold in 1961 was \$2,716 an acre after allowing for 13.5 acres that were transferred to the Richmond County Board of Education.

Land in the Oliver area has appreciated significantly since the sale of the Government land in 1961. For example, about 10 acres of the Government land sold at public auction in June 1961 for \$2,246 an acre was resold by its owner in January 1964 for \$4,128 an acre. Our \$1.9 million estimate was based on a review of recent sales in the area and the opinions of two local realtors. We thus believe that \$1.9 million is a reasonable approximation of the current value of the land. It is recognized, however, that in the event the Oliver area is declared excess, public agencies can acquire the property at 50 percent of the fair market value provided it is used as park and recreational facilities, or at no cost if it is used for educational purposes.

We believe that it should not be necessary to delay disposal of the bulk of the Oliver area until the proposed 18-hole golf course and clubhouse at Fort Gordon are completed, particularly in view of the existing 9-hole course at the installation and the availability of two 18-hole public golf courses in the Augusta area. However, we recommended that, if it is determined that replacement of the facility is required to maintain necessary recreational facilities, the Secretary of Defense require the Department of the Army to dispose of the Oliver area at an early date consistent with replacement of the facilities involved on the less valuable land available at Fort Gordon. Further, in order to give impetus to the construction of any needed replacement facility, we suggested that a firm date be established for the disposal of the Oliver area.

We also recommended that the Secretary of Defense establish policies and procedures for his office to review the utilization and retention of real property

used by the military departments for recreational purposes so that prompt disposal action can be initiated when a valid requirement no longer exists for such land.

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Index No. 23, C-65-157.

B-146778, April 23, 1965.

Unnecessary costs resulting from the entry into the military supply system of items identical or similar to items previously eliminated or to standard items that were retained, Department of Defense.

Our selective review of the item reduction phase of the Defense standardization program disclosed that potential annual savings of approximately \$350,000 in supply management costs are being lost because additional items entered the military supply system which are identical to, or essentially the same as, those considered in earlier item reduction studies. In view of the limited number of items covered in our review, we feel that the total potential loss may be very substantial.

We believe that this problem exists because proposed new items are not reviewed and analyzed by an organization with the technical capability to determine whether a standard item already in the supply system can serve the same purpose as that intended for the new item.

Failure to prevent the entry of previously eliminated items not only results in supply management costs which could be avoided, but also defeats to a large extent the benefits of earlier standardization work and creates a need for costly item reduction projects in the future. Furthermore, as the number of completed standardization decisions increases, the need for corrective measures to avoid the reentry of previously eliminated items or the entry of duplicative standard items becomes imperative.

The Department of Defense recently advised us that steps are being taken to correct the situation discussed in our report. According to the Assistant Secretary of Defense (Installations and Logistics), it is intended that procedures will be established to insure that all proposed new items will be subjected to technical analysis and evaluation.

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Index No. 24, C-65-158.

B-146972, April 23, 1965.

Unnecessary costs incurred in the production of T-208 telescope mounts as a result of an inaccurate and incomplete technical data package, Department of the Army.

The Government has incurred unnecessary costs of at least \$192,000 because the Department of the Army furnished Lear Siegler, Inc., Bedford, Ohio, with an inaccurate and incomplete technical data package for the production of newly developed T-208 telescope mounts. This amount comprises the \$143,000 reimbursed Lear Siegler for costs incurred to expedite production, \$37,000 paid Lear Siegler for reduction in production efficiency resulting from the incorporation of changes in the technical data, and \$12,000 paid the producer of self-propelled howitzers for costs incurred because of late delivery of the telescope mounts for installation in the howitzers.

In addition, a \$290,000 increase was negotiated in the Lear Siegler contract to compensate the firm for additional work in production of the telescope mounts, which resulted from engineering change orders necessary to correct deficiencies in the technical data package. We were unable, primarily because of lack of documentation, to demonstrate the extent, if any, to which the \$290,000 in costs would have been avoided if a complete and accurate package had been furnished initially.

The deficient technical data package was the result of the failure of Frankford Arsenal, Philadelphia, Pa., to adequately check and to correct the data prior to and during the assembly and functional testing of prototype T-208 mounts. Also, the failure of the arsenal and the Cleveland Procurement District, Cleveland, Ohio, to promptly process requests for change orders to correct errors in the technical data which were disclosed by Lear Siegler contributed to the incurrence of the above costs.

We proposed to the Secretary of Defense that he bring our report to the attention of design, engineering, and procurement activities within other military services to help prevent similar deficiencies in the future. We have been advised that action is being taken on our proposal.



We also made several proposals for improving Army procedures for developing and checking technical data packages. The Deputy Assistant Secretary of the Army for Logistics has advised us that the Army concurred in all of our proposals and in our finding that there were excessive deficiencies in the technical data package but did not agree that this resulted in an actual loss. The Army maintained that the price paid Lear Siegler was the fair market value and cited a subsequent contract price to justify this position. We do not believe that the fact the Army subsequently purchased additional mounts from another contractor at prices in the range paid Lear Siegler can excuse the price increases to the fixed-price contract of Lear Siegler. If an adequate technical data package had been provided, Lear Siegler should have been required to perform in accordance with the original contract terms.

Index No. 25, C-65-159.

B-133177, April 26, 1965.

Additional costs incurred in the procurement of dress raincoats with expensive back vents, Department of Defense.

Our review of the supply management of clothing, textiles, footwear, and related equipment disclosed that the Government incurred additional procurement costs of almost \$650,000 from fiscal year 1962 through 1964 because of a requirement for vents in the backs of dress raincoats. The Army and the Marine Corps raincoats were designed with a cantle piece, which is a triangular-shaped piece of cloth sewn inside the rear vent. The original purpose of the cantle piece vent was to provide a rider on horseback with additional protection from inclement weather since it spreads over the cantle or back part of the saddle when the vent opens. The Navy raincoat was designed with a slit vent, and the Air Force has been satisfactorily using a raincoat with a closed back. The use of a close back would have decreased the cost of each Army raincoat by about 47 cents, each Marine Corps raincoat by about 51 cents, and each Navy raincoat by about 28 cents.

Although an employee of the Military Clothing and Textile Supply Agency (now known as the Defense Clothing and Textile Supply Center), Philadelphia, Pa., in June 1961 suggested that savings could be achieved by eliminating the cantle piece vent in the Army raincoat, we found no evidence that a review was made of this and other raincoat vent designs to determine which was the most practical and economical. Also, from that date until the time of our review, responsible officials of the Army, the Navy, and the Marine Corps did not review the need for their particular type of raincoat vent.

As a result of our bringing this matter to the attention of Army officials, the raincoat cantle piece design was eliminated and replaced with a less expensive back-pleat design. A back pleat is a design similar to the cantle piece but requires less material. This action by the Army will result in procurement savings of about \$207,600 during fiscal years 1965 through 1967. The Navy has made a few raincoats with a closed-back design and is currently conducting user tests. The Marine Corps has decided to retain the cantle piece but could not furnish us with a reasonable explanation for its retention. We estimate that additional savings of \$711,700 would be achieved—\$248,700 in fiscal year 1965 and \$463,000 in fiscal years 1966 and 1967—if the Army, the Marine Corps, and the Navy would agree to use the more economical closed-back design that is satisfactorily being used by the Air Force.

Several times during our review we brought this matter to the attention of officials of the Defense Clothing and Textile Supply Center who are responsible for establishing military clothing value engineering projects. However, they failed to establish a project to study the matter of the different raincoat vent designs. The purpose of the value engineering program is to reduce costs by eliminating expensive materials and manufacturing processes not essential to the proper functioning of the item involved.

The Deputy Assistant Secretary of Defense (Supply and Services) by letter dated March 17, 1965, informed us that a value engineering project was initiated in January 1965 at the Defense Clothing and Textile Supply Center for examining into the need for all design features of the military raincoats, including the back vent designs. Further, he informed us that, should the project disclose evidence that a standardized and less costly design should be adopted by all military services, decisions would be made to adopt the new design and to incorporate it into procurement specifications at an early date.

Index No. 26, C-65-160.

B-146896, April 26, 1965.

Lack of proper inspection and effective maintenance practices for communication and electronic equipment in certain strategic Army Corps units at Fort Hood, Tex., Department of the Army.

Our examination into the adequacy of maintenance performed on communication and electronic equipment at Fort Hood, Tex., and the effect of these practices on the operational status of this equipment in units of the 1st and 2d Armored Divisions located there, conducted from December 1963 to April 1964, inclusive, disclosed that about 24 percent of the assigned communication and electronic equipment considered to be operational by 22 units of the 1st and 2d Armored Divisions failed to meet the applicable equipment serviceability criteria. This condition was due mainly to the failure of equipment operators to properly inspect and adequately maintain their equipment and reflected inadequate surveillance by supervisory personnel including materiel readiness officers. In all, including that equipment which the Army had recognized as being nonoperational, about 30 percent of the communication and electronic equipment was nonoperational, or twice the amount permitted by Army standards. For the most part, the faulty equipment had not been identified or reported prior to our review, and as a result higher authority was not aware of this condition.

Many of the required repairs were made in a relatively short period of time, but others were not. Although the Army subsequently stated, and to some extent demonstrated, that all the equipment could have been repaired within the period of time allowed for deployment, this does not justify the Army's failure to properly inspect and maintain its equipment in accordance with its criteria which provides that such equipment perform immediately its intended combat function. This poor condition of the equipment inspected at Fort Hood existed despite (1) the strategic mission of these units, (2) the emphasis placed on materiel readiness by the Chief of Staff and other Department of the Army officials, and (3) deficiencies in the combat readiness of vehicles and aircraft assigned to these two divisions, disclosed in our previous reports.

In commenting on a draft of our report in a letter dated September 21, 1964, the Deputy Assistant Secretary of the Army (I. & L.), Logistics, agreed with our proposal that commanders at all levels should reemphasize the need for supervisors to instruct all personnel in their obligation to continually maintain materiel for which they are responsible in a satisfactory readiness condition and pointed out that the Chief of Staff, U.S. Army, had emphasized this in a letter dated May 25, 1964, to all major commanders.

We believe that one of the primary needs of the Army in the area of materiel readiness is for improved methods of disclosing the condition of its equipment. Therefore, we recommended that the Chief of Staff give consideration to requiring more positive evidence that the condition of equipment shown in readiness reports was determined by actual inspection. We recommended also that the Chief of Staff continue to stress to division commanders the need for more frequent and continuing inspections by unit commanders and supervisory personnel, to assure that equipment for which they are responsible is maintained in the best possible condition. In this regard, we recommended that the Chief of Staff bring this report to the attention of division commanders.

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Index No. 27, C-65-161.

B-146761, April 26, 1965.

Excessive costs incurred by the Government for purchases of electronic equipment from Honeywell, Inc., Denver division, Denver, Colo.

Our review of purchase orders and contracts awarded to Honeywell, Inc., Denver division, Denver, Colo., disclosed that the Government had incurred excessive costs of almost \$210,000 because various items of electronic equipment were purchased from Honeywell, Inc., at prices in excess of those charged to other Honeywell customers. Of that amount, excessive costs of \$97,300 were applicable to purchases of about \$1.9 million wherein Honeywell had warranted in writing that the prices being charged were no greater than those charged any of its other customers. In these purchases, Government officials, both in the Department of Defense and in civil agencies, obtained price warranties but did not ascertain whether the prices were in accordance with the warranties. Additional purchases amounting to about \$2.2 million had been made without obtaining price

warranties. Had such warranties been obtained and enforced, the purchase prices could have been reduced by an additional \$112,500.

We brought our findings to the attention of the several agencies involved and recommended that action be taken to obtain refunds from Honeywell. The agencies concurred in our findings and agreed that the Secretary of the Army would represent the Government in negotiations with Honeywell.

We also proposed that procurement procedures and instructions be revised to (1) require that price warranties be requested by Government contracting officials when purchases of commercial items are made, (2) establish procedures to enable Government representatives to examine records of contractors that make price warranties, and (3) establish a periodic review of prices charged other customers by contractors making price warranties and to compare those prices with the amounts charged the Government for similar items. We have been advised that each of the agencies is taking action to revise its instructions and procedures in accordance with our proposals.

In commenting on our findings, Honeywell expressed a willingness to negotiate some settlement with the Government. However, Honeywell also stated that it believed its actions were justified on the grounds that the discounts allowed were either (1) in the nature of a gift or subsidy in support of higher education, or (2) to original equipment manufacturers that purchased Honeywell's equipment for resale as integral parts of the equipment manufacturers' standard catalog devices or systems.

The Government does not have any rights, per se, to obtain equipment, supplies, or services at prices equal to those charged by contractors to their other customers. However, when the Government procures relatively small quantities of items that are sold to the general public in the normal course of a contractor's business, many contracting officials obtain price warranties as a measure of insurance of the reasonableness of the prices charged. We do not believe that it is proper for contractors to make unqualified price warranties to the Government and thereafter unilaterally limit the application of those warranties.

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Index No. 28, C-65-162.

B-146934, April 27, 1965.

Failure to modify pallets to avoid unnecessary procurements, Defense Supply Agency, Department of Defense.

Our review of the efforts of the Defense Supply Agency to use excess inventories of wooden pallets in its supply system revealed that procurements of 40- by 48-inch general purpose pallets were being made even though a large number of 48- by 60-inch pallets could have been modified to avoid a substantial quantity of these procurements. We found that the Defense Supply Agency had determined in April 1963 that it was economical and feasible to modify the 48- by 60-inch pallet but had not taken appropriate steps to ensure that a modification program was being carried out. We estimate that, by modifying the larger pallets and using the modified pallets to fill existing requirements for the general purpose 40- by 48-inch pallet, a savings to the Government of about \$1.5 million will result.

Following our identification of this matter, Defense Supply Agency officials directed the modification of those 48- by 60-inch pallets which are not in use. The modified pallet will be issued to Defense Supply Agency depots and offered to the military services at a reduced cost in lieu of the standard general purpose 40- by 48-inch pallets. As a result of this action, planned procurements of pallets should be reduced, thereby effecting savings to the Government of about \$395,000 through modification and of about \$85,000 through avoidance of transportation costs.

In addition, we believe that further savings of \$1 million can be achieved through modification of most of the 48- by 60-inch pallets as they become available. The Deputy Assistant Secretary of Defense (Supply and Services) has advised us that modification of pallets will be made as they become available. He does not agree, however, with our estimate of the potential savings or with our opinion that the modification program was not effectively pursued.

Index No. 19, C-65-163.

B-146992, April 27, 1965.

Failure to use available warehouse platform trailers to avoid unnecessary procurements of similar equipment, Department of Defense.

Our review of supply management of material-handling equipment in the Department of Defense disclosed unnecessary past and anticipated future procurements of warehouse platform trailers as a result of the failure to effectively distribute and use available trailers to avoid procurements of similar equipment.

The military services and the Defense Supply Agency procured 6,000-pound warehouse platform trailers at a cost of about \$700,000 even though sufficient quantities of 4,000-pound substitutable platform trailers were being disposed of that could have filled these requirements. Furthermore, disposal actions were continued although there were additional requirements that could have been met by a more effective distribution and use of the excess trailers. Because of these disposals, additional unnecessary procurements amounting to about \$920,000 will probably result. However, as a result of action taken by the Defense General Supply Center to correct the computation of requirements for 4,000-pound trailers and on the basis of the discontinuance of further disposal action as of October 1964, it is estimated that procurement costs of about \$215,000 will be avoided.

The Deputy Assistant Secretary of Defense stated that future requests from the military services for 6,000-pound trailers will be accepted only with the certification that the 4,000-pound trailer cannot be used and the 6,000-pound trailer cannot be redistributed within the service. However, he also stated that it is extremely undesirable for the Defense Supply Agency to direct that specific items of supply be used and to effect arbitrary substitutions contrary to the wishes of the services. He pointed out that the Defense Supply Agency has the responsibility to effect maximum utilization of such equipment and material and that positive steps are being taken to offer and urge the use of substitute long-supply items where, in the judgment of the Defense Supply Agency, the items reasonably meet the customers' requirements.

We do not believe that the procedure proposed by the Deputy Assistant Secretary of Defense to procure 6,000-pound trailers on the basis of the certification by the services that the 4,000-pound trailers are not acceptable will be effective in precluding unnecessary procurement. As disclosed by our review, an installation of one of the military services claimed that the 4,000-pound trailer would not perform the required function. However, another installation of the same service, which is responsible for a like function under identical circumstances, considers that the 4,000-pound trailer is satisfactory as a substitute item.

Therefore, we recommended to the Secretary of Defense that (1) procedures be established to require that clearly documented justifications in writing be submitted to the Defense Supply Agency whenever the using organizations refuse to accept items in excess supply offered as substitutes for proposed procurements preferred items; and (2) in the event the Defense Supply Agency does not consider the justification adequate to override the increased cost to the Government, it be required to refer the matter to higher authority for decision.

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Index No. 30, C-65-164.

B-146946, April 28, 1965.

Unnecessary costs incurred in the indirect procurement of selected subsystems and assemblies for A-4 aircraft and other types, Department of the Navy.

Our review of the procurement of selected subsystems and assemblies for installation in A-4 aircraft and other types of military aircraft being purchased by the Department of the Navy disclosed that during a 5-year period ended July 31, 1964, unnecessary costs of about \$1.7 million had been incurred in the procurement of four subsystems and an assembly because the items were procured through the airframe manufacturers. The \$1.7 million of unnecessary costs incurred consisted of the fees paid the airframe manufacturers for procuring these items of equipment. These unnecessary costs were incurred because the Navy failed to place sufficient emphasis on the substantial savings that could have been obtained by the Government through the direct or competitive procurement of selected subsystems, accessories, and assemblies required for delivery of a complete aircraft weapon system.

With regard to our findings on the five items of equipment discussed in this report, the Navy advised us that (1) the Bureau had taken action to provide the

radar altimeter as Government-furnished equipment in fiscal year 1964; and (2) it concurred with our findings on three of the other items. The Navy did not agree, however, that the other item, a control valve assembly, was susceptible to direct procurement by the Government.

We recommended that the Secretary of Defense give consideration to the establishment of necessary policies and criteria to insure that fees negotiated with contractors for the procurement of items of subcontracted equipment required for installation in weapon systems being produced by these contractors are based on the contractors' actual contributions and a realistic evaluation of risk factors, if existent, in the design, development, manufacture, and administration of each of the subcontracted items.

In addition, we requested that the Secretary of Defense and the Secretary of the Navy keep us informed of the results of their studies of procedures for selecting items of equipment suitable for direct procurement by the Government and of the corrective measures taken. The effectiveness of these actions will be tested as part of our continuing review of the activities of the Department of Defense.

Index No. 31, C-65-165.

B-135295, April 28, 1965.

Unnecessary retention of high-value land for recreation, Reserve Forces training, and military housing purposes at Fort DeRussy, Waikiki Beach, Hawaii, Department of the Army.

The Department of the Army is unnecessarily retaining 72 acres of land on Waikiki Beach in Hawaii, which is worth more than \$65 million and no longer required for national security purposes.

This land, designated by the Army as Fort DeRussy, is located on one of the most famous beaches in the world and is virtually surrounded by high-rise hotels and tourist attractions. Since being converted from a coast and antiaircraft artillery post after World War II, Fort DeRussy has been used principally as a recreation center for military personnel and their dependents. However, more than adequate recreation facilities are available on the island at the numerous other military installations and at public parks and beaches and commercial establishments.

An area of about 20 acres of the highly valuable land at Fort DeRussy is used as training facilities for Army Reserve units on the premise that the Army requires a centralized location for such training. We found that the Reserve organizations of the other military services, as well as the National Guard, have all located their training facilities on much less valuable land elsewhere on the island and have found their locations to be sufficiently centralized.

Also, there is presently some doubt as to how many of the Reserve units now training at Fort DeRussy will be retained after a pending Reserve reorganization plan is implemented and consolidation with the Army National Guard is completed. To the extent that Army Reserve units now training at Fort DeRussy will not be eliminated in this reorganization, we believe that consideration should first be given to training these units either (1) at National Guard armories which are not being fully utilized; or (2) at one or more of the many other military installations on the island. If existing military facilities, other than those at Fort DeRussy, prove to be insufficient to accommodate the reorganized Hawaii National Guard, consideration should then be given to requesting authorization to construct additional armory facilities on less expensive land elsewhere on the island.

Another area at Fort DeRussy of about 4 acres, valued at almost \$5 million, is used as a site for nine family housing units. These units are all more than 42 years old and are expensive to maintain because of their age and condition. The 9 obsolete housing units represent an insignificant portion of the more than 1,100 Army-owned family housing units on the island. Consequently, their disposition would not seriously affect the housing situation and would allow the release of highly valuable land.

It seems apparent that, because Fort DeRussy is no longer used for national security purposes and because the services it provides can be obtained elsewhere on the island, there is no valid need for retaining this highly valuable property. Therefore, we recommended that the Secretary of Defense take steps to (1) close all recreational facilities at Fort DeRussy, including transient living quarters; (2) transfer the training of Army Reserve units to other inadequately utilized training facilities or to a less expensive area on the island; (3) close the existing

nine obsolete family housing units; and (4) set in motion a comprehensive program leading to the early disposal of the land and improvements.

The Department of the Army has informed us that it believes Fort DeRussy should be retained for utilization substantially as now constituted and that congressional approval should be sought from time to time for the replacement of obsolete facilities. However, the House Committee on Interior and Insular Affairs, which has responsibilities in the area of land utilization by the Government, has taken the general position in the past that the continued use of valuable urban property by the military is justified only when national security clearly makes such control and use essential.

Furthermore, both the Senate and House Committees on Armed Services took the position in 1962 that the Department of Defense should dispose of marginal installations, or those which serve no defense purpose, and that replacement of eliminated facilities where needed at other locations should be requested through the normal budget and appropriation process. Consequently, because there is a conflict between positions taken by the Army and congressional committees and because there is no longer a valid national security purpose for retaining the highly valuable land at Fort DeRussy, we reported our findings to the Congress.

Index No. 32, C-65-166.  
B-146944, April 29, 1965.

Overpricing of aircraft identification equipment under contract AF-30(635)-13712 with Bell Aerosystems Co., a division of Bell Aerospace Corp., Wheatfield, N. Y., Department of the Air Force.

The Government has incurred unnecessary costs of about \$284,000 because the prices negotiated for firm fixed-price contract AF-30(635)-13712 with Bell Aerosystems Co., a division of Bell Aerospace Corp., Wheatfield, N. Y., for aircraft coder-decoder identification equipment were based on a net overstatement of estimated labor and material cost. The unnecessary costs to the Government resulted from the contractor's failure to use current cost and pricing information available when the contract price proposals were prepared and when the prices were negotiated. Air Force contracting officials accepted the increased prices without appropriately examining into the accuracy and currency of the cost and pricing information on which the contractor's proposals were based. Furthermore, a cost certification submitted by Bell did not provide adequate assurance that the prices negotiated were reasonable.

The contractor proposed a labor rate based on cost experience at one of its plants although it knew that work under the contract was to be performed at another plant where labor rates were lower. In addition, the contractor proposed material costs which were excessive in the light of prior cost experience for the same items.

In the negotiation of the contract price for this procurement there was an overall reduction of \$91,431 in the price proposed by the contractor. Although Air Force records covering the negotiations indicate that none of this reduction was applicable to estimated material costs, there was no agreement as to the amounts negotiated for the various elements of costs and profit making up the total price. In commenting on our preliminary report, the contractor imputed an arbitrary, pro rata allocation of \$60,590 of the negotiated reduction to the estimated cost of materials and stated that our total finding should be reduced by that amount. However, on the basis of the Air Force records of negotiation and other Air Force records examined, and in the absence of any other conclusive information, we have concluded that none of the negotiated price reduction should be applied to estimated material cost for the reasons set forth in the report.

We recommend that the Armed Services Procurement Regulation be amended to require the contracting officer to include in the record of negotiations a statement evidencing the extent of his reliance, of the reasons for and extent of his nonreliance on cost or pricing data required from and supplied by the contractor.

We recommend further that the Armed Services Procurement Regulation be amended to require that any overstatements in the contractor's submission due to incomplete, inaccurate, or noncurrent data, which are found subsequent to the negotiations and which are not reflected in the record of negotiations or subsequently adjusted, be construed as having increased the contract price. The amendment should also require that, if the overstatement is significant, a downward adjustment in the price be made pursuant to the clause prescribed by

section 7-104.29 of the Armed Services Procurement Regulation, which permits price reduction for defective cost or pricing data.

In addition, we recommended that the Armed Services Procurement Regulation be amended to require the contracting officer, in the event prices were negotiated in whole or in part on some basis other than reliance on the cost or pricing data required from and supplied by the contractor, to include a statement in the record of negotiations evidencing and justifying the basis used in arriving at the price negotiated.

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Index No. 33, C-65-167.

B-146989, April 29, 1965.

Ineffective interservice utilization of aircraft jet engine parts, Department of Defense.

Our review of the utilization of selected aircraft jet engine parts disclosed that the Aviation Supply Office, Philadelphia, Pa., Department of the Navy, had excess stocks of turbine blades, nozzle diaphragms, and vane assemblies, valued at over \$900,000 that were not made available to meet the needs of the Department of the Air Force. The failure of the Aviation Supply Office to recognize the existence of the excess items was attributable primarily to the fact that responsible personnel did not reevaluate requirements in the light of changing conditions and to the weaknesses of Department of Defense procedures and policy guidance with respect to interservice utilization of excess items which are interchangeable or substitutable as they are or after modification.

At the time of our review, the Department of the Air Force, after being advised by the Aviation Supply Office as to the nonavailability of transferable turbine blades, had bought the needed blades at a cost of over \$475,000 from commercial sources. Procurement action had not been taken on the nozzle diaphragms and vane assemblies and, after we called this matter to the attention of the Navy and the Air Force, aircraft jet engine parts valued at about \$441,000 were transferred to the Air Force for its use.

The matters discussed in our report were brought to the attention of the Secretary of Defense. In his reply, the Deputy Assistant Secretary of Defense (Supply and Services) did not comment on our findings concerning nozzle diaphragms and vane assemblies. However, he advised us that the Department of Defense was not in agreement with our finding that the Navy had an excess supply of turbine blades in June 1962 that could have been used to meet Air Force needs. We have reexamined the information available to the Navy as of June 30, 1962, and the data contained in the Assistant Secretary's letter, and are still of the opinion that a reasonable effort on the part of Aviation Supply Office personnel would have disclosed the excesses in turbine blades.

As a result of our findings on the failure to consider the modification of excess items, the Department of Defense is planning to initiate a feasibility study to determine the practicability of establishing a system which will identify items capable of being modified at nominal cost so that the items can be utilized on an interservice basis.

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Index No. 34, C-65-168.

B-146716, April 30, 1965.

Unnecessary costs incurred for modernization of combat tanks, Department of Defense.

The Office of the Secretary of Defense authorized the Marine Corps to spend about \$1.5 million to modernize 22 M-481A tanks although the tanks were excess to both the Corps' peacetime operating needs and its approved mobilization requirements. According to the Office of the Secretary of Defense, the modernization of these tanks was authorized because all other tanks of this type in the possession of the Marine Corps had been modernized and it was desirable to modernize the 22 excess tanks to simplify maintenance of the excess tanks, training of personnel, and spare parts support by the Marine Corps.

Before modernization work was initiated, we advised the Office of the Secretary of Defense that the Army had unfilled mobilization needs for M-48A1 (unmodernized) tanks and that the 22 tanks that were excess to Marine Corps needs could be used to help meet Army needs. Since the Army already had substantial quantities of M-48A1 tanks, no maintenance, supply, or training problems would

have resulted and the \$1.5 million required to modernize the 22 tanks could have been saved.

Nevertheless, the Office of the Secretary of Defense permitted the modernization of the 22 excess tanks. In support of its decision to let the modernization proceed, the Office of the Secretary of Defense reiterated its position that such action would minimize the complexities of maintenance and personnel training by avoiding the burden of retaining a small inventory of nonstandard items by the Marine Corps. The Office of the Secretary of Defense further advised us that changes to Marine Corps mobilization requirements were under consideration and that if these changes were approved the excess tanks would fall within Marine Corps mobilization requirements. The Office of the Secretary of Defense acknowledged, however, that this matter had been under consideration for more than 2 years and that no decision had been reached. Further, it could offer no estimated date for a decision on the changes in Marine Corps mobilization requirements.

We have given careful consideration to the position of the Office of the Secretary of Defense and it is our conclusion that its position is valid only so long as the equipment needs of each military service are considered separately. If the needs of the services are considered as a whole, the position is without merit. The retaining of 22 tanks in the M-48A1 configuration would no doubt have resulted in maintenance, training, and supply problems for the Marine Corps but it would not have caused such problems for the Army which planned to continue to maintain a sizable inventory of the unmodernized M-48A1 tanks.

Furthermore, we do not believe that uncertain and unplanned possibilities of future increased mobilization requirements provide a sound basis for authorizing substantial expenditures of Government funds, such as expenditures for modernization of excess Marine Corps tanks. If these possibilities mature into firm plans, the fulfilling of the increased requirement would be and should be based on conditions existing at the time.

Although the modernization of these tanks has now been performed and the unnecessary expenditure can no longer be prevented, there are many instances in which more than one service uses a particular item of equipment or component thereof. The Marine Corps and the Army use many of the same items since both rely heavily on ground forces. Similarly, the air branch of the Navy and the Air Force use many of the same items of equipment. Unless the needs for common items are considered as a whole—that is, for the entire Department of Defense—there is the possibility that unnecessary costs will continue to be incurred. We therefore recommended to the Secretary of Defense that his Office consider the needs of all the services for all major equipment items before reaching decisions involving procurement, renovation, modernization, or disposal of such items and that decisions regarding the use of such items be based on the most effective and economical use.

A substantial number of the tanks being used to fulfill the Army's peacetime operating needs are unmodernized tanks of the M-48 type. Consequently, there may still be some benefit to be gained by transferring the modernized tanks that are excess to Marine Corps needs to the Army to increase the capability of the equipment in active use by the Army. Accordingly, we recommended also that the Secretary of Defense give consideration to the transfer to the Army of those tanks which are excess to Marine Corps peacetime and mobilization requirements.

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Index No. 35, C-65-169.

B-146975, April 30, 1965.

Potential savings through procurement of office furniture from General Services Administration sources by Lockheed Missiles & Space Co., Sunnyvale, Calif., Department of Defense.

Our review of the procurement of office furniture by Lockheed Missiles & Space Co., Sunnyvale, Calif., a group division of Lockheed Aircraft Corp., has disclosed that substantial savings can be achieved in Government contract costs through utilization of General Services Administration supply sources. Under current practices, the contractor is purchasing office furniture from commercial sources at prices higher than the prices of comparable items available to authorized Government users through General Services Administration supply sources.

We could not readily identify the total amount of procurements of the other items of office furniture discussed in our report, because such items were charged to overhead expense at the time of acquisition. However, on the basis of our estimate of \$330,000 of additional costs for Lockheed's office chair procurements



since 1956, which chairs generally were charged to overhead expense, we believe that substantial additional savings could have been achieved on all such items charged to overhead expense upon acquisition. Because the work of Lockheed Missiles & Space Co. during the period of our review was performed almost exclusively for the Government, with over 98 percent under cost-reimbursement-type contracts, the Government bears the additional costs of the office furniture used by the contractor.

Existing procurement regulations of the Department of Defense and the General Services Administration provide for the use of General Services Administration supply sources for the procurement of the office furniture discussed in our report by contractors performing under cost-reimbursement-type contracts. However, under the regulations, Lockheed is not permitted the use of these sources because the contractor is also performing a small amount of other work and because the cost of such furniture is not charged direct to Government contracts but is charged through the contractor's overhead expense.

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 the circumstances discussed in our report, to utilize the Administration's supply sources. We recommended that the Administrator of General Services conclude the actions to finalize the pending revision to the Federal procurement regulations, which is necessary to permit Government contractor use of General Services Administration supply sources.

We recommended that the Secretary of Defense, in consonance with the review being made by the General Services Administration, examine the provisions of the armed services procurement regulation with the objective of providing a clear and unequivocal basis for the use by contractors, performing Government work, of General Services Administration supply sources along the lines proposed by the General Services Administration. We recommended also that the Secretary of Defense require contract administrators, at locations where there is a significant volume of negotiated Government work, to review existing defense contracts and incorporate the necessary contract provisions to permit the use of General Services Administration supply sources.

We further recommended that the Secretary of Defense, when significant amounts of cost are involved, establish appropriate controls to insure that General Services Administration furniture is utilized by defense contractors, unless the contractors are able to obtain furniture of equal quality at the same or lower cost from their suppliers.

During our review, Lockheed expressed an objection to the use of the desks and tables available through General Services Administration sources because the larger size of these items would require more floor space than the commercial furniture the contractor was using. We discussed the matter with a General Services Administration official and were subsequently informed that, as a result of our bringing the matter to its attention, the General Services Administration is currently developing a Federal specification for a 30-inch desk for use by Government agencies as well as by authorized Government contractors.

We further recommended, therefore, that in the event the revised 30-inch specifications are not completed before the next award of furniture procurement contracts, the Administrator of General Services make provision for a supplemental award when the specifications become available, in order that any essential response to contractor requirements may not be delayed.

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Index No. 36, C-65-170.

B-146902, April 30, 1965.

Excessive aircraft assigned to Fort Wolters as a result of overstated requirements, Department of the Army.

Our review of the need for H-23 helicopters at Fort Wolters, Tex., disclosed that Fort Wolters' fiscal year 1965 requirements were overstated by 32 helicopters, valued at about \$1.8 million, because (1) an erroneous aircraft availability rate and an invalid weather-and-holiday factor were used in the computation of requirements and (2) availability of aircraft on hand was unnecessarily reduced through scheduling periodic inspections during flying hours. After we brought this matter to the attention of officials at Fort Wolters, the requirements were

reduced by eight helicopters. Subsequently, the Department of the Army agreed with our proposals and canceled the planned shipment of 18 additional helicopters to Fort Wolters. It also initiated action to have periodic inspections performed during nonflying periods and, consequently, to release six helicopters then on hand.

The assignment of more helicopters to Fort Wolters than were required not only reduced the capability of other units which had a need for these helicopters but, unless corrected, could have eventually resulted in overprocurement of this type of helicopter.

The Army also furnished us with the findings of a committee which was recently established in response to previous reports issued by our Office. These reports, covering the past several years, identified a number of instances involving all the military services in which unnecessary procurements, totaling \$26.6 million, occurred because of the failure of authorization documents to reflect requirements which were realistic and in accordance with actual needs. During the same period, unnecessary planned procurements, totaling \$7.1 million, were canceled by the military departments after we called their attention to the fact that their requirements were not valid.

The committee was established by the Chief of Staff, U.S. Army, to review the adequacy of documentation supporting equipment authorizations. It is currently in the process of making a one-time review of authorization documents supporting equipment requirements and, has already reduced these requirements by quantities valued at more than \$400 million. The committee has also prepared a report which summarized the weaknesses found in the present system for preparation and review of authorization documents and outlines the action being taken by the Department of the Army to develop a single system for the documentation of authorizations which it believes will permit rapid and accurate review and provide finite data for the computation of requirements. A time schedule for phase-in of the new system has been developed.

We believe that the action taken by the Department of the Army is necessary to provide a better basis for the procurement and distribution of equipment. However, the overstated requirements for helicopters discussed in our report resulted primarily from the use of erroneous basic data in the documentation supporting the authorization request, rather than a lack of documentation. Therefore, we recommended that the Secretary of the Army supplement the revised procedure for documentation of authorizations to provide for periodic verification of the basic data used to compute requirements, which are contained in documentation supporting equipment authorizations.

We also recommended that the Secretary of the Army inquire into the feasibility of scheduling periodic inspections of aircraft during nonflying hours at other installations as a means of increasing the availability of assigned aircraft.

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Index No. 37, C-65-171.

B-132990, April 30, 1965.

Inadequate maintenance and supply support of aviation units of the 8th U.S. Army, Korea, Department of the Army.

Our review of maintenance and supply support of U.S. Army aircraft in the Republic of Korea disclosed that, during the 6-month period ended December 31, 1963, the availability of operational aircraft assigned to several units of the 8th U.S. Army, Korea, had been less than that necessary to fully meet mission requirements. This condition was caused, to a large extent, by (1) shortages of technically qualified maintenance personnel, (2) ineffective utilization of those qualified maintenance personnel who were available, and (3) inadequate supply support. The Department of the Army indicated agreement with our findings and advised us of corrective actions taken.

Information regarding the current availability of operational aircraft in Korea is classified; however, we plan to make further inquiries into the effectiveness of the actions taken by the Army in subsequent reviews of maintenance and supply support activities of Army overseas commands.

Index No. 38, C-65-172.

B-146987, May 10, 1965.

Potential savings through use of Government-owned housing to meet military requirements in the Tampa, Fla., area, Federal Housing Administration Housing and Home Finance Agency and Department of Defense.

In our examination into the utilization of Government-owned housing, we found that annual savings of over \$1.1 million in basic allowances for quarters could be realized through the use of available Government-owned housing to meet Department of the Air Force housing requirements in the Tampa, Fla., area. At July 31, 1964, there were more than 2,300 Government-owned houses in the Tampa area awaiting sale by the Federal Housing Administration, Housing and Home Finance Agency. In view of the size of the housing inventory and the lack of local demand for housing, the prospects for sale in the near future do not appear bright.

Many of the units could be used to meet military requirements as there are more than 3,200 military personnel living off base who are eligible to occupy military-owned housing. The Department of the Air Force does not have a sufficient number of houses on base to accommodate all personnel entitled to quarters and consequently is paying monetary allowances for quarters to those who must live off base. Thus, the Government finds itself in the paradoxical position of paying rent for privately owned houses when its needs could be met with vacant houses owned and maintained by the Federal Housing Administration.

We brought our findings to the attention of the Department of Defense and the Federal Housing Administration and proposed that the Department take all reasonable steps to promote use of the available Government-owned housing by military personnel on an individual rental basis.

The Commissioner, Federal Housing Administration, has informed us that his agency is willing to cooperate to the maximum extent in providing adequate rental housing to military personnel on an extended-lease basis, and, further, that in the past rental property has been made available to military personnel on either an individual-lease basis or through multiple-lease agreements with the military departments.

The Deputy Assistant Secretary of Defense (Family Housing) commented on February 16, 1965, that the Department of Defense felt that it was presently making maximum use of Federal Housing Administration housing units on a leased basis to the extent authorized by law, but it agreed that greater use might be made by individual personnel on a voluntary basis if the Administration were to make its units more attractive in cost, condition, and availability. The Federal Housing Administration usually would rent its houses only on a month-to-month basis in order to have them available for sale purposes; therefore, the military generally would not rent on such an indefinite basis. After we started our review, however, the Federal Housing Administration corrected this situation by issuing revised procedures which provided for leasing Federal Housing Administration-owned houses for up to 3 years, on either an individual-lease or multiple-lease basis.

Under current law, the Department of Defense is restricted as to the number of houses it may lease for use of service members. Usually the authority to lease housing is limited to locations where tactical troop units are stationed. Therefore, so that a basis for full use of available Government-owned housing in areas such as Tampa, Fla., may be provided and the savings involved in using such housing as quarters for military personnel may be realized, we recommended that the Congress consider exempting Federal Housing Administration-owned housing from current leasing restrictions and that the Department of Defense use such housing as public quarters.

We also recommended that, to realize savings possible under existing legislation, (1) the Department of Defense take all reasonable steps to promote maximum use of the available Government-owned housing by encouraging its military personnel to rent the houses individually and (2) the Commissioner of the Federal Housing Administration and the Secretary of Defense establish procedures to closely monitor progress of the leasing and rental program in the field to insure that it is aggressively pursued.

Index No. 39, C-65-173.

B-146975, May 13, 1965.

Potential savings through procurement of operating supplies from General Services Administration sources by Lockheed Missiles & Space Co., Sunnyvale, Calif., Department of Defense.

Our review of the procurement of operating supplies by Lockheed Missiles & Space Co., Sunnyvale, Calif., a group division of Lockheed Aircraft Corp., has disclosed that substantial savings can be achieved in Government contract costs through 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 identical or comparable items available to authorized Government users through General Services Administration supply sources. During 1962 alone, had Lockheed procured available items through General Services Administration sources rather than through commercial sources, savings to the Government of \$260,000 could have been achieved on selected items reviewed. On the basis of the savings that could have been achieved as disclosed by our review of selected procurements, we estimated that savings on the contractor's total 1962 procurements of reproduction supplies, office supplies, and perishable tools could have amounted to as much as \$800,000.

Inasmuch as the work of Lockheed Missiles & Space Co. during the period of our review was performed almost exclusively for the Government, with over 98 percent under cost-reimbursement-type contracts, savings in the cost of operating supplies used by the contractor would accrue to the Government.

Existing procurement regulations of the Department of Defense and the General Services Administration provide for the use of General Services Administration supply sources for the procurement of the consumable supplies discussed in this report by contractors performing under cost-reimbursement-type contracts. However, under the regulations, Lockheed is not permitted the use of these sources because the contractor is also performing a small amount of other work and because the costs of most of the consumable supplies are not charged direct to Government contracts but are charged through the contractor's overhead expense.

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 the circumstances discussed in our report, to utilize its supply sources. We recommended that the Administrator of General Services conclude the actions to finalize the pending revision to the Federal Procurement Regulations, which is necessary to permit Government contractor use of General Services Administration supply sources.

We recommended that the Secretary of Defense, in consonance with the review being made by the General Services Administration, review the provisions of the Armed Services Procurement Regulation with the objective of providing a clear and unequivocal basis for the use by contractors performing Government work of General Services Administration supply sources, along the lines proposed by the General Services Administration. We recommended also that the Secretary of Defense require contract administrators, at locations where there is a significant volume of negotiated Government work, 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 that the Secretary of Defense, when significant amounts of cost are involved, establish appropriate controls to insure that General Services Administration supplies are utilized by defense contractors, unless the contractors are able to obtain supplies of equal quality at the same or lower cost from their suppliers.

Index No. 40, C-65-174.

B-134739, May 17, 1965.

Excess cost and inequities due to furnishing flight meals without charge to certain personnel of the military services, Department of Defense.

Our review of selected aspects of furnishing flight meals to members of the military services has disclosed that excess cost estimated at \$640,000 has been incurred annually because Navy and Marine Corps flight crew personnel receiving cash allowances for subsistence are not required to reimburse the Government for flight meals furnished them. The continued furnishing of such meals without charge is inappropriate because the circumstances which formed the basis for authorizing this practice do not exist at present. The flight meals fur-

nished are more costly than meals served in a general mess for which collection is required from personnel who receive a cash allowance for subsistence. Furthermore, this practice is discriminatory in that (1) approximately 56 percent of Navy and Marine Corps enlisted personnel engaged in flight operations do not receive both a cash allowance for subsistence and free flight meals and (2) personnel of the other military services receiving cash allowances for subsistence are not furnished flight meals without charge.

In 1957 the Bureau of the Budget informed the Department of Defense that providing free flight meals to personnel concurrently receiving cash allowances for subsistence was unjustified and that steps should be taken to eliminate this practice. However, the Department of Defense failed to take effective action on this matter, because of disagreements among the military departments.

The furnishing of flight meals without charge to certain Navy and Marine Corps personnel is authorized under the act of June 5, 1942 (10 U.S.C. 6085). However, because the justifications presented as a basis for the enactment of this legislation have not been applicable for many years, and because the authority contained in the act is permissive, we suggested that the Secretary of Defense administratively discontinue granting free flight meals to Navy and Marine Corps personnel receiving a cash allowance for subsistence. In reply, the Assistant Secretary of Defense (Comptroller) advised us that action had been initiated to discontinue, as of July 1, 1965, furnishing free flight meals to Navy and Marine Corps military personnel receiving a cash allowance for subsistence.

Operating deficiencies were found at the military installations we visited, which were resulting in increased costs to the Government because of the failure to (1) ascertain entitlement to free flight meals, (2) collect at the prescribed rates, and (3) maintain proper control over meals issued and collections received. Although the losses resulting from these deficiencies were small at each installation, we believe the cumulative loss throughout the Department of Defense is substantial.

We proposed that the Secretary of Defense correct these deficiencies by establishing (1) uniform reimbursement practices for flight meals sold by the military department and (2) effective procedures and controls over the issuance of and collection for flight meals. The Assistant Secretary of Defense (Comptroller) advised us that a review would be made of the existing regulations and control procedures of the three military departments, and that, on the basis of the results of the review, the Department of Defense would take appropriate action. We requested the Secretary of Defense to advise us of the results of the study and the actions taken.

Index No. 41, C-65-175.

B-146987, May 17, 1965.

Potential savings through use of Government-owned housing to meet military requirements in the Jacksonville, Fla., area, Federal Housing Administration, Housing and Home Finance Agency, Veterans' Administration, and Department of Defense.

In our review of the available vacant Government-owned housing in the Jacksonville, Fla., area, we found that annual savings of about \$269,000 in basic allowances for quarters could be realized through the use of such housing to meet the military requirements.

At July 31, 1964, there were 870 Government-owned houses in the Jacksonville area awaiting sale by the Federal Housing Administration and the Veterans' Administration. In view of the size of the housing inventory and the lack of local demand for housing, the prospects for sale in the near future do not appear bright. Many of these houses could be used to meet military requirements as there are more than 7,100 military personnel living off base who are eligible for military-owned housing. The Department of the Navy does not have a sufficient number of houses on base to accommodate all personnel entitled to public quarters and consequently is paying monetary allowances for quarters to those who must live off base. Thus, the Government finds itself in the paradoxical position of paying rent for privately owned houses when its needs could be met by using vacant houses owned and maintained by the Federal Housing Administration and the Veterans' Administration.

We brought our findings to the attention of the Department of Defense, the Federal Housing Administration, and the Veterans' Administration and proposed that all reasonable steps be taken to promote the use of available Government-owned housing by renting to military personnel on an individual basis.

The Commissioner, Federal Housing Administration, informed us that the Federal Housing Administration would cooperate to the maximum extent possible in providing adequate rental housing to military personnel on an extended lease basis. The Administrator of Veterans' Affairs informed us that, on the basis of its analysis of the situation at Jacksonville where the present sales were favorable, the Administration would continue its present policy of not renting the houses. He stated further that, although there had been no decrease in the inventory up to the present, the turnover of properties was good.

We believe that a number of the Veterans' Administration houses should be made available to meet military requirements since we found that the number on hand exceeded sales requirements and that there had been an increase in the inventory since our review.

In a letter dated February 16, 1965, the Deputy Assistant Secretary of Defense (Family Housing) stated that the Department of Defense felt that it was presently making maximum use of the family housing units owned by the Federal Housing Administration and the Veterans' Administration on a leased basis to the extent authorized by law, but it agreed that greater use of the housing might be made by individual military personnel on a voluntary lease basis if these two agencies were to make the housing more attractive in cost, condition, and availability. After we started our review, the Federal Housing Administration issued revised procedures which provided for leasing houses owned by the Federal Housing Administration for up to 3 years, on either an individual- or multiple-lease basis.

Under current law, the Department of Defense is restricted as to the number of houses it may lease for use by service personnel. Usually, the authority to lease is limited to locations where there are tactical troop units. Therefore, so that a basis for full use of available Government-owned housing in areas such as Jacksonville, Fla., may be provided and savings resulting from the use of such property as housing for military personnel may be realized, we recommended that the Congress consider exempting repossessed Government-owned housing from current leasing restrictions and that the Department of Defense use such housing as public quarters for military personnel.

We recommended also that, to realize savings possible under existing legislation, (1) the Department of Defense take all reasonable steps to promote maximum use of the available Government-owned housing by encouraging its military personnel to rent such housing individually, (2) the Administrator of Veterans' Affairs make a substantial portion of the Veterans' Administration housing inventory in the Jacksonville area available for military housing requirements, and (3) the Commissioner of the Federal Housing Administration, the Administrator of Veterans' Affairs, and the Secretary of Defense establish procedures to closely monitor progress on the leasing and rental program in the field to assure that it is aggressively pursued.

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Index No. 42, C-65-176.

B-146934, May 19, 1965.

Inadequate management of special purpose ammunition pallets resulted in unnecessary procurement actions, Department of the Navy.

Our review of the supply management of special purpose mark 3 steel ammunition pallets disclosed that during fiscal year 1964 the Navy planned to purchase about 18,000 of these pallets, estimated to cost \$373,000, which were not needed. This planned procurement was unnecessary since the Navy had on hand more than 200,000 identical pallets, valued at about \$2.5 million, which were not being used for their intended purposes.

We found that ammunition depots and other stocking locations were misusing significant quantities of the mark 3 pallets by utilizing them for storage of inert and scrap materials which could have been stored without pallets or on less expensive general purpose pallets. As a result, mark 3 pallets were not available for the intended storage and shipping operations.

We also found that, because of inaccurate reporting by ammunition stockage points, the Navy Ordnance Supply Office, Mechanicsburg, Pa., the inventory manager, was not aware of significant quantities of empty mark 3 pallets that were available to meet current needs. Our review also indicated that a quantity of 24,328 of these pallets procured in 1958, at a cost of about \$238,000, probably would not have been needed if pallets had not been used for unauthorized purposes.

The Navy was aware that large quantities of mark 3 pallets were being used for unauthorized purposes. Prior to starting the procurement of 18,000 pallets,

the ordnance supply office considered the possibility of making the misused pallets available to satisfy current needs. However, on the basis of an erroneous estimate of the cost to repalletize, the ordnance supply office decided that it was more economical to purchase additional pallets and, at the time of our review, had issued bid invitations to prospective vendors. When we brought our findings to the attention of ordnance supply office officials, they took action to cancel the planned procurement.

The Assistant Secretary of the Navy (Financial Management) in a letter dated February 12, 1965, advised us that the Department of the Navy concurred in the findings set forth in our report and that corrective action would be taken to insure that special purpose pallets are used only for authorized purposes.

Index No. 43, C-65-177.

B-146921, May 19, 1965.

Unnecessary costs resulting from the failure to furnish available parts to a contractor engaged in the production of  $\frac{3}{4}$ -ton trucks, Department of the Army.

In our review of the utilization of available parts as Government-furnished property, we found that the Government had incurred unnecessary costs that may amount to about \$682,000 because the Army failed to furnish available parts that were in excess of its needs to a contractor who could have utilized them in the production of military  $\frac{3}{4}$ -ton trucks. Between April 1961 and January 1964 the Army awarded four contracts for the production of over 31,700  $\frac{3}{4}$ -ton trucks. During this same period, parts valued at \$1.2 million were on hand in the Army supply system that could have been furnished to the contractor, thereby reducing the Government's cost for these vehicles. However, because of an unduly restrictive interpretation of policy and implementing regulations, Army Tank-Automotive Center officials refused to utilize the available parts and about one-half of them were sold as surplus at substantially reduced prices. The remaining parts were kept in stock until we called this matter to the attention of Army officials who then offered the parts to the contractor for use under the then current vehicle contracts. At the time this action was taken, the contractor had already filled most of its parts requirements, and it appears that only a small portion of the parts offered by the Army may ever be utilized.

In commenting on our findings, the Deputy Assistant Secretary of the Army (I. & L.) logistics, has agreed that available parts were not offered to the contractor engaged in production of the  $\frac{3}{4}$ -ton truck until we called this matter to the attention of Army officials. The Army, however, does not agree with our estimate of the unnecessary costs incurred because it believes that (1) the significance of any savings resulting from contractor acceptance of Government-furnished material is now only a matter of conjecture and (2) our computation included \$541,000 for parts still in the supply system for which there is potential use.

While it is impossible to determine the extent of contract price reductions that might have been negotiated if the parts had been utilized, we believe that our computation of unnecessary costs is a reasonable estimate since the Army's experience in the past has been that such reductions average 70 percent of its costs for the parts.

With respect to the parts still in the supply system, we believe it is likely that they will eventually be disposed of as surplus material because (1) the Army discontinued procurement of the  $\frac{3}{4}$ -ton truck in 1964 and (2) these parts represent quantities in excess of the Army's spare parts requirements for vehicles currently in the supply system.

We recommended that tank-automotive center officials review their internal procedures to determine whether management personnel require additional guidance with respect to the types of policy questions that should be brought to the attention of the commanding officer for his review.

Index No. 44, C-65-178.

B-146912, May 21, 1965.

Excessive payments of temporary lodging allowances to uniformed personnel on the island of Oahu, Hawaii, Department of Defense and Department of the Treasury.

Our review of the payment of temporary lodging allowances in Hawaii disclosed that military servicemen have received an estimated \$2 to \$3 million annually in excess of the above-normal expenses incurred by them while occupying temporary lodging.

These excessive payments have occurred primarily because the authorized daily temporary lodging allowance rates are unrealistically high. The rates, which vary from \$9 a day for a serviceman without dependents to \$27 a day for a family of four or more persons, are designed to reimburse military personnel for extraordinary expenses incurred while they and their families are living in expensive temporary accommodations in overseas areas upon initial arrival or immediately preceding their departure. The rates are based on the premise that servicemen and their families live in hotels and eat in public restaurants, thereby incurring substantial above-normal living costs.

However, our tests showed that almost 100 percent of the servicemen in the Army, Navy, Air Force, Marine Corps, and Coast Guard, who had received these temporary lodging allowances, had actually resided in apartment-hotel units, most of which were in the Waikiki Beach resort area and had adequate cooking and dining facilities. Most servicemen further minimized their meal costs by purchasing food in military commissaries where prices are about one-third lower than those of local stores.

The condition under which servicemen can live in reasonably comfortable accommodations in a highly desirable resort area, while receiving allowances in excess of their costs, provides an incentive to stay in a temporary lodging allowance status longer than necessary. This, in turn, has placed a heavy burden on responsible officials in Hawaii to reduce these periods as much as possible. Although, as a result of our reviews, the military commands in Hawaii have strengthened their administrative procedures, we believe that a realistic reduction in rates would automatically further reduce the administrative burden and result in substantial savings to the Government.

The Department of Defense, in commenting on our findings, did not agree that the temporary lodging allowance rates were excessive.

We believe that, in addition to savings resulting from reducing the daily rates for temporary lodging allowances, the overall costs to the Government could be further reduced by leasing apartment-hotel accommodations from private owners at Government expense and making them available to a portion of the uniformed personnel and their dependents who would otherwise be receiving payments of temporary lodging allowances.

We have estimated that on an average day about 1,000 uniformed personnel, plus their dependents, live in temporary accommodations on the island of Oahu and receive a total of about \$22,000 a day or \$8 million a year in temporary lodging allowances. We believe that, because of the extent to which apartment hotels in Hawaii are occupied by military personnel in a temporary lodging status, and the owners' desire to keep their units as close to full occupancy as possible, the uniformed services should be in an excellent position to negotiate annual leases of entire apartment hotels or specified units at rental rates significantly lower than the daily rates now being charged. Both the Department of Defense and the Department of the Treasury have indicated a willingness to jointly institute a study of this matter in Hawaii, but they have informed us that existing laws do not provide them with authority to lease apartment-hotel accommodations under the conditions described in our report.

We made the following recommendations concerning the administration of temporary lodging allowances in Hawaii:

1. That the Secretary of Defense direct the Per Diem Travel and Transportation Allowance Committee to establish temporary lodging allowance rates for uniformed personnel in Hawaii that realistically reflect the above-normal costs of residing in temporary accommodations, and that the joint travel regulations be revised accordingly.

2. That the Secretary of Defense and the Secretary of the Treasury jointly institute a study to ascertain the desirability and feasibility of leasing apartment-hotel accommodations in Hawaii to house uniformed personnel and their dependents until permanent quarters become available.



3. That, if the study proves the leasing of accommodations to be feasible and desirable, the Secretary of Defense and the Secretary of the Treasury take steps to obtain any legislation that would be required.

We recommended that the Secretary of Defense institute an examination, on a worldwide basis, of the temporary lodging allowance program, giving consideration not only to deficiencies in administrative control but also to the reasonableness of the daily rates established in the joint travel regulations.

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Index No. 45, C-65-179.  
B-133025, May 25, 1965.

Unnecessary procurement of air passenger service of scheduled commercial Airliners from Japan and Korea to the United States, Department of Defense.

We found that about \$1 million in unnecessary costs were incurred during the 16-month period ended April 30, 1964, because the military departments procured transportation on scheduled commercial airliners from Japan and Korea to the United States at times when seats on scheduled flights of the Military Air Transport Service either were empty or were occupied by "space available" passengers who were authorized to occupy the seats only if they were not otherwise needed. The Military Air Transport Service uses both military-owned aircraft and commercial aircraft under contract on its scheduled flights. The unnecessary costs resulted because Army, Navy, and Air Force transportation officers, beginning in July 1962, were authorized to procure seats on commercial airliners independently of the Military Air Transport Service without controls having been established to insure that the Military Air Transport Service did not have excess capacity on its flights which could have been used in lieu of commercial transportation.

The Department of the Air Force, in commenting for the Secretary of Defense on a draft of our report, questioned the feasibility of diverting passengers from commercial to military flights and advised us that the occasional procurement of more space than is actually used is justified because the savings derived from not having to maintain facilities to process traveling personnel outweigh the cost of excess space procured. During the period of our review, however, more than 13,000 seats on military flights either were not used or were occupied by passengers who were entitled to use them only if they were not otherwise needed. We do not regard this as the "occasional" procurement of more space than is actually used. Further, we believe that, if there was effective centralized control of military air transportation, substantially greater use of the available space on the military flights could be made without any need for maintaining extensive facilities to process traveling personnel.

Effective April 1, 1964, the Air Force instructed its transportation officers not to procure commercial air transportation when suitable space was available on Military Air Transport Service flights. The Air Force also advised us of other actions which it had taken to reduce the unnecessary procurement of commercial air transportation for Air Force personnel. However, we have had no indication that the other military services have taken similar action despite the fact that over 80 percent of the total commercial air transportation used during the period of our review was procured by Army transportation officers.

We recommended that the Secretary of Defense provide for centralized control over military passenger air transportation by designating a single authority and assigning it sole responsibility for (1) coordinating the requirements of the respective military departments for passenger space, (2) determining the needed space, including seats on scheduled commercial flights, if necessary, and (3) assigning passengers to flights. We also recommended that the Secretary of Defense direct that this single authority require passengers to use available seats when this would result in a net savings to the Government and satisfy the requirements of the military services.

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Index No. 46, C-65-180.  
B-139011, May 26, 1965.

Loss of revenue resulting from inadequate negotiations for communication services between Alaska and the U.S. mainland, Department of the Army.

Our review of negotiations between the Government-owned Alaska Communication System and the American Telephone & Telegraph Co., for jointly provided communication services, disclosed that the Government has lost at least

\$445,000 because Army representatives failed during negotiations to provide for the application of revised revenue-sharing arrangements retroactive to the dates when the company's costs were significantly reduced through the installation of automatic dialing equipment. As a result, the company received revenue from January 1959 to June 1961 that should have been received by the Government. This occurred despite the fact that the company had initially proposed a retroactive adjustment and responsible Army officials knew prior to final negotiations that such an adjustment would result in additional revenue to the Government. The loss of revenue to the Government is basically attributable to the failure of Army officials to adequately consider available information in conducting negotiations with the company.

A vice president of the American Telephone & Telegraph Co. commented on our findings and stated in essence that our conclusions were unwarranted because we looked at only the interconnection agreement portion of the compensation to the company from its mainland-Alaska operations, that the compensation received by the company under a cable agreement had to be considered also, and that the imbalance in rates of return under the interconnection agreement and the cable agreement would be eliminated if the schedule of compensation to the company under the interconnection agreement was reduced and the circuit capacity of the cable was increased with no change in the unit compensation for the cable agreement.

The Deputy Assistant Secretary of the Army (I. & L.) Logistics also disagreed with our findings. He contended (1) that our report failed to recognize significant differences in certain proposals and counterproposals, (2) that responsible Army officials exercised due diligence, good judgment, and foresight throughout the negotiations, and (3) that the executed agreement not only was in the best interest of the Government when negotiated but subsequently resulted in tremendous overall savings and added revenue to the Government.

We cannot agree with the positions taken by the company and the Department of the Army because our review disclosed that (1) the company had proposed a rate of return of about 4.5 percent on its cable investment as being acceptable at the time that the agreement was executed but was realizing a return of 5.2 percent at the time revision of the interconnection agreement was being negotiated, (2) the trend of progressively increasing earnings from the cable agreement was clearly in evidence, particularly since the cable capacity had been fully utilized 7 years earlier than originally anticipated, and (3) the company had computed its required net operating income for the interconnection agreement at 8 percent of its net investment although it realized a return of about 10.3 percent subsequent to installation of automatic dialing equipment. Therefore, we believe that, had responsible Army representatives obtained and properly evaluated all pertinent data during the period of negotiations, a retroactive revision to the interconnection agreement could have and should have been negotiated.

We recommended that the Secretary of Defense reevaluate the position taken by the Department of the Army and initiate the actions necessary to recover the unwarranted revenue received by the American Telephone & Telegraph Co. We further recommended that our report be brought to the attention of Department of Defense contracting officials to emphasize the importance of adequately protecting the Government's interests in contract negotiations.

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Index No. 47, C-65-181.

B-146997, May 26, 1965.

Unnecessary procurement of HAWK and NIKE-HERCULES missile spare components because of deficiencies in requirements computations, Department of the Army.

Our review of the procurements by the Army Missile Command of \$612,000 worth of missile components that were disposed of as excess during 1962 and 1963 and \$196,000 worth of similar excesses that were awaiting disposal in August 1964 disclosed that at least \$376,000 worth of the excess components had resulted from procurements that were unnecessary. These unnecessary procurements occurred because of deficiencies in the requirements computations, in that the responsible commodity managers at the Missile Command had not considered in these computations quantities that were already on order. Furthermore, the deficiencies were not detected in the supervisory review of the requirements computations.

We found that the information on quantities already on order, which the commodity managers had failed to use in their requirements computations, was readily available in their own files or from other Missile Command sources. We concluded, therefore, that the unnecessary procurements were the result of inadequate performance of their jobs by responsible commodity managers and inadequate supervisory review.

Although the Missile Command's operating procedures provided for various levels of supervisory review and approval of supply studies, depending on the dollar amount of the recommended supply actions, supervisors had no written guidelines for their use in reviewing supply control studies and were not required to document the nature and the extent of their reviews. We proposed, therefore, that the Missile Command strengthen its procedures for supervision of supply commodity managers and that periodic critical reviews be made to determine whether commodity managers and their supervisors are adequately discharging their responsibilities.

In March 1965, the Missile Command issued an internal directive for the purpose of outlining specific responsibilities in the preparation, review, and authentication of supply control studies. This directive lists eight important elements of a supply control study that supervisors should verify as a minimum. We believe that the issuance of this directive is generally responsive to our conclusions in our report, in that the directive establishes guidelines for the supervisory review of supply control studies. We recommended, however, that the Missile Command establish in conjunction with these guidelines some form of a checklist on which the supervisors indicate their performance of the individual review steps.

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Index No. 48, C-65-182.

B-146999, June 2, 1965.

Duplicate payments to Westclox Division of General Time Corp., for artillery fuzes destroyed in testing, Department of the Army.

Our review of contracts awarded to the Westclox Division of General Time Corp., La Salle, Ill., revealed that the Government incurred additional costs of \$205,000 because the contractor received duplicate payments for artillery shell fuzes destroyed during testing. Department of the Army contracting officials negotiated contract prices that included percentage factors to reimburse the contractor for the production costs of fuzes it was required to extract from each lot manufactured and to destroy during certain tests. In addition, the contract specifications erroneously contained a clause that permitted the contractor to bill the Government for these same test fuzes as if they had been delivered to the Government. The duplicate payments were caused by the fact that a contractual billing provision, inconsistent with the intent of the parties, was included in a technical specification incorporated by reference into the contract and by the fact that Government procurement officials failed to note the inconsistent provisions.

The Department of the Army advised us that it agreed with our findings and has instituted action to recover the duplicate payments. In addition, the Army informed us that procedures of the procuring office had been tightened to prevent a recurrence of this type of erroneous payment. In this connection, we recommended that the Secretary of Defense issue instructions for all procurement agencies in the Department of Defense to review technical specifications to determine if they contain contractual provisions relating to the payment for test items which might give rise to the type of situation discussed in our report.

In commenting on our findings, the attorneys for the contractor advised us that, in their opinion, Westclox was under no legal obligations to make a refund because the billings were in strict accordance with the contract terms. However, they further stated that Westclox recognized an equitable obligation to negotiate a settlement. We are of the opinion that the facts in this case clearly illustrate that the parties did not intend for the test fuzes to be billed separately and that Westclox therefore has an obligation to make a full refund to the Government.

Index No. 49, C-65-183.  
B-156521, June 4, 1965.

Loss of time discounts on payments made by the Los Angeles Contract Management District, Department of the Air Force.

Our review of invoice payment practices at the Los Angeles Contract Management District, California, disclosed that the Air Force was incurring additional costs because the Los Angeles district was not taking full advantage of time discounts offered on invoices processed for payment. During the 12-month period ended October 31, 1963, the Los Angeles district paid invoices on which about 30,370 time discounts totaling \$307,500 were available. About 29 percent of these discounts—8,945 totaling \$79,000—were lost. This loss of available discounts was due in part to the late receipt of pertinent documents at the district, lack of priority-handling procedures to insure payment within the discount period, and failure to follow regulations prescribing that discounts offered on individual invoices be taken even when contracts do not provide for such discounts.

Our review indicates that there were inadequate control, supervision, and review of this aspect of the Los Angeles district invoice payment process. We believe that more effective management control and supervision would have disclosed the extent to which discounts were being lost at the district, identified the deficient procedures contributing to the losses, and prompted appropriate corrective action.

We found that these weaknesses in payment procedures existed even though they had been brought to the management's attention by an Air Force auditor general's report issued 2 years prior to our review. The Air Force has stated that the primary cause of these deficiencies was insufficient manpower to cope with a rising workload and that the deficiencies could not be corrected by the district until such time as additional manpower became available and was adequately trained. The Air Force stated that these conditions continued to exist after they were cited by the auditor general because additional personnel were not available for the district, even though the need had been acknowledged by higher headquarters.

This shortage of manpower may have prevented correction by the district of some of the deficiencies cited by the auditor general. However, it seems evident from the nature of many of the losses that considerable corrective action could have been accomplished and many of the losses could have been avoided through additional training of personnel, clarification of instructions, or closer supervision. These actions could have been taken by district management officials without additional personnel.

We have been advised by the Air Force that the manpower and workload problem at the district has been resolved and that action has been taken to establish better controls and more effective supervision and review procedures in order to eliminate the unsatisfactory conditions disclosed by our review. We were also informed that instructions have been issued to insure compliance with pertinent regulations and that continuing emphasis will be placed in this area of expenditure to further improve the situation.

Index No. 50, C-65-184.  
B-146973, June 11, 1965.

Possible additional costs resulting from failure to competitively procure gasoline engines for the military 5-ton truck, Department of the Army.

In our review of the procurements of gasoline engines for the military 5-ton truck, we found that the Government may have incurred additional costs estimated at \$2.2 million because the Department of the Army procured the engines noncompetitively. The Army had purchased, at a cost of \$23,000, manufacturing drawings that were intended for use in developing competitive sources of supply; however, the Army did not utilize the drawings because it did not wish to expend the time and effort necessary to prepare them for use with bid specifications required in obtaining competitive bids. The basis for this decision was that the gasoline engine was being phased out of the supply system and the Army believed that this fact would discourage new producers from competing for the procurements. We found, however, that (1) the purchased drawings could have been used to obtain competition; and (2) there was sufficient time between the date the drawings were received by the Army and the date of the next truck procurement to plan for competitive procurement of the engine.

Subsequent to the date the drawings were obtained, prime vehicle manufacturers purchased engines valued at \$13.5 million and the Government procured spare engines valued at \$7.1 million. On the basis of the savings realized through competitive procurements of other truck engines, we estimate that the failure to obtain competition for procurements of the gasoline engine for the 5-ton truck may have resulted in additional costs of \$2.2 million.

In commenting on our finding, the Deputy Assistant Secretary of the Army (Installations and Logistics) stated that the Department of the Army did not agree that additional costs had been incurred for gasoline engines. In general, the Army informed us that, because the vehicle contracts were awarded on the basis of competitive bids, the vehicle manufacturers would have sought the lowest possible price for the engines by comparing the subcontractors' prices with the cost of manufacturing the engines in their own plants. Also, the Army believed that (1) because of the limited requirements, engine purchases would not have been sufficient to bring forth a qualified source to compete for the gasoline engine contracts; and (2) our basis for computing additional costs was questionable. Continental Motors Corp., the manufacturer of the gasoline engine, also made similar comments on our finding.

The fact that there was competition for the 5-ton truck contracts did not guarantee that the Army had obtained a competitive price for the engine, because the provisions of the requests for quotations and the contracts effectively discouraged the vehicle contractors from attempting to develop additional sources of supply for major components. These provisions required that major components procured from new sources of supply be subjected to a series of extensive tests and that any delays in production and delivery of the vehicles due to attempts to qualify new sources would be the responsibility of the contractor.

In view of the fact that engines valued at over \$20 million were procured, we believe that the failure to attempt to obtain competition cannot be justified by the statement that, because of the limited requirements, engine purchases would not have been sufficient to bring forth qualified sources to compete. Furthermore, there are numerous factors other than profits, such as excess plant capacity and the desire to gain production experience, that influence contractors to submit bids on Government contracts. With regard to our estimate of possible additional procurement costs, we believe that the use of 11 percent as a basis for our computations is conservative, since Department of Defense officials on numerous occasions have informed the Congress that savings resulting from competitive procurements average about 25 percent.

We recommended that the Secretary of the Army take action to insure that, in the future, Army officials fully evaluate and use available manufacturing drawings for competitive procurements in similar situations.

Index No. 51, C-65-185.

B-146993, June 15, 1965.

Unnecessary costs incurred in the indirect procurement of selected aircraft subsystems for A-5 type of aircraft, Department of the Navy.

Our review of the procurement of selected subsystems for installation in the A-5 type of aircraft disclosed that, during a 2-year period ended June 30, 1963, North American Aviation, Inc., an airframe manufacturer, received substantial fees for procuring five subsystems which the Navy could have purchased from the actual equipment manufacturers and supplied to North American as Government-furnished equipment. Had the Navy authorized the direct procurement of these five subsystems after they were determined to be of acceptable quality and furnished them to North American as Government-furnished equipment, it could have realized savings of about \$189,000, or a substantial portion thereof, through the elimination of fees allowed North American on the purchase cost of these items.

Furthermore, our review disclosed that the Bureau of Naval Weapons had allocated, under the fourth A-5 production contract with North American, over \$32.3 million for spare parts needed to support operating A-5 type of aircraft. This airframe manufacturer has subcontracted or plans to subcontract for parts amounting to about \$23 million of this allocation. We estimate that North American will receive as fees about \$2.4 million on the purchase cost of these spares. It seems likely that, when the fourth production contract was negotiated which was about 7 years after the initial contract for A-5 airplanes, most of the spare parts would be for support of items of equipment whose design had been

stabilized and could be readily obtainable by the Navy from the actual equipment manufacturers. The exact number of subcontracted spare parts that are susceptible of direct or competitive procurement by the Government is not known and cannot be conclusively established without reviewing each item to determine if North American performed services that would warrant its continued participation in the procurement of these items.

Despite our findings on certain items of equipment discussed in prior reports, the military services have disagreed with our conclusions as to the advisability of providing these items as Government-furnished equipment and have continued to purchase the items through weapon system manufacturers at a substantial cost to the Government. The prime contractors in many of these instances were allowed the same fee on subcontracted equipment, where effort and risk are somewhat less, as they were allowed on their own design and manufacturing effort. In such cases, it appears more desirable to limit the fees paid by the Government to an amount which realistically compensates the contractor for its effort and risk involved rather than to base the fee on the cost of the items involved.

A subsequent revision to the Armed Services Procurement Regulation to provide for the allowance of lower profit rates on subcontracted material and a Department of Defense policy statement that the profit rates so allowed should recognize the degree of contribution and risk required of the prime contractor would appear to be a substantial improvement over the prior regulation and policy. However, the application of the profit rates presently authorized on the value of subcontracted material, in the absence of specific criteria and controls, could result in the allowance of profits to the prime contractors in excess of those justified by their actual contributions and risk.

Accordingly, we recommended that the Secretary of Defense give consideration to the establishment of necessary criteria and controls to insure that the fees negotiated with contractors for the procurement of items of equipment are based on the contractors' actual contributions to the design, development, and manufacture of the subcontracted items with less emphasis on the cost of the items involved. In addition, we requested that the Secretary of the Navy furnish us with the results of the Navy's review of spare parts for the A-5 type of aircraft. The effectiveness of these actions will be tested as a part of our continuing review of the activities of the Department of Defense.

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Index No. 52, C-65-186.

B-146846, June 17, 1965.

Overstated costs included in price of nuclear components through failure to obtain and review subcontract cost data during contract negotiations, Department of the Navy.

In our examination of the procurement of nuclear components purchased from Combustion Engineering, Inc., by Westinghouse Electric Corp. under Department of the Navy cost-plus-a-fixed-fee contracts, we found that the negotiated price of two subcontracts included overstated costs of about \$216,000. Included also were amounts to cover general and administrative expenses and profit by the use of a markup rate significantly higher than that used by Combustion Engineering and other suppliers of nuclear equipment. Further, the reasonableness of Combustion's proposed price on a third subcontract was not determined at the time of negotiations, since the Navy compared this price with an estimate based on an earlier subcontract price which we found included overstated costs of about \$183,000.

Westinghouse did not obtain or review Combustion's cost estimates; therefore, in negotiations, Westinghouse was not in a position to identify or exclude any of the overstated amounts included in Combustion's proposed prices. The Navy consented to the award of the subcontracts to Combustion by Westinghouse even though a review and evaluation had not been made by Westinghouse. Had the Navy required Westinghouse to review Combustion's cost data or had the Navy made its own review of the cost estimates, a basis would have existed for the negotiation of lower prices for the subcontracts.

After being advised of our findings, Westinghouse stated that the price had been established on the basis of adequate competition and existing procurement instructions. The Navy concurred in this view and advised us that it did not propose to seek a refund from Combustion because the actions of the contracting officials were neither imprudent nor unreasonable. Accordingly, no action has

been taken to date by either Westinghouse or the Navy to recover for the Government the overstated amounts disclosed by our review.

The competition obtained in these procurements was far too limited to provide assurance that the prices proposed by Combustion were reasonable. In this respect we found that the bidding was limited to selected vendors and that firm requirements did not exist in these procurements. Moreover, the competitive aspects of the procurements were not analyzed at the time of negotiations. Similarly, price analysis through price comparisons could not be considered an effective means of determining the reasonableness of Combustion's prices, since the components were specialized and price differentials were not investigated. In this respect we also found that the fact that the price comparisons revealed the prices to be close did not establish the reasonableness of the prices because of the incomparability of the subcontracts involved.

We believe that the overpricing in this case can be attributed, in large measure, to the fact that the procurement regulation in effect at the time neither contained reasonable instructions as to what constituted effective price competition nor commented on the need for contracting officials to analyze all material conditions affecting the prices when they made an analysis of the quoted price. Had adequate instructions been in existence at the time of this procurement, it seems likely that neither Westinghouse nor the Navy would have accepted Combustion's prices without making 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 and what adjustments are necessary for price comparisons. We will review the application of the revisions to the regulation in future examinations.

Under the terms of the Navy's prime contracts with Westinghouse, a designated representative of the Comptroller of the Navy has responsibility for making the determination of allowable costs under the applicable prime contracts with Westinghouse and, therefore, the extent to which Westinghouse should be reimbursed for these subcontract prices. We understood that such determinations had not been made insofar as the contracts discussed in our report were concerned. Accordingly, we recommended that the designated representative of the Comptroller of the Navy reconsider, in final settlement, the propriety of reimbursement to Westinghouse of appropriate portions of the payments made to Combustion Engineering, Inc., in light of the information contained in our report.

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Index No. 53, C-65-187.

B-146756, June 24, 1965.

Unnecessary costs incurred in accelerating construction of Polaris submarines, Department of the Navy.

The Department of the Navy incurred unnecessary costs of over \$2.8 million because the Bureau of Ships directed two private shipbuilders to accelerate construction of four POLARIS submarines to achieve ready-for-sea dates in advance of those planned by the other Navy groups participating in the POLARIS program. The action taken by the Bureau of Ships was made possible as a result of the absence of an effective coordinating authority over the acceleration of the program. After the first submarine was delivered, it was found that the fleet could not use the submarine any earlier than the other Navy groups had planned. It was determined that the crews and special equipment needed for the remaining three submarines would not be available to support the ready-for-sea dates that the Bureau of Ships had directed the shipbuilders to achieve. As a result, at the direction of the Chief of Naval Operations, the Bureau of Ships directed the shipbuilders to decelerate construction in order to achieve the ready-for-sea dates planned by the other Navy groups. By this time, however, unnecessary costs had been incurred.

Our findings indicated that, in the absence of an effective coordinating authority over the acceleration of the POLARIS program, the Bureau of Ships had sufficient authority to act without coordinating its actions with the other groups participating in the program. Consequently, in apprising the Secretary of Defense of our findings, we proposed that, to preclude the recurrence of events such as those discussed in this report, the Secretary of the Navy establish within his Office a permanent group that will be responsible for coordinating the actions taken in the performance of programs, such as the POLARIS program, where the separate efforts of a number of individual groups are required for the accomplishment of common goals. We proposed also that this permanent group be given authority

to review and pass upon actions to be taken to implement major management decisions affecting such programs, in order to ensure that such actions are coordinated with other actions affecting the programs and that further unnecessary costs like those discussed in our report will not be incurred.

In commenting on our findings, the Department of the Navy pointed out the recognized accomplishments of the POLARIS program which were made possible by the all-out effort of all cognizant Navy groups, under the coordination of the Director, Special Projects Office. The Navy nevertheless agreed that it undoubtedly could have limited the cost aspects of its acceleration effort more effectively through better coordinated planning and through the use of more precise management techniques.

With respect to the management improvements we had proposed, the Navy advised us that steps had already been taken, or were in process, to improve the overall effectiveness of the project management concept and that these actions substantially satisfy the objectives of our proposals. In view of the Navy's statements of management improvements made, or in process, we did not make any recommendations on this matter.

Index No. 54, C-65-188.

B-133025, June 24, 1965.

Unnecessary procurement of air passenger service on scheduled commercial airliners from Europe to the United States, Department of Defense.

Over \$2.2 million in unnecessary costs were incurred by the Departments of the Air Force and the Army in providing their personnel with air passenger service from Europe to the United States. The costs resulted from the use of transportation on scheduled commercial airliners at times when seats on scheduled Military Air Transport Service flights either were empty or were occupied by "space available" passengers who were not traveling under military orders and, consequently, were authorized to occupy the seats only if they were not otherwise needed. The Military Air Transport Service uses both military-owned aircraft and commercial aircraft under contract for its scheduled passenger service.

More than \$1.7 million of the total unnecessary costs were incurred during the 18-month period ended June 30, 1963, for commercial seats procured for passengers traveling from Frankfurt, Germany, Paris, France, and London, England, to the United States. For example, we found that during that period 5,122 passengers departed on commercial airliners from Frankfurt to New York City who could have used available seats on Military Air Transport Service flights from Frankfurt to McGuire Air Force Base, near New York City. Since the occupancy of these seats on Military Air Transport Service flights would not have resulted in additional cost to the Government, the cost for the commercial transportation of \$161.20 per passenger was unnecessary.

The remaining unnecessary costs identified, which amounted to over \$500,000 were incurred during fiscal year 1963 for seats procured on scheduled commercial airliners by Air Force and Army transportation officers operating independently of the Military Air Transport Service. Most of these seats were on airliners flying direct to the United States from countries in Europe in which the Military Air Transport Service did not have air passenger terminals. More economical transportation could have been obtained by routing passengers to the military terminal at Frankfurt or Paris on commercial flights and utilizing available seats on flights of the Military Air Transport Service leaving these terminals for the United States.

In determining transportation requirements and assigning passengers to flights, the transportation officials of the different military services operated independently and no single authority was charged with the responsibility of coordinating the requirements of the services and making maximum utilization of the space available on Military Air Transport Service flights.

The Department of the Air Force, in commenting for the Secretary of Defense on a draft of our report, advised us that the advantages of the present system of providing space for travelers, particularly the savings resulting from not having to maintain facilities to process traveling personnel, outweigh the occasional procurement of more space than is actually used. However, during the period of our review, about 24,500 seats on military flights either were not used or were occupied by passengers entitled to use them only if the seats were not otherwise needed. We do not regard this as the "occasional" procurement of more space than is actually used. Further, as shown in our report, substantially greater



use could be made of available space on Military Air Transport Service flights without any need for maintaining extensive additional facilities for the travelers.

The Air Force comments dealt extensively with the reasons for current practices, the improvements made in the past few years, and general actions being taken to further improve the utilization of space on flights of the Military Air Transport Service. The Air Force advised us that action had been taken to form a working group to develop an Air Force passenger movement system which integrates all actions concerned with movements of passengers. This may be a step in the right direction; however, this action applies to only one military service and there is no indication that the Department of Defense has taken any specific steps to require all the military services to use available space on Military Air Transport Service flights when this would provide satisfactory service and result in savings to the Government.

We recommended that the Secretary of Defense provide for centralized control over military passenger air transportation by designating a single authority and assigning it sole responsibility for (1) coordinating the requirements of the respective military departments for passenger space; (2) determining the needed space, including seats on scheduled commercial flights, if necessary; and (3) assigning seats to passengers. We recommended, also, that the Secretary of Defense direct that this single authority require duty passengers to use available seats on Military Air Transport Service flights when this would result in net savings to the Government and would satisfy the requirements of the military services.

Index No. 55, C-65-189.  
B-154814, June 25, 1965.

Patent royalty costs improperly charged for use of auxiliary fuel tank invention developed under Government contracts with Lockheed Aircraft Corp., Burbank, Calif., Department of Defense.

Our examination into an invention relating to wingtip auxiliary fuel tanks for airplanes disclosed that the Government has unnecessarily incurred about \$82,500 in patent royalty expense because Lockheed Aircraft Corp. (Lockheed), Burbank, Calif., improperly determined that the Government was not entitled to royalty-free use of the invention. The invention was developed by Lockheed in the performance of Department of the Air Force contracts which by their terms gave the Government a royalty-free license to use the invention. The Air Force, although it did not agree with Lockheed's unilateral determination concerning the invention, did not follow through to enforce the license rights granted to the Government under the contract terms. As a result, royalties for use of the invention were charged to the Government under contracts with Lockheed's licensees.

During our review, the Air Force withheld from payments due Lockheed under a current contract an amount sufficient to cover the royalties improperly charged to the Government and Lockheed thereafter proposed to negotiate a settlement. Lockheed still contends, however, that the Government's rights to the invention, if any, are limited to use on a particular type of airplane and that the royalties in question were properly charged and retained.

We informed the Department of Defense of our findings in this matter and proposed (1) that the Air Force make final settlement of this matter based on full recovery of all royalties improperly charged to the Government and a charge for interest at the rate of 6 percent a year on the royalties received by Lockheed; and (2) that the Department of Defense bring this report to the attention of audit, contracting, and patent officials of the military services as an example of the need for the assertion and enforcement of the Government's royalty-free license rights so as to avoid improper patent royalty payments.

In commenting on our proposals, the Air Force, on behalf of the Secretary of Defense, advised us that, in view of the legal questions involved, a negotiated settlement would be preferable to preemptory action which would undoubtedly result in costly adjudication and that our office would be advised of the progress of the negotiations and the terms of any settlement deemed proper before it was effected. We were advised, also, that our report would be brought to the attention of audit, contracting, and patent officials throughout the Department of Defense.

From a review of the available records, we believe that the Government obtained a royalty-free license to the wingtip auxiliary fuel tank invention and that such license was not limited to use on particular types of airplanes. Accord-

ingly, it was our opinion that the Government should receive full recovery of the patent royalties improperly charged to the Government by Lockheed's licenses, and that interest at the rate of 6 percent a year should be charged on the royalties received by Lockheed. Inasmuch as this matter has been in dispute since 1950, we stated our belief that it should be settled as promptly as possible.

Index No. 56, C-65-190.

B-148772, June 28, 1965.

Failure to obtain and consider cost data in the procurement of HY-80 steel plate used in the construction of nuclear submarines, Department of the Navy.

The Department of the Navy and its prime shipbuilding contractors have purchased over \$100 million worth of HY-80 steel plate almost entirely from two producers, the United States Steel Corp., Pittsburgh, Pa., and Lukens Steel Co., Coatesville, Pa., at identical mill prices quoted by both companies in their catalogs. In our selective examination of negotiated procurements of HY-80 steel plate, we found that neither the Navy nor its prime shipbuilding contractors had obtained and evaluated cost data for the purpose of determining the reasonableness of the identical mill prices charged by these two companies. These companies constituted the principal available sources of supply for this essential material which is used almost exclusively in the construction of nuclear submarines and other naval vessels. These cost data properly certified by the contractors, in our opinion, should have been required and considered by the Navy and its prime shipbuilder in the negotiation of prices under the Armed Services Procurement Regulation prior to December 1, 1962, and under Public Law 87-653 thereafter.

The Navy advised us that its efforts to obtain such cost data from the contractors had been unsuccessful and that, in effect, it was placed in a position of either accepting identical catalog prices quoted by the companies or doing without this required material. We were unable to document the Navy's efforts to obtain cost data.

Our examination into the procurement of steel of the type herein involved disclosed that, for the type and quantities purchased under the contracts we reviewed, the total sales at catalog prices exceeded costs incurred by the companies, on a comparable accounting basis, by 14.5 percent in the case of United States Steel and 27 percent in the case of Lukens.

It was our position that, in view of the (1) identical catalog prices quoted by the suppliers; (2) limited sources of supply for HY-80 steel plate; and (3) almost exclusive use of HY 80 steel plate by the Navy and its prime shipbuilders, price competition was insufficient in the procurement of HY-80 steel plate to assure the reasonableness of the identical catalog prices quoted and that this is further demonstrated by the cost and profit differences between the two companies disclosed by our review.

We brought our findings to the attention of the Navy with proposals for corrective action. The Navy agreed with our proposals and advised us that, in the circumstances, all future procurements of HY-80 steel plate, or successor types of steel plate, by Navy and its prime shipbuilding contractors, would be negotiated on the basis of cost or pricing data submitted by the steel companies and that certifications will be requested in accordance with the provisions of the Armed Services Procurement Regulation. The Navy indicated that contractor refusals will be processed to higher authorities for resolution in accordance with the provisions of the Armed Services Procurement Regulation and related Navy procurement directives. In view of the Navy's indicated intention to fully comply with the provisions of Public Law 87-653 in the future procurements of HY-80 steel plate and successor types of plate, we did not make any recommendation. The effectiveness of the actions taken will be evaluated in our subsequent examinations of Navy procurement activities.

Index No. 57, C-65-191.

B-125037, June 29, 1965.

Erroneous dislocation allowance payments to military personnel who moved their house trailers at Government expense, Department of Defense.

We estimate that during fiscal year 1963 about 970 erroneous dislocation allowance payments amounting to over \$95,000 were made by the military services to military personnel who had house trailers moved at Government expense. These

erroneous payments were made because (1) servicemen submitted claims for dislocation allowance when they were not entitled to the allowance, (2) finance personnel did not exercise due care in processing such claims, and (3) the administrative procedures did not provide for notice to the paying finance offices that the servicemen had shipped their house trailers at Government expense.

We proposed that the erroneous payments of dislocation allowance be controlled by uniform regulations providing for notification to finance officers when a serviceman has claimed a trailer allowance or dislocation allowance and that internal auditors of the various services give special attention to the propriety of payments of dislocation allowance.

The Assistant Secretary of Defense (Comptroller) stated that the services would take action to give special attention to the propriety of dislocation allowance payments and that the voucher form to be used for payment of allowances in connection with permanent change of station was being revised so that its use, along with applicable regulations, would more directly advise both claimants and paying officers regarding the loss of entitlement to a dislocation allowance when a trailer allowance has been claimed. We also note, in the comments enclosed with the Assistant Secretary's letter, that the Departments of the Army and Air Force are providing for notation of a trailer allowance on the member's "record of travel-payments" and that the Department of the Navy is providing for the use of an endorsement of the member's orders to notify paying offices when a trailer allowance has been claimed.

Because we believe the actions being taken by the Army and Air Force will be principally effective as a means of detecting erroneous payments after they have been made, rather than preventing them in the first place, we recommended that a uniform procedure be prescribed similar to that of the Navy for use of the member's orders as a medium for positive notification to paying offices that the member has requested a trailer movement at Government expense.

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Index No. 58, C-65-192.

B-133313, June 30, 1965.

Possible additional procurement costs resulting from award of subcontract for radio antenna systems on a sole-source basis, Department of the Army.

Our review of procurements of certain frequency converters disclosed that the Department of the Army and the prime contractor, Adler Electronics, Inc., New Rochelle, N. Y., negotiated a prime contract price that included a price for the major subcontract item, an antenna system, on a sole-source basis without attempting to obtain competition from other sources. Although it is impossible to determine how the procurement costs to the Government were affected in this particular instance by the absence of competition, the Department of Defense has estimated that average savings of 25 percent or more can be obtained when competitive rather than sole-source procurements are made. At a 25-percent rate, the potential procurement savings in this case would have been about \$130,000.

These potential savings were not realized by the Government because procuring officials of the U.S. Army Electronics Command, Philadelphia, Pa., did not adequately evaluate the prime contractor's method of procuring the antenna system even though they were aware that the contractor was consistently failing to obtain competition in awarding its subcontracts and should have been aware that procurement data for the major portion of the antenna system were available.

The Department of the Army and the contractor did not concur with our finding, stating that the Government did not incur any increased procurement costs due to the failure to obtain competition in awarding the subcontract. They stated that the subcontractor was the only known qualified source for the antenna system and that because the frequency converters were urgently needed it was not practicable for the prime contractor to obtain competition.

We could not agree with the positions taken by the contractor and the Department of the Army because our review disclosed that the need for an urgent procurement was questionable; that there were many potential suppliers, one of which was producing the antenna portion of the system at less than half the price of the sole-source subcontractor; that procurement data for the most complex parts of the antenna system were available prior to negotiations with the prime contractor and that these data could have been used to solicit bids from other suppliers to determine whether delivery could have been made within the required time schedule and whether the price could have been reduced; and that, at the

time of this procurement, even the sole-source subcontractor was not a proven production source. Further, during discussions, a potential supplier informed us that the part of the antenna system for which procurement data were not available was not particularly complex and indicated that it was questionable whether technical data for that part would have been needed by vendors to manufacture the antenna system.

We made no recommendations because existing procurement regulations require that Government and contractor personnel perform a thorough and careful analysis of subcontract proposals, particularly when there is an absence of competition. We suggested, however, that our report be brought to the attention of Department of Defense procurement officials to emphasize the need for their continued alertness in this area.

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Index No. 59, C-66-1.

B-156733, July 15, 1965.

Failure to recover needed aircraft parts previously determined to be Government surplus, Department of the Army.

In our review of the effectiveness of certain procedures followed by the U.S. Army Aviation Material Command, St. Louis, Mo., we found that the command was not taking reasonable action to recover parts previously authorized for disposal when a subsequent need for these parts occurred. This was due primarily to the fact that the command's procedures provided for recovery of surplus parts only if requirements were determined to exist within 15 days after disposal had been authorized. After we advised command officials of the possibility that needed parts were still available at disposal activities, they revised their procedures to provide for recovery of parts within a 9-month period. Immediately thereafter, quantities of 152 surplus parts, valued at about \$185,000, were recovered and returned to depot stock. In addition, the Army, in reply to our draft report, advised us that the command had taken action to recover needed quantities of 92 additional surplus parts. The Army did not, however, specify the value of these parts.

Subsequent to the receipt of Department of the Army comments on our draft report, the Army Aviation Material Command further strengthened its recovery procedures by initiating a machine accounting program which will alert the supply analysts to the need for initiating recovery action as soon as a requirement occurs. We believe that the command's procedures, if properly implemented, will greatly reduce the disposal of needed surplus material.

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Index No. 60, C-66-2.

B-156819, July 26, 1965.

Review of the use of Government-owned aircraft by the Army Mobility Command and Army Tank-Automotive Center, Department of the Army.

We found that the Department of the Army was incurring additional costs of about \$138,900 annually because the Army Mobility Command and the Army Tank-Automotive Center were operating two Government-owned aircraft for transportation of personnel instead of requiring personnel to use available commercial airlines. The aircraft, which cost a total of about \$223,000, were justified on the basis that they were required to meet urgent mission demands that could not be satisfied by commercial means because of timing requirements or the locations involved.

Our review of flights for a 6-month period, however, failed to disclose any instances where the flights were of an urgent nature. Instead, the aircraft were used for nonurgent flights to destinations served daily by commercial airlines. For example, three officers and a civilian, under travel orders requested May 28, 1964, were flown from Detroit, Mich., to Washington, D.C., and returned on June 1, 1964. At that time there were 28 daily commercial flights to Washington and 31 daily flights returning to Detroit. Such use is contrary to Army regulations which prohibit the use of Army aircraft in competition with commercial air carriers. Further, in the event occasional urgent flights are necessary, charter air service is readily available.

We brought our findings to the attention of the Secretary of Defense and suggested that (1) the two airplanes and related operating personnel be reassigned to meet valid requirements of other activities and (2) a review be made of the use of

aircraft at other installations with the objective of eliminating any similar instances of inappropriate retention and use of Government aircraft.

The Deputy Assistant Secretary of Defense (Materiel Requirements) advised us on May 13, 1965, that the Department of the Army, after an evaluation of aircraft requirements of the Army Mobility Command and the Army Tank-Automotive Center, had directed the withdrawal of the two Government-owned aircraft and associated operating personnel as we had proposed. The Deputy Assistant Secretary further advised us that there is a Department of Defense study in progress which will review on a worldwide basis the assignment and use of mission-support aircraft.

Index No. 61, C-66-3.

B-133019, August 12, 1965.

Shipment of excess aeronautical spare parts to Oklahoma City Air Materiel Area by Air Force bases, Department of the Air Force.

The Government incurred transportation and handling costs estimated to be about \$390,000 during 1963 because Air Force bases made about 26,000 shipments of excess aeronautical spare parts to the Oklahoma City Air Materiel Area instead of disposing of them locally. Since inventories of these parts already exceeded estimated current and long-range needs, they were subject to disposal upon receipt at Oklahoma City.

Our review disclosed that the shipments were made because (1) Oklahoma City commodity management officials in many instances failed to follow Air Force regulations that required them to direct the bases to dispose of excess parts locally if air materiel area inventories of serviceable spare parts were sufficient to meet foreseeable needs, (2) Air Force regulations did not require commodity management officials to direct local disposition of excess reparable spare parts when the air materiel area's combined inventories of serviceable and reparable spareparts were sufficient to meet all foreseeable needs, and (3) in some cases Air Force base personnel failed to dispose of excess spare parts when directed to do so by commodity management officials.

In a letter dated April 9, 1965, the Deputy for Supply and Maintenance, Office of the Assistant Secretary of the Air Force (Installations and Logistics), stated that he concurred in our findings. He informed us that electronic data processing capability had increased throughout the Air Force subsequent to the period covered by our review and that Air Force activities had acquired a means of reporting local excesses to the appropriate air materiel area and in turn of receiving, within 14 days, disposition instructions from the commodity managers. He stated that instructions for processing serviceable excesses under the mechanized system had already been written and that Air Force commands were reporting serviceable excesses; however, because of the time required for system development and electronic data processing equipment programing, instructions for processing reparable excesses would not become effective until July 1, 1965.

The Deputy for Supply and Maintenance has stated also that air materiel area commanders have been instructed to make periodic evaluations of shipments received from bases and to closely monitor and assure compliance with present policies pertaining to disposition of excesses until the new policies utilizing electronic data processing equipment are published and the system is operating satisfactorily.

Index No. 62, C-66-4.

B-146911, August 12, 1965.

Review of collection of excess weight costs incurred in shipping household goods, Department of the Army.

During our review of the audited documents pertaining to selected shipments of household goods for servicemen which exceeded the authorized weight allowances, we found that the Finance Center, U.S. Army, did not make the proper collections for the excess weight charges. We estimate that, relative to approximately 4,100 shipments of household goods in calendar year 1962, excess weight charges of about \$266,000 were not collected and overcharges of about \$41,000 were erroneously collected from military personnel. The errors occurred because (1) the procedures for identifying overweight shipments were ineffective, (2) the controls over collections for identified excess-weight cases were inadequate, (3) clerical and mathematical errors remained undetected as there were no provisions

for verifying the accuracy of computations, and (4) the supervisory review was inadequate.

In advising the Secretary of Defense of our finding, we proposed that the Secretary of the Army be directed to conduct a complete review of the Finance Center's system for determining excess weight shipments and for billing; institute appropriate improvements to strengthen Finance Center controls; and establish at the Center a system for reporting common types of errors and taking followup action, designed to eliminate basic causes of errors. We also proposed that our finding be brought to the attention of appropriate officials of the Navy for the purpose of determining whether similar deficiencies existed in that Department.

In commenting to the Deputy Assistant Secretary of Defense on our finding, the Department of the Army stated that the Commanding General of the Finance Center had instituted a review of this area of operations to correct the deficiencies involved and improve the quality of performance in processing charges for excess weight to Army and Air Force members. The Army stated further that as a result of the review, more detailed instructions had been provided in the written procedures and that supervision of examiners' work had been strengthened by providing for a 100-percent review of each clerk's work for 1 day out of every 6 to 8 days. The Army commented also that the improved review procedures would provide a basis for detection of error trends and for instituting improvements in procedures and training. In addition, the Army stated that it would continue to monitor excess weight determination and collection and to take further remedial action as may be needed.

The Department of the Navy advised the Deputy Assistant Secretary that the procedures concerning excess weight shipments in effect at the Navy Finance Center had been reviewed in the light of our finding and were considered adequate to prevent the deficiencies we cited.

Index No. 63, C-66-5.

B-156639, August 12, 1965.

Cost of indirect procurement of F-105 aircraft multiple-ejector bomb rack assemblies, Department of the Air Force.

The Department of the Air Force incurred increased costs of about \$727,000 because procurements were made from the manufacturer of the F-105 aircraft rather than directly from the manufacturer of the bomb rack assemblies.

The Aeronautical Systems Division, Wright-Patterson Air Force Base, Ohio, and the Mobilic Air Materiel Area, Brookley Air Force Base, Ala., procured these bomb rack assemblies from Republic Aviation Corp., the manufacturer of the F-105 aircraft, rather than from Douglas Aircraft Co., the manufacturer of the bomb rack assemblies. The increased costs mentioned above consisted solely of the amounts Republic added as profit to the amount it paid to Douglas for production of the bomb rack assemblies and related spare parts.

This equipment was not purchased directly from the manufacturer even though it was (1) designated as uninstalled or loose equipment and (2) not to be used in production by the aircraft manufacturer.

In commenting on our preliminary draft report, the Acting Deputy Assistant Secretary of Defense (Procurement), Office of the Assistant Secretary of Defense, stated that the Air Force advised him that in August 1961 the exigencies of the world situation necessitated prompt attainment of the increased conventional bombing capability for the F-105. He further stated that, because of anticipated engineering changes and design modification, it was decided that an arrangement which would make Republic responsible not only for the necessary engineering to redesign and modify the Douglas bomb rack assembly but also for supervising the acquisition of the bomb rack assembly, was justified.

We are aware that the Air Force had a need to increase the conventional bombing capability of the F-105, and we did not take issue with its decision to utilize the technical knowledge of the aircraft manufacturer to provide engineering services incident to the redesign and modification of the Douglas bomb rack assembly. The records show, however, that the Air Force agreed to pay Republic for the necessary changes required in the aircraft and for the design, tooling, testing, and inspection of the bomb racks as separate items under the production contract. Thus, had the Air Force elected to procure directly from Douglas, the Air Force could have still retained the contractual coverage under the production contract which required Republic to insure that the bomb racks fit the aircraft and performed adequately.

The Air Force stated that modifications required on the Douglas bomb rack to meet F-105 bombing requirements could not have been defined in sufficient detail to permit the Government to buy them directly from Douglas and to furnish them to Republic as Government-furnished equipment for installation on the F-105's in production on a timely basis.

It is true that the bomb racks required some redesign and modification. In this respect, our review disclosed that Republic and Douglas had been exchanging information on the redesign of the bomb racks as early as August 1961. In September 1961, Republic prepared the specification control drawing for the redesign of the Douglas bomb rack. In October 1961, when the subcontract for the first bomb rack procurement was awarded, this drawing was used to describe the article to be manufactured and delivered by Douglas. Therefore, at this point in time, the specification control drawing was available without additional cost to the Air Force for procurement purposes, had it so desired. As to the timeliness of deliveries to the using activities, there is no reason to believe that the Air Force could not have obtained as prompt deliveries as Republic obtained.

We recommended that the Secretary of the Air Force bring this matter to the attention of procurement officials as evidence of the savings to be achieved when equipment is procured from the actual manufacturer. We believe that these officials should give special consideration to direct procurement of those major items of uninstalled equipment that are not required by the prime contractor for installation on the end item.

Subsequent to the events described in our report, Air Force Regulation 70-9 was revised to state, in effect, that it is Air Force policy to acquire subsystems, components, and items of equipment through use of direct procurement, whenever practicable, and the Assistant Secretary of Defense (Comptroller) issued guidance to Defense audit agencies to assist them in appraising the soundness of decisions made as to whether materiel should be contractor-furnished or procured directly from the equipment manufacturer. Therefore, we made no specific recommendations for procedural changes. However, we will examine into the results of these changes as part of our continuing review of selected Air Force procurement activities.

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Index No. 64, C-66-6.

B-156531, August 12, 1965.

Retention of obsolete telephone cable, Department of the Army.

The Government has been denied the use of funds ranging from about \$450,000 to \$2.4 million, depending on current market value, because the U.S. Army Electronics Command, Fort Monmouth, N.J., has retained over 55 million feet of obsolete telephone cable in its inventory since 1962. This cable has been stored in Army depots since at least 1951. We were unable to determine the circumstances surrounding the procurement of the cable because records were not available.

These funds could have been used to reduce borrowings or to repay outstanding debts, thereby saving the Government interest costs. The failure to realize the market value of the cable has resulted in, increased interests costs in past years, and these costs ranging from \$16,000 to \$88,000 annually will continue to be incurred until the obsolete cable is sold. The inappropriate retention of the obsolete telephone cable was attributable to the lack of procedures in the Electronics Command requiring consideration to be given to reclassifying an old item concurrently with the decision to replace the item with a new or an improved item. After we brought this matter to the attention of the Electronics Command, action was initiated to dispose of the obsolete telephone cable. Further, instructions were issued by the Electronics Command implementing a Department of the Army regulation regarding the orderly and economical phasing of items into, or out of, the supply system.

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Index No. 65, C-66-7.

B-154547, August 18, 1965.

Need for increased use of quarters in Air Force-leased hotels by military personnel on official duty in London, England, Department of Defense.

In our opinion, billeting facilities in two hotels leased by the Department of the Air Force in downtown London, England, could have been used to a greater extent by military personnel on official duty. The use of these facilities could have

resulted in significant savings of monetary allowances that are otherwise payable to personnel who did not use the facilities.

Although the billeting facilities of the hotels are considered Government quarters established primarily to provide temporary lodging for personnel on official duty in the London area, regulations do not require that these personnel use these quarters to the maximum extent possible.

Personnel without dependents under permanent-change-of-station orders, upon arrival in or before departure from the London area, were paid basic allowance for quarters and temporary lodging allowance, but, if they had resided in these hotels, such payments would have been avoided. In addition, personnel on official temporary duty receive per diem at a rate of \$17; residence in the hotels would reduce this amount to \$8.50. We estimate that annual payments of these allowances to personnel who could be occupying the billeting facilities in the two hotels could be reduced by as much as \$159,000.

The Assistant Secretary of Defense (manpower) commented on our findings in a letter dated April 5, 1965. He stated that, in the future, the facilities would be utilized to the fullest extent practicable by personnel on official duty in the London area. He stated further that in order to improve the occupancy rate by these personnel, a policy change had been effected which required that all unaccompanied personnel reside in these facilities during their temporary lodging allowance period and during temporary duty periods if space was available. The Assistant Secretary indicated that this policy change would increase the percentage of official duty occupancy and would effect additional savings in temporary housing allowance and temporary duty funds.

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Index No. 66, C-66-8.

B-146981, August 19, 1965.

Questionable need for purchase of commercial computer time by the Air Force Cambridge Research Laboratories, Bedford, Mass., Department of the Air Force.

Our review has disclosed that additional costs of about \$363,000 were incurred by the Government during the period July 1962 through May 1965 as a result of the Air Force Cambridge Research Laboratories, located at Hanscom Field, having purchased computer time from a commercial company rather than using leased computer systems at Lincoln Laboratory, a Government-owned contractor-operated installation in the same locality.

In commenting on our findings, the Deputy Assistant Secretary of Defense stated that a review of the factors involved in the purchase of computer time from commercial sources indicated that some economies could have been achieved by fulfilling Cambridge's computer requirements through the extended use of Lincoln Laboratory's computer facilities. We were informed that, on the basis of a review of all computer installations in the Hanscom complex, the Air Force had determined that only a limited amount of time could be made available to Cambridge Research Laboratories now or in the foreseeable future. It was our position that the Air Force review was inadequate because it was not based on conditions of full utilization of Lincoln Laboratory's computers.

In our report on "Review of Problems Relating to Management and Administration of Electronic Data Processing Systems in the Federal Government" (B-115369, dated Apr. 30, 1964), we expressed our opinion that equipment installed in Federal agencies should be used as fully as practicable before contracting for additional time on other equipment. This refers not only to equipment available in the same or adjacent locations but also to that equipment located at more distant points, when such use is practicable.

Our review at Hanscom Field on the purchase of computer time from a commercial company further supports our earlier conclusion that an effective centralized management organization is needed to exercise control over the procurement and use of data processing facilities. We recommended that the Secretary of Defense, with due regard for the economies which could be effected through full utilization of the computers now being leased by the Lincoln Laboratory, direct a reexamination of the factors considered by local Air Force activities in arriving at the decision to continue purchasing computer time from commercial sources. We also recommended to the Secretary of Defense that existing directives and instructions be amended to require that activities of the Department of Defense utilize any available and suitable data processing equipment, owned or leased under cognizance of the Department of Defense, before authorizing the purchase



of computer time from commercial sources. This requirement should make sharing of data processing equipment by Department of Defense activities mandatory rather than voluntary.

Index No. 67, C-66-9.

B-146727, August 30, 1965.

Procurement of aircraft engine cylinder assemblies without consideration of actual usage experience, Department of the Navy.

The Department of the Navy bought over 2,100 aircraft engine cylinder assemblies, costing more than \$1 million, which exceeded all known needs at the time of procurement, because the Aviation Supply Office, in determining the quantity it needed, did not, in our opinion, adequately consider actual usage experience and the fact that additional assemblies would be obtained by reclamation.

In September 1962—1 month before the 2,100 assemblies were ordered—the Aviation Supply Office had information available which indicated that, on the basis of the actual usage experience of its overhaul activities, the Navy had excess cylinder assemblies, valued at a total of over \$1 million. Therefore, the Aviation Supply Office was in a position to know that, if the procurement of these additional cylinder assemblies was made as planned, the quantity of excess cylinder assemblies would be increased and would then total a value of over \$2 million.

The need for these assemblies was not evaluated on the basis of the actual usage experience but instead, was evaluated on the basis of predetermined (estimated) usage rates which were higher. Further, even though the Aviation Supply Office knew that assemblies were to be reclaimed from excess engines, consideration was not given to the effect that this might have on the stock position of the assemblies. As a result, the action to procure the 2,100 assemblies was not canceled, but was permitted to continue.

In commenting on our findings, the Assistant Secretary of the Navy (Financial Management) stated that the action taken by the Aviation Supply Office stock manager was in accordance with procedures in effect at the time. It was further stated that new policies and procedures had been established to provide for improved Navy supply management.

The Assistant Secretary of the Navy also indicated that, as of October 1964—2 years subsequent to the subject procurement—the cylinder assemblies would be needed to meet future requirements. Although these assemblies may eventually be used, buying in advance of current needs results in additional storage and handling costs and tends to increase interest costs. More important is the fact that because changes in usage rates or aircraft flying programs and technological changes may result in the items' becoming obsolete, items purchased too far in advance may ultimately be disposed of at considerable loss to the Government. Since the Navy has advised us of new policies and procedures which should significantly improve supply management at the Aviation Supply Office, we did not make any recommendation. However, we do plan to consider the adequacy of the new policies and procedures and their implementation during the course of our continuing reviews of the Navy's supply management programs.

Index No. 68, C-66-10.

B-156760, August 31, 1965.

Review of procedures and practices for terminating procurement of excess missile spare parts, U.S. Army Missile Command, Department of the Army.

Our review of about \$612,000 worth of missile spare parts that were later considered excess disclosed that \$154,000 of the cost incurred, plus an undetermined portion of \$355,000 of the cost, could have been avoided had the Army Missile Command taken appropriate action to cancel or reduce the procurements in accordance with reductions in needs. The \$154,000 in costs were incurred because the supply commodity managers did not cancel procurement requests which had not yet been placed on contract at the time supply control studies showed that the quantity of parts requested for procurement exceeded requirements objectives.

Proper procurement cancellation actions were not taken because of a lack of adequate Missile Command instructions to the supply commodity managers to provide for implementation of the broad Army policy that, when determinations are made that quantities of parts on procurement are not needed to satisfy

established requirements objectives, the procurements should be reduced or canceled if this can be done economically; i.e., at lesser cost than the cost of accepting and holding the parts for possible future needs. In none of the cases reviewed by us did the supply commodity managers make comparisons of the costs of canceling the procurements with the costs of accepting and holding the parts for possible future needs. In several of the cases reviewed, supply commodity managers did not attempt to cancel or reduce the procurements because they concluded that cancellation costs would be involved, but they did not obtain specific information as to the amount of the cancellation costs.

By letter dated April 2, 1965, the Deputy Assistant Secretary of the Army (I. & L.), Logistics, commenting on behalf of the Department of Defense, advised us that the Army agreed that there have been deficiencies in procedures and practices for terminating procurement actions and concurred with our findings. In addition, we were advised that the Army concurred with our proposals regarding indoctrination of supply commodity managers and their supervisors in the application of new procedures and the taking of proper disciplinary action when warranted.

The Army stated that it disagreed with our conclusion that adequate guidance had not been established to insure termination of procurements when this is more economical than accepting delivery of excess parts and with our proposal that the Missile Command develop improved management procedures in which the responsibilities of the commodity managers are more clearly defined. Nevertheless, the Army agreed that the detailed written procedures of the Missile Command could be more clearly stated and advised us that the Missile Command has been directed to amend its procedures to more clearly state the information to be exchanged between the supply commodity manager and the contracting officer. The Army stated that the revised procedures will provide that the commodity manager (1) make the decision to cancel or continue a procurement and (2) weigh the cost of termination of the procurement against all other considerations in arriving at his decision.

Assuming that the revised Missile Command procedures will include adequate provision for the use of the costs of holding excessive stock as a consideration in arriving at cancellation decisions, it appears that the Army comments and the intended procedural revisions are responsive to our conclusions and proposals. We intend to evaluate the effectiveness of the revised Missile Command procedures for termination of procurements of excess parts during our continuing reviews of supply management practices and procedures at the Army Missile Command.

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Index No. 69, C-66-11.

B-146832, September 20, 1965.

Readiness of combat and combat support equipment assigned to the 2d Marine Division and Force troops, Camp Lejeune, N.C., U.S. Marine Corps, Department of the Navy.

The combat equipment assigned to the 2d Marine Division and Force troops stationed at Camp Lejeune, N.C., during calendar year 1964, was in a substantially more favorable state of combat readiness than we had found for similar combat equipment assigned during fiscal year 1962 to the 3d Marine Division (reinforced) stationed at Okinawa. The significant improvement in the combat readiness of equipment disclosed by our review of the 2d Marine Division and Force troops is due in part to the increased emphasis placed by top management of the Marine Corps on the review and evaluation of equipment status reports and to the attention that has been directed to the day-to-day condition of the equipment. As a result, there has been a greater awareness by Marine Corps personnel of the need for more effective maintenance and spare parts support.

Our review of the maintenance of selected major combat vehicles and equipment assigned to the 3d Marine Division (reinforced) disclosed that during fiscal year 1962 large quantities of combat equipment assigned to that division were out of service for repair for extended periods and that the unsatisfactory condition was attributable to inadequate emphasis on maintenance within the division and to shortages of needed repair parts. The findings resulting from that review, were contained in our report to the Congress dated October 31, 1963 (B-146832), and were discussed in hearings conducted by the Subcommittee on Defense, Committee on Appropriations, House of Representatives, in January 1964. At these hearings Marine Corps representatives recognized the existence

of deficiencies and stated that the unsatisfactory conditions had been or were being corrected.

Our conclusion that the 2d Marine Division and Force troops equipment was in a more favorable state of combat readiness was based on our review and analysis of equipment reports, the results of inspections of selected major combat and combat support equipment, our review of the effectiveness of spare parts support, our observation of combat equipment in operation for 5 days during an amphibious assault landing exercise in Spain (Steel Pike I), and a review of the state of the equipment subsequent to its return to Camp Lejeune from this exercise.

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Index No. 70, C-66-12.

B-146990, September 20, 1965.

Need for improvement in pricing of change orders for construction of nava vessels, Department of the Navy.

Examination into the pricing of 110 of the 820 change orders issued under fixed-price contract NObs-4292 awarded by the Bureau of Ships, Department of the Navy, to Electric Boat Division, General Dynamics Corp., Groton, Conn., for construction of the nuclear-powered fleet ballistic missile submarine U.S.S. *Thomas Edison*, disclosed that the prices negotiated for 58 of the changes were about \$269,000 more than appeared justified under the circumstances. We found that, for these 58 changes, Electric Boat had proposed, and Navy officials had accepted, prices which (1) were not based on current cost data, (2) included costs for work which had not been authorized, and (3) provided insufficient credit for reduced or modified contract requirements. Our review disclosed no deficiencies in the administration and pricing of the other 52 change orders.

Electric Boat agreed with the facts presented in the report and acknowledged that overpricing had occurred in some instances. Electric Boat contended, however, that it did not consider its recorded costs to be sufficiently reliable to be used to establish change-order prices and that the urgency of the Polaris program called for instant response to changes decided by the Navy without awaiting issuance of the formal change order.

The Navy did not comment in detail on our findings. The Navy informed us, however, that it agreed, or partially agreed, in a sufficient number of cases to take remedial action. Remedial action will include a price adjustment for the cases cited in this report where an adjustment is in order on either equitable or legal grounds and a review of other changes to this and other recent contracts with Electric Boat in which the amount potentially recoverable would appear to exceed the cost of audit. In addition, the Navy informed us that it had issued specific directives to all supervisors of shipbuilding reemphasizing the importance of the change-order function and had arranged for an audit of all future proposals for pricing change orders involving \$50,000 or more per change order. Our subsequent review of a directive issued by the Navy since release of a draft of our report for comment indicated that these instructions provide revised procedures which, if properly followed, should materially improve the processing and pricing of future change orders.

Since our very limited reviews disclosed deficiencies in change-order pricing practices at each of three privately owned shipyards where reviews were made, we recommended that the Secretary of the Navy direct that an examination be made into the prices negotiated for change orders issued under Navy contracts recently awarded to the principal privately owned shipyards and that, where appropriate, adjustments in contract prices be obtained.

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Index No. 71, C-66-13.

B-152600, September 21, 1965.

Potential savings by direct rather than indirect procurement of selected subsystems for F-4 type of aircraft, Department of the Navy.

In our review of the procurement of selected subsystems for installation in F-4 type of aircraft being produced under contracts awarded by the Department of the Navy, we found that, during fiscal year 1964, the Bureau of Naval Weapons had allowed McDonnell Aircraft Corp., an airframe manufacturer, \$975,000 in fees for procuring three subsystems for the F-4 type of aircraft which, in our opinion, the Bureau could have purchased direct from the actual equipment manufacturers and supplied to McDonnell as Government-furnished equipment.

Furthermore, on the basis of the Navy's planned procurement of additional F-4 type of aircraft and assuming that the fees and prices paid would approximate those established under the fiscal year 1964 production contract, we estimated that McDonnell would be paid additional fees of about \$2 million during fiscal years 1966 and 1967 for the procurement of these three subsystems if the Navy continued to purchase the three subsystems through McDonnell.

Our examination of the indirect procurement of subsystems, accessories, and related items of equipment installed in F-4 type of aircraft of which this examination was a part, was undertaken in response to a request dated September 16, 1963, from the chairman of the Committee on Appropriations, House of Representatives, that the General Accounting Office conduct cost studies of the entire F-4 aircraft program. In this connection, the committee concluded, on the basis of hearings conducted on the Department of Defense requests for fiscal years 1965 and 1966 funds for procurement of F-4 aircraft, that there had been a marked tendency to depend on the prime contractor for the procurement of components from subcontractors which could be furnished by the Government at considerable savings. To encourage increased direct procurement of components, reductions of \$38.5 million and \$26.5 million were recommended by the committee in the budget requests for fiscal years 1965 and 1966, respectively, for the F-4 aircraft program.

We proposed that the Secretary of the Navy direct the Bureau of Naval Weapons to supply the three subsystems as Government-furnished equipment for fiscal year 1966 and subsequent F-4 type of aircraft production needs. The Assistant Secretary of the Navy (financial management) advised us that the three subsystems were being considered by the Bureau of Naval Weapons for conversion to Government-furnished equipment in fiscal year 1966 in accordance with the guidelines set forth in its recently published instruction on this subject. In view of the consideration being given by the Navy to the direct procurements of the three subsystems, we did not make any recommendation.

Index No. 72, C-66-14.

B-146966, September 30, 1965.

Costs incurred in procuring Madrec electronic system components manufactured by Midwestern Instruments, Inc., from Lockheed-Georgia Co., Department of the Air Force.

Our review disclosed that, in procuring a major component of the malfunction detection and recording (Madrec) electronic system through the prime contractor rather than through direct purchase from the manufacturer, the Department of the Air Force paid \$550,000 in excess of the price paid by the prime contractor.

The Air Force paid \$3,136,000 to Lockheed-Georgia Co., Marietta, Ga., the prime contractor, under a negotiated sole-source contract for furnishing 193 recorders manufactured by Midwestern Instruments, Inc., Tulsa, Okla., although the recorders could have been procured direct from the manufacturer for the same price paid by Lockheed—\$2,586,000. The difference of \$550,000 received by Lockheed represents the profit of \$232,000 and indirect costs of \$318,000 for Lockheed's procurement efforts in obtaining the recorders purchased under one contract for Madrec systems.

In its comments on our report, the Air Force did not agree that additional costs had been incurred, contending that, had the recorders been acquired by direct procurement, the essential integration and compatibility features would have been jeopardized. Our review disclosed, however, that these essential features were obtained by the Air Force, not because the recorders were purchased through Lockheed, but because these specific features were distinct contractual requirements for which Lockheed was paid.

In its comments on our report, Lockheed emphasized its role as systems manager. We recognize Lockheed's role as systems manager for the Madrec program and do not take the position that Lockheed should not have performed the systems-management functions. Lockheed's performance of those functions did not, however, preclude Air Force procurement of the recorders direct from the manufacturer.

These recorders are applicable to Navy as well as Air Force Madrec systems. The Navy has requested and has received Lockheed's proposal to furnish Madrec systems for installation in some of its F-4B aircraft. Therefore, we recommended that the Secretary of Defense direct the appropriate military departments to take the action necessary to insure that any future procurement of these recorders

will be made through Lockheed only if the additional price to be paid for Lockheed's purchasing effort is comparable with the cost the Air Force or the Navy might incur in excess of the price paid to the manufacturer for the item obtained by direct purchase.

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Index No. 73, C-66-15.

B-152600, September 30, 1965.

Potential savings through use of an oversupply of stabilator assemblies for F-4 aircraft, Department of the Navy.

The Navy had on hand as many as 31 F-4 aircraft stabilator assemblies which, at the time of our review, were not needed by the Navy and could have been provided either to the airframe manufacturer for use in new aircraft production or to the Air Force to satisfy its spare parts needs. The 31 stabilators were valued at \$1.2 million. The Navy did not consider the transfer of the stabilators for these purposes because of its system of accounting for and controlling high-value spare parts and components. Under the Navy's system, the inventory records maintained by the Aviation Supply Office did not continuously account for 15 stabilator assemblies and inventory management procedures at the Aviation Supply Office did not highlight a quantity of 16 stabilators which could have been made available to the airframe manufacturer or to the Air Force.

We brought our finding and proposals for corrective action to the attention of Navy officials, and we were subsequently advised by the Assistant Secretary of the Navy that 16 stabilators would be transferred to McDonnell Aircraft Corp. and 2 had been transferred to the Air Force. On the basis of current stabilator prices, we estimate that the transfer of the stabilators will result in a reduction in procurement costs of about \$702,000. The remaining stabilators not needed by the Navy at the time of our review have since been determined to be needed to support operating aircraft.

We recommended that the Secretary of the Navy direct that the inventory management program be examined with the objective of correcting the problems noted in our report.

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Index No. 74, C-66-16.

B-153785, September 30, 1965.

Need for improved administration of allowances paid for uniforms of cadets in the Reserve Officers' Training Corps, Departments of the Army and the Air Force.

Our review disclosed that the monetary allowances paid by the Army and the Air Force to participating civilian schools for uniforms worn by cadets enrolled in the basic course were in excess of the cost of furnishing uniforms from military stocks. We estimated that in fiscal year 1963 alone the difference in cost was about \$365,000. Also, there are significant differences in the policies of the Army, Navy, and Air Force for administration of funds for ROTC uniforms, and these differences result in inequities among participating schools and among individual members of ROTC units.

The Secretary of each of the military services is authorized either to pay a clothing allowance, generally known as commutation, or to issue uniforms-in-kind to participating schools. The Air Force encouraged participating schools to accept commutation, with most schools consenting. The Army permitted schools their choice of the two methods, with most schools choosing uniforms-in-kind for basic-course cadets. The Navy elected to issue uniforms-in-kind for all ROTC students and did not pay commutation. Our review of clothing requisitions for a number of Army ROTC units showed that the average annual cost of providing uniforms-in-kind for basic-course cadets from Government stocks was substantially less than the monetary allowance and that many schools receiving commutation, primarily those having Air Force ROTC, had large unexpended and uncommitted balances.

Army and Air Force policies and procedures pertaining to the clothing allowances paid to participating schools differ significantly. For example, the Army requires an adjustment of allowances for cadets who drop out of ROTC under certain conditions whereas the Air Force does not; the Army considers that title to clothing allowances is vested in the school whereas the Air Force by regulation provides for the recovery of unexpended amounts in excess of specified limits; the Army authorizes the schools to use commutation funds only for the procurement

and maintenance of uniforms whereas the Air Force authorizes schools to use these funds for many additional purposes.

These differences appear to be unnecessary and are confusing, particularly since many schools have ROTC programs for two or all three of the services. Further, these differences have resulted in certain inequities. For example, schools receiving commutation from the Air Force are permitted to use these funds for various types of expenses which Army- and Navy-affiliated schools would have to pay from their own resources. In fiscal year 1963, Air Force ROTC schools that elected to receive the monetary allowance reported expenditures from these funds of about \$540,000 for facility improvements, salaries of institutional personnel, and other items related to ROTC.

Air Force policies regarding retention of commutation funds by participating schools resulted in the accumulation of substantial amounts of uncommitted funds. During our review we questioned the need for these funds, and we were later advised that about \$650,000 in accumulated uniform allowances had been recouped by the Air Force.

In commenting on these matters, the Deputy Assistant Secretary of Defense (Reserve Affairs) agreed that a review of the uniform allowances was in order, that the rates should be reviewed annually to insure that they are not excessive, and that Army and Air Force policies with respect to the administration of allowance funds should be the same. Also, he advised that the cadet uniform allowance rate should not be based necessarily on the cost of furnishing uniforms-in-kind, but should be determined as a result of study within the Department of Defense. As shown in our report, such Government costs as staffing ROTC units and transporting uniforms are relatively the same at schools receiving uniforms-in-kind and schools receiving commutation. The remaining costs to the Government for providing uniforms apparently consist of the value of the items issued and the cost of cleaning and altering the uniforms.

Consequently, in order that all schools in the ROTC program receive equitable treatment, we recommended to the Secretary of Defense that the rates of commutation for uniforms for basic-course cadets be based on the average annual cost of providing service uniforms-in-kind or that consideration be given to issuing uniforms-in-kind to schools which are now receiving commutation.

We also recommended to the Secretary of Defense that regulations be established to prevent the payment of unneeded allowances to schools that have a surplus of uniforms as the result of significant reductions in the number of cadets enrolled in the program and that guidelines be furnished the three services to insure, to the extent practicable, the consistent administration of the ROTC uniform supply system.

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Index No. 75, C-66-17.

B-157274, October 20, 1965.

Review of procurement of fault locating indicators for the Nike-Hercules guided missile, Department of the Army.

The Army Missile Command, in carrying out its responsibilities for determining missile testing equipment requirements and for procuring such equipment, had not established adequate procedures for obtaining confirmation from the using forces that the equipment was needed prior to the award of volume production contracts. We found that in April 1964 the Missile Command was in the process of procuring additional fault locating indicators worth about \$1.4 million and was not aware that (1) there was a general lack of utilization of this equipment by the troops and (2) field experience over a period of several years had demonstrated that other testing equipment, which had been in use since prior to the initial issuance of fault locating indicators, was serving the users' needs. For this planned procurement, the Missile Command did not obtain a determination from the user forces that this equipment was needed. Neither had the Missile Command obtained such a determination when, in March 1961, the initial volume procurement was made of the fault locating indicators. It appears that, if the users had been queried on the need for this volume procurement, some portion of the costs of about \$6 million for the initial production, spare parts, modifications, and ancillary equipment might have been avoided.

After we brought the lack of utilization of the fault locating indicator to the attention of the Missile Command, planned procurement in the amount of \$1.4 million was canceled, and the fault locating indicators on hand were subsequently declared excess to the needs of the user forces which, at the completion of our review, were in the process of turning them in to supply depots.

The Department of the Army agreed that there was a lack of utilization of the fault locating indicators by using units and confirmed that our notification of this fact was instrumental in the subsequent cancellation of plans to procure an additional \$1.4 million worth of the testing equipment. The Army stated, however, that it did not consider the initial procurement unnecessary and did not concur that the procurement had been undertaken without the benefit of any determination of need by the principal Army user.

We proposed that the Secretary of the Army initiate a review of the allowances for testing equipment of all types of missile units to determine the validity of the need for the equipment. The Army concurred in this proposal and stated that corrective action involving equipment authorizations, which was initiated as a result of our report regarding procurement of equipment for White Sands Missile Range (B-146807, February 19, 1964), had been extended to include testing equipment. The Army had previously advised us that, as a result of its initial action related to the recommendation in our report on procurement of equipment for White Sands Missile Range, reductions in equipment allowances amounting to over \$332 million had been accomplished. In future reviews we plan to evaluate the progress of this action in connection with missile testing equipment.

We recommended to the Secretary of the Army that procedures be established to provide that (1) volume procurement of major items of equipment be based on requirement determinations properly confirmed by the applicable using forces or the principal using command and (2) using commands promptly advise the commodity managing command if equipment issued or planned for issue is not needed or is not being fully utilized.

Index No. 76, C-66-18.

B-125037, October 22, 1965.

Review of causes for overpayments and underpayments of mileage reimbursements for travel of service members and their dependents, Department of the Army and Department of the Air Force.

In our review of mileage payments made during fiscal year 1963, we found that numerous errors had been made by Army and Air Force finance office personnel in computing distances used for reimbursing members and their dependents for travel performed at personal expense. On the basis of the results of our audit tests, we estimate that erroneous mileage payments of about \$1.1 million, consisting of about \$800,000 in overpayments and \$300,000 in underpayments, were made during fiscal year 1963. These erroneous distance computations were caused primarily because finance office personnel at the bases (1) did not compute distances for the shortest usually traveled route, generally because of incorrect interpretation or improper application of instructions in the official table of distances, (2) used an incorrect mode of transportation for computing distances, (3) used incorrect locally prepared listings or card files of distances, and (4) were careless and inattentive to detail and were given inadequate supervision.

We proposed that the Secretary of Defense direct the Secretaries of the Army and Air Force to include steps in the internal reviews of travel allowances made at military installations to insure (1) that instructions for computations of travel distances are understood and complied with by finance office personnel and (2) that supervisory personnel at the installations adequately review travel vouchers and card files or listings of distances prepared by their staffs. We proposed also that this situation be brought to the attention of the Department of the Navy for the purpose of determining whether similar deficiencies exist in that service.

The Deputy Assistant Secretary of Defense, Accounting and Audit Policy (Comptroller), informed us that the Departments of the Army and Air Force had taken action in line with our proposals. He advised us also that the internal reviews of the Department of the Navy were being amplified to require onsite examination teams to give particular attention to distance computations including the methods and references used.

In view of the actions that had been taken or were currently underway to strengthen the administration of travel allowances, we did not make any recommendations. We believe that these actions will achieve the desired effect if they receive the continued attention of responsible management officials. We notified the departments of the overpayments and underpayments identified in our review. We plan to examine into the effectiveness of the actions taken.

Index No. 77, C-66-19.

B-157137, October 22, 1965.

Potential savings by direct rather than indirect purchase of selected major subsystems for A-64 type of aircraft, Department of the Navy.

During fiscal years 1964 and 1965, the Bureau of Naval Weapons allowed Grumman Aircraft Engineering Corp.—a weapon system contractor—about \$250,000 in fees for procuring two subsystems for the A-6A type of aircraft which, in our opinion, the Bureau could have purchased from the actual equipment manufacturers and supplied to Grumman as Government-furnished equipment. Furthermore, on the basis of our findings, potential savings of about \$239,000 could be realized on planned procurements of A-6A type of aircraft in fiscal years 1966 and 1967 if the Navy would purchase the two subsystems direct rather than through Grumman.

We submitted our findings, together with specific proposals, to the Department of Defense and Grumman Aircraft Engineering Corp. for their review and comments. 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. In the interest of furthering this conversion, the Bureau of Naval Weapons has developed improved procedures to increase the procurement of aircraft subsystems and accessories by the Government. Further, the Department of Defense is in the process of revising the Armed Services Procurement Regulation to reflect a policy designed to increase substantially the extent of direct procurement of components presently being furnished by contractors.

The Navy, in commenting on the susceptibility to direct procurement of the two subsystems discussed in our report, expressed the opinion that direct procurement would be premature pending resolution of certain discrepancies in the subsystems or until decisions had been made regarding possible modifications needed to meet changing requirements. However, the present status of the discrepancies and modifications involved, as discussed in the report, and the recent changes adopted, or being adopted by the Department of Defense and the Department of the Navy, with respect to policies designed to increase direct procurement, indicate that reconsideration of the feasibility of direct procurement of these subsystems in fiscal year 1966 and subsequent fiscal years is warranted.

Accordingly, we recommended that the Secretary of the Navy require the Bureau of Naval Weapons to reconsider the feasibility of providing these subsystems as Government-furnished equipment on future planned procurements of the A-6A type of aircraft. We stated our belief that the Navy should also reconsider a third subsystem, the automatic flight control system, since the deficiencies in this system cited by the Navy in its reply to a draft of our report appear to have been corrected.

Index No. 78, C-66-20.

B-146987, November 29, 1965.

Need for current evaluation of available community housing prior to construction of military housing, Department of the Navy.

We reviewed the need for current evaluation of available community housing prior to construction of military housing at the Naval Supply Depot, Mechanicsburg, Pa.

We believe that significant savings in military housing construction expenditures may be realized by the reevaluation of available housing in the community prior to the award of a construction contract in those cases where there has been an appreciable delay since the need for the project was determined. Had the naval supply depot made such a reevaluation, we believe that utilization of vacant housing repossessed by the Federal Housing Administration would have eliminated the need for construction of 61 military family housing units and resulted in a reduction of about \$1 million in construction costs. On the basis of a housing survey dated February 1963 indicating that sufficient adequate housing was not available in the Mechanicsburg area to meet the Depot's housing needs, the Navy awarded a \$1.3 million contract in May 1964 for the construction of 75 military family housing units.

We found that, after the Federal Housing Administration changed its sales policy in April 1963 to provide for the rental of surplus acquired housing located in areas like Mechanicsburg, there was sufficient housing available which could have been used to meet the depot's needs. After examining a number of the houses



with us, depot representatives agreed that the houses were suitable for military use. We found also, and depot personnel agreed with our finding, that 25 privately owned houses occupied by military personnel were improperly classified as unsuitable in the Federal 1963 housing survey. By considering the available Federal Housing Administration houses and the 25 privately owned houses as suitable assets, we estimate that a sufficient number of homes were available to meet existing needs, with the possible exception of 14 units being constructed for officers with the rank of captain.

In our opinion, the lack of consideration of available housing was due to a breakdown in communications between the Navy and the Federal Housing Administration from the time of the housing survey in February 1963 until after the award of the construction contract in May 1964. The Federal Housing Administration changed its rental policy in July 1963 to make homes available on a 1-year lease basis with two additional periods of 1 year each or a total of 3 years. However, local Federal Housing Administration officials advised us that they had not contacted depot officials concerning the revised rental policy and depot personnel were not aware of this change until we brought it to their attention in July 1964. Subsequently, the Federal Housing Administration issued instructions to establish closer liaison with the military departments to insure that the military have day-to-day familiarity with the Federal Housing Administration inventory of acquired properties available for rent.

We believe that the Federal Housing Administration should have made its revised leasing procedures known to the Navy, particularly in view of the Administration's participation in the Navy housing survey in February 1963. On the other hand, had the available housing in the community been reevaluated by the Navy prior to awarding the construction contract in May 1964, the change in the Federal Housing Administration's leasing policy and the resulting availability of additional housing could have been discovered.

In commenting on our findings, both the Federal Housing Administration and the Department of Defense have taken the position that, in February 1963 when the Navy made its housing survey supporting the need for the 75-unit construction project, the Federal Housing Administration did not have a policy which permitted leasing repossessed housing on a long-term basis. Further, the Department of Defense has stated that, in making housing surveys, its activities cannot consider as assets any housing that is not fully adequate in all respects unless very specific commitments exist for accomplishment of needed repairs. The Department of Defense agreed that the available housing the community was not reevaluated at the time of the recertification of the need for housing in March 1964.

We agree that, at the time of the Navy's housing survey, the policy of the Federal Housing Administration precluded considering repossessed housing as adequate community support. The fact is, though, that the Administration changed its policy in April and July 1963 and, at that time, the Navy could have considered some of the repossessed housing as adequate. Also, it seems reasonable that those units needing repairs could have been placed in adequate condition by the Administration in less time than the time required to construct new housing.

We recommended that, to further insure adequate utilization of Government-owned housing, the Secretary of Defense reconsider and revise Department of Defense regulations concerning the recertification of the need for housing prior construction in order to provide that, in those cases where there has been any significant lapse of time since the last review was made, the military departments reevaluate the quantity of housing available in the Community. We recommended also that provision be made in the Department of Defense determination as to the extent to which the holding agencies will repair repossessed Government-owned housing that is available for rental and (2) consideration as housing assets of those units which are suitable in other respects and which the agencies agree to repair for use by the military departments.

Index No. 79, C-66-21.

B-157373, November 29, 1965.

Army aircraft grounded because of lack of required repair parts, Department of the Army.

Army reports disclosed that for an 18-month period, October 1, 1962, through March 31, 1964, an average of 437 Army aircraft valued at approximately \$82 million were in a grounded status because repair parts were not available when needed. We found that the required repair parts could be made more readily available through (1) more effective action on the part of the Army Aviation Materiel Command to insure that required parts are available in the supply system, (2) better guidelines for the initial positioning of stocks in the system, and (3) improved supply management practices at field installations. Also, we believe that the publication and promulgation of normal or standard rates at which equipment is deadlined for parts, based on past experience, may result in a relaxation of efforts by responsible personnel to obtain needed parts when these rates are attained. The grounded aircraft consisted of a daily average of 318 helicopters valued at \$62 million and 119 fixed-wing aircraft valued at \$20 million.

In commenting on our findings and proposals, the Deputy Assistant Secretary of the Army (I. & L.) Logistics has informed us that the Army recognizes that there are imperfections in supply support operations at the Army Aviation Materiel Command but that it does not believe that the imperfections render the command's supply support ineffective. The Army generally agreed with our proposals for initiating improved procedures to identify and correct the basic causes of supply shortages and advised us of specific actions being taken in this area.

With respect to the Army's statement that the deficiencies cited in our report did not render the Army Aviation Materiel Command's supply support ineffective, we believe that the supply support was ineffective to the extent that aircraft were grounded for lack of parts which were not available solely because of deficiencies in the supply system.

We believe that the actions taken and those being initiated by the Department of the Army and the Army Aviation Materiel Command, coupled with continued command emphasis on determining and correcting supply problems, should significantly improve repair parts support and result in increased aircraft availability. In our continuing review of Army supply operations, we will evaluate the effectiveness of these actions.

We believe also, however, that there is a need for further action with respect to the reduction of contractor delinquencies in delivery of repair parts and in the publication of standard rates at which equipment is deadlined for parts, and we made specific recommendations in these areas.

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Index No. 80, C-66-22.

B-133063, December 14, 1965.

Improvement in administrative audit of accrued-leave payments to reenlistees by the Finance Center, U.S. Army, Fort Benjamin Harrison, Indianapolis, Ind., Department of the Army.

As a result of our proposals, the Finance Center has improved its techniques for the audit of the amounts paid military members for unused accrued leave. These techniques consisted of (1) comparing the number of days charged against accrued leave as shown on the individual leave records with the periods for which members were paid in lieu of rations in kind as shown on the military pay vouchers and (2) checking the mathematical accuracy of the entries on the leave records dating back to the previous settlement for accrued leave. Such techniques had previously been utilized but were discontinued in September 1963. We estimate that overpayments which were undetected as a result of the reduced scope of the administrative audit amounted to about \$400,000 from September 1963 to August 1964 and about \$120,000 from August 1964 to April 1965. We notified the Army of all overpayments we found so that appropriate collection action could be taken.

In view of the action taken by the Army in response to our proposals, we made no further recommendations. Also we recognize that the Finance Center has in the past few years developed various programs to improve its audits in terms of coverage, as well as quality of individual examination areas, and that this effort is being coordinated with a quality assurance program designed to minimize errors

in the field. In connection with our continuing review of Army pay and allowance activities, we intend, however, to evaluate the effectiveness of the actions being taken.

Index No. 81, C-66-23.

B-146729, December 17, 1965.

Potential savings through improved management controls over allowances paid to members of shore patrols, Department of the Navy.

In a prior report to the Congress (B-146729, May 31, 1962), we informed the Navy that our review of selected naval installations in the continental United States disclosed a widespread practice by members on temporary shore patrol duty of submitting fraudulent claims for lodging allowances and that unnecessary payments of lodging and subsistence were being made because the shore patrol members were not required to use available Government quarters and messing facilities. On the basis of this report, the Navy took action to improve procedures and controls by prescribing guidelines to assist in the detection of improper claims and by apprising cognizant commands of the requirement that available Government quarters and messing facilities be used by shore patrol members whenever possible.

We recently completed a review of allowance payments made to members on shore patrol duty at Hong Kong, British crown colony, and in the Boston, Mass. area. We found that the administration of payments in the Boston area had substantially improved since our earlier report but that management control over the administration of shore patrol allowances in Hong Kong needed considerable improvement.

During the period June 1963 through December 1964, the Navy incurred costs of about \$126,000 in the payments of the maximum permissible per diem of \$16 for lodging and subsistence allowances to members who were assigned to shore patrol units at Hong Kong from 72 different ships. About \$94,000 of these costs could have been avoided had the Navy required the shore patrol members to (1) use available Government quarters and messing facilities on board station ships which furnish the majority of the shore patrol members and which are berthed about a 5-minute boat ride from the shore patrol headquarters; or (2) use the facilities of their own ships when the shore patrol members were assigned from ships visiting Hong Kong and quarters and mess were not available on the station ships.

The avoidable costs of \$94,000 disclosed by our review were comprised of payments of about \$62,000 for lodging allowances and about \$32,000 for subsistence. These costs could have been avoided had the shore patrol members been furnished quarters and subsistence on board the station or visiting ships. Since the total Navy budget for lodging and subsistence allowances for temporary shore patrol duty has amounted to about \$400,000 each year for the past 3 fiscal years, it appears that avoidable costs in the payment of these allowances could be substantially greater than those disclosed by our limited review.

We found that as a general practice members were submitting claims for lodging in amounts greater than the rates charged by the hotel at which they were staying, which is contrary to regulations and, in effect, represents falsified claims. The submission of falsified and questionable claims was permitted to exist without detection because claims were inadequately reviewed at the disbursing level prior to payment and because effective management control was lacking over the administration and payment of shore patrol allowances at Hong Kong.

The Navy agreed with certain proposals we made and stated that action was being taken to improve the administration of payments of lodging and subsistence allowances to military personnel assigned to shore patrol duty at overseas locations. The Navy stated that the shore patrol problem would receive special attention in disbursing seminars and that its internal audit guidance was being revised to provide additional emphasis on shore patrol entitlements during internal audits particularly with respect to activities afloat. The Navy stated further that, where evidence of misrepresented claims is uncovered, commands will take any necessary action against the individuals involved.

We believe that actions taken and proposed by the Navy should, if properly implemented, result in substantial improvement in the administration of the shore patrol program and in the recovery of money improperly paid as well as in reductions in future payments of shore patrol allowances.

Index No. 82, C-66-24.

B-146890, December 27, 1965.

Review of the assignment of enlisted personnel to nonmilitary activities, Department of Defense.

Department of Defense policy stresses using civilians to the maximum extent possible in positions which do not require military personnel. However, at the time of our review of the assignment of enlisted personnel in the Department of Defense to nonmilitary activities, we estimate that the Army, Navy, and Air Force were using the services of about 9,000 enlisted personnel in nonmilitary activities, such as officers' and noncommissioned officers' clubs, hobby shops, bowling alleys, golf courses, and commissary sales stores, rather than employ civilians. We estimate that these enlisted personnel received about \$40.5 million annually in pay and allowances.

Since the completion of our audit the Secretary of Defense initiated a program for reassigning to military duties those military personnel now assigned to non-combat support-type duties. There is no indication at this time, however, of the number of enlisted personnel, if any, who are to be reassigned from the activities discussed in our report.

In commenting on our findings on the Assistant Secretary of Defense (Manpower) did not advance an opinion on our proposal that instructions be issued restricting the Armed Forces in the use of enlisted personnel in such activities as officers clubs, bowling alleys, and golf courses. However, the Assistant Secretary stated that Department of Defense policy on the use of military personnel in commissary sales stores was adequately set forth and that implementation of this policy by the services reflected their understanding of and compliance with existing policies and regulations.

The Assistant Secretary further advised us that in connection with a then current study of the military draft, the Department of Defense was concerned with the expanded use of civilian personnel positions which do not require military personnel. He stated that our report, among others, would assist in determining the military assignments which might profitably be converted to civilian staffing. He stated further, that, since, in the opinion of the Department of Defense, our report did not allege any overstaffing at the commissary sales stores, it could not agree that there was any implied waste of either funds or services of enlisted personnel assigned to commissaries.

The stated policy of the Department of Defense is consistent with the intent of the Special Subcommittee on Utilization of Military Manpower of the Committee on Armed Services, House of Representatives, 86th Congress, 2d session, as stated in its report dated June 15, 1960, which is to achieve the most efficient use of military personnel by assignments to the actual operating forces to the maximum extent possible. However, on the basis of our review, we believe that the military services could use civilians to a much greater extent than is now the case. Further, in our opinion, the stated policy of the Department of Defense is being inconsistently applied among the military services, and even within each service, since, at some locations, no enlisted personnel are assigned to the type of nonmilitary activities we reviewed or to commissary sales stores. This inconsistency could result in unequal benefits to the individual serviceman in terms of available services and the prices paid for these services.

On September 16, 1965, the Secretary of Defense announced a major new program to speed up and to reduce the cost of the Nation's military buildup by reassigning large numbers of military personnel now in noncombat support-type assignments. These military personnel are to be replaced by civilians. The initial phase of the program calls for hiring some 60,000 civilians during calendar year 1966 to do civilian-type jobs now being held and performed by military personnel. The Secretary also stated that those support-type positions in which civilians can be substituted for military personnel include administrative and clerical positions; supply and maintenance jobs; and positions in the medical, food, and transportation services.

The military services have been directed to select those positions which can be converted from military to civilian staffing and to advise the Secretary of Defense accordingly. The specific information has not yet been forwarded to the Department of Defense. Therefore, there is no indication at this time as to the number of personnel in the type of positions discussed in our report, if any, that will be included in the current program to substitute civilians for military personnel.

Congress may wish to consider the desirability of establishing legislative guidelines concerning the employment of enlisted personnel in the types of activities discussed in our report.

## APPENDIX 5

GSA SELECTED STATISTICS, JULY 1, 1956-JUNE 30, 1965

*Public Buildings Service—Selected statistics, fiscal years 1956-65*

## SOURCE OF DATA

This publication contains selected financial and operating statistics covering GSA's operations and growth for the fiscal years 1956-65. 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.

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Operating expenses, PBS (obligations in millions of dollars).....	106.6	114.4	130.5	139.9	150.1	164.6	179.5	193.6	217.1	225.2
Repair and improvement:										
Obligations (in millions of dollars).....	33.1	45.8	76.0	75.9	53.1	61.2	62.6	64.8	76.0	90.7
Workload (millions of net square feet).....	108.5	111.2	114.4	114.4	115.6	121.4	128.5	144.1	156.3	163.7
Buildings management (in millions of 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	210.5
Repair and improvement.....	6.9	10.2	29.0	24.1	14.0	14.2	16.2	15.9	17.4	17.4
Other GSA funds.....	7.6	9.5	8.0	8.9	7.9	7.9	9.1	11.6	11.0	11.5
Other agencies.....	47.8	51.7	55.6	56.4	66.3	67.7	70.3	71.6	95.1	85.8
Total.....	* 170.6	* 187.7	* 221.6	220.1	226.2	242.1	259.2	275.4	320.6	* 325.2
Expense by type:										
Government-owned space, GSA operated.....	66.4	62.6	81.5	89.7	94.5	111.7	118.6	121.9	126.6	142.0
Leased space.....	62.4	66.4	73.2	80.4	86.9	88.5	96.1	113.3	129.1	133.6
Other.....	27.2	43.1	49.5	49.8	44.5	42.6	44.3	38.4	65.2	48.0
Total.....	156.0	172.1	204.2	219.9	225.9	242.8	259.0	273.6	320.9	* 323.6
Buildings management workload (millions of average net square feet):										
Government-owned space, financed by—										
Operating expenses (see above).....	56.4	54.9	54.9	55.1	57.7	62.9	69.2	73.5	78.6	83.5
Other agencies and other GSA funds.....	10.9	14.6	19.3	22.9	26.0	29.9	35.5	40.1	46.5	50.3
Total.....	67.3	69.5	74.2	78.0	83.7	92.8	104.7	113.6	125.1	133.8

Leased space, financed by—											
Operating expenses (see above).....	20.3	20.5	21.4	22.0	22.1	22.0	24.0	26.9	30.6	30.4	
Other agencies and other GSA funds.....	13.1	13.5	14.4	14.5	14.0	13.9	13.0	14.0	12.8	13.2	
Total.....	33.4	34.0	35.8	36.5	36.1	35.9	37.0	40.9	43.4	43.6	
Total, all space.....	100.7	103.5	110.0	114.5	119.8	128.7	141.7	154.5	168.5	177.4	
Construction (in millions of dollars):											
GSA direct:											
Construction:											
Appropriations.....	5.7	.5	3.9	173.1		166.0	215.4	182.4	157.6	164.7	
Obligations.....	4.3	5.5	4.1	55.0	95.7	127.4	79.4	243.2	125.6	167.2	
Sites and expenses:											
Appropriations.....	15.0	5.0	20.3	39.9	25.0	21.0	24.9	30.5	40.0	20.1	
Obligations.....	3.6	13.2	7.9	30.3	8.8	18.9	14.5	36.2	33.8	23.3	
Payments, purchase contracts:											
Appropriations.....		.2	1.3	.3	1.7	4.0	5.2	5.4	5.2	*9.9	
Obligations.....			.1	.1	1.3	3.7	4.7	5.0	5.2	*9.8	
Transfer to GSA, construction:											
Appropriation.....	17.5	65.4	43.5	133.4	24.3	56.3	56.1	51.8	84.5	61.6	
Obligations.....	14.6	59.5	39.6	85.8	46.6	62.6	49.3	41.2	69.9	44.0	
Other:											
Appropriations.....							4.5	8.5	1.0	1.0	
Obligations.....							1.3	3.1	5.0	2.4	
Number of employees, end of period:											
Central office.....	329	367	439	453	422	446	434	465	475	452	
Field.....	19,588	19,786	19,936	19,873	20,045	20,490	*19,793	20,122	21,591	22,186	
Total.....	19,917	20,153	20,375	20,326	20,467	20,936	20,227	20,687	22,066	22,638	

<sup>1</sup> Includes allocation to Commerce.

<sup>2</sup> Includes telecommunication income for the following fiscal years not identifiable by source: 1956, \$14,400,000; 1957, \$15,500,000; 1958, \$17,100,000.

<sup>3</sup> Including \$20,900,000 relating to POD modernization recorded in satellite ledger.

<sup>4</sup> Includes funds for prepayment of 12 contracts estimated at \$5,700,000.

<sup>5</sup> Decrease represents transfers to Transportation and Communications Service.

## Federal Supply Service—Selected statistics, fiscal years 1956–65

[Dollars in millions]

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Stores depot sales, including fuel.....	\$96.4	\$116.4	\$120.7	\$145.5	\$154.3	\$183.2	\$229.6	\$259.7	\$287.8	\$343.9
Direct delivery sales including items paid direct by using agency.....	112.8	148.0	140.5	176.7	153.1	160.3	201.9	213.8	229.9	272.6
General supply fund inventories, end of period.....	29.8	37.1	41.1	53.1	55.5	66.3	94.8	105.6	182.7	188.1
Federal supply schedule purchases.....	333.2	373.7	411.3	511.7	540.2	644.8	697.1	782.0	985.6	962.0
Operating expense obligations:										
Expenses, supply distribution.....	15.0	16.1	18.5	20.9	<sup>1</sup> 22.1	<sup>1</sup> 24.9	30.1	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
Operating expenses, FSS: <sup>3</sup> Definite, appropriation.....	2.6	3.0	3.4	3.7	<sup>1</sup> 2.9	<sup>1</sup> 3.4	<sup>4</sup> 4.0	39.8	47.8	53.5
Other (advances and reimbursements).....	1.7	2.0	2.8	3.5	3.5	4.1	3.8	<sup>5</sup> 4.1	<sup>5</sup> 5.7	<sup>5</sup> 7.7
Number of employees, end of period—expenses, supply distribution:										
Central office.....	268	300	319	297	343	375	433	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
Field.....	1,479	1,497	1,464	1,522	1,553	1,753	2,120	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
Total.....	1,747	1,797	1,783	1,819	1,896	2,128	2,553			
All other: <sup>6</sup>										
Central office.....	202	247	246	254	209	249	297	720	813	863
Field.....	279	321	342	387	374	465	294	2,709	3,159	3,494
Total.....	481	568	588	641	583	714	<sup>6</sup> 591	3,429	3,972	<sup>7</sup> 4,357
Total Federal Supply Service: <sup>6</sup>										
Central office.....	470	547	575	563	568	638	730	720	813	863
Field.....	1,959	2,102	2,144	2,284	2,376	2,703	2,414	2,709	3,159	3,494
Total.....	2,429	2,649	2,719	2,847	2,944	3,341	3,144	3,429	3,972	<sup>7</sup> 4,357

<sup>1</sup> Reflects transfers of costs of buying and inspection relating to Federal supply schedules from "Operating expenses, FSS," to "Expense, supply distribution."

<sup>2</sup> Financed from "Operating expense, FSS," effective July 1, 1962.

<sup>3</sup> Adjusted to show comparative transfers to "Operating expenses, utilization and disposal service," beginning in fiscal year 1962.

<sup>4</sup> Adjusted to exclude costs for motor vehicle management transferred to TSC and property rehabilitation transferred to UDS.

<sup>5</sup> Reimbursable activity only.

<sup>6</sup> Excludes 322 employees assigned to OCDM warehousing program. Transferred to DMS in August 1962.

<sup>7</sup> Includes 3,727 employees financed from "Operating expense, FSS," and 630 from reimbursable funds.

Utilization and Disposal Service—Selected statistics, fiscal years 1956–65

[Dollars in millions]

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
<b>Real property:</b>										
<b>Excess property (acquisition cost):</b>										
Excess workload for period.....	\$333.0	\$184.0	\$449.0	\$671.0	\$1,131.0	\$908.0	\$1,162.0	\$1,262.0	\$1,033.0	\$1,124.0
Utilization transfers.....	11.0	6.0	32.0	18.0	10.0	79.0	87.0	114.0	101.0	158.0
Withdrawn by holding agency.....	8.0	7.0	11.0	13.0	24.0	8.0	10.0	31.0	77.0	84.0
Determined surplus.....	261.0	96.0	312.0	427.0	766.0	545.0	657.0	675.0	527.0	569.0
Inventory end of period.....	53.0	75.0	94.0	215.0	331.0	366.0	408.0	442.0	328.0	313.0
<b>Surplus property (acquisition cost):</b>										
Surplus workload for period.....	417.0	358.0	460.0	704.0	1,293.0	1,376.0	1,398.0	1,361.0	1,333.0	1,336.0
Sold.....	87.0	27.0	80.0	81.0	320.0	413.0	442.0	360.0	340.0	260.0
Donations.....	19.0	26.0	26.0	31.0	67.0	116.0	91.0	69.0	49.0	183.0
Recalled from surplus.....	5.0	12.0	16.0	7.0	29.0	27.0	100.0	53.0	122.0	138.0
Inventory end of period.....	306.0	293.0	338.0	585.0	877.0	820.0	765.0	879.0	822.0	855.0
<b>Sales:</b>										
Appraised full market value.....	\$26.4	\$9.7	\$31.1	\$27.1	\$71.4	\$71.6	\$71.5	\$75.0	\$84.6	\$41.6
Sales price.....	\$26.0	\$11.6	\$40.1	\$31.0	\$78.0	\$71.6	\$78.9	\$77.8	\$90.1	\$46.3
Percent return.....	108.3	119.6	128.9	114.4	109.2	100.0	110.3	103.7	106.5	111.3
<b>Personal property utilization:</b>										
<b>At acquisition cost:</b>										
Rehabilitation <sup>2</sup> .....			\$2.9	\$5.5	\$7.5	\$13.3	\$21.0	\$22.9	\$53.4	\$73.6
Excess property workload.....	\$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	\$3,456.4
Utilization transfers.....	\$94.9	\$83.2	\$138.0	\$141.4	\$218.0	\$310.1	\$362.7	\$475.1	\$623.0	\$676.6
Donations.....	\$194.1	\$212.8	\$289.0	\$361.0	\$413.0	\$387.7	\$350.7	\$343.8	\$392.5	\$407.8
Usable property sold <sup>3</sup> .....	\$2.3	\$2.0	\$11.7	\$19.3	\$17.1	\$24.4	\$39.8	\$39.5	\$65.8	\$69.8
<b>For deposit in Treasury:</b>										
Sales price <sup>4</sup> .....	\$0.8	\$0.6	\$1.7	\$1.7	\$2.7	\$3.6	\$5.8	\$7.5	\$9.3	\$10.2
Percent return <sup>4</sup> .....	34.8	30.0	14.5	8.8	15.8	14.8	14.6	18.9	14.1	14.6
Scrap <sup>5</sup> .....						\$0.5	\$0.6	\$0.7	\$0.8	\$1.1
Total proceeds <sup>1</sup> .....	.8	.6	1.7	1.7	2.7	4.1	6.4	8.2	10.1	11.3
<b>Operating expenses: Cost:<sup>7</sup></b>										
Real property activities.....	\$2.7	\$2.3	\$2.3	\$2.4	\$3.6	\$3.6	\$4.0	\$4.5	\$4.3	\$3.6
Personal property activities.....	.8	1.1	1.6	1.9	2.2	3.0	4.0	4.6	4.9	5.4
Subtotal.....	3.5	3.4	3.9	4.3	5.8	6.6	8.0	9.1	9.2	9.0
Expenses, disposal of surplus real & related personal property.....	.3	.4	.7	1.0	1.9	1.2	1.2	1.0	.8	.8
<b>Total.....</b>	<b>3.8</b>	<b>3.8</b>	<b>4.6</b>	<b>5.3</b>	<b>7.7</b>	<b>7.8</b>	<b>9.2</b>	<b>10.1</b>	<b>10.0</b>	<b>9.8</b>

See footnotes at end of table, p. 128.



## Utilization and Disposal Service—Selected statistics, fiscal years 1956-69—Continued

[Dollars in millions]

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Number of employees, end of period: <sup>1</sup>										
Central office.....	\$50	\$71	\$71	\$82	\$87	\$96	\$122	\$128	\$122	\$120
Field.....	166	225	278	281	330	401	499	529	526	544
Subtotal.....	216	296	349	363	417	497	621	657	648	66
Reimbursable.....							5	5		
Total.....	216	296	349	363	417	497	626	662	648	664

<sup>1</sup> Includes assignments.<sup>2</sup> Program initiated in 1958.<sup>3</sup> Program for GSA-conducted sales on behalf of other agencies commenced in fiscal year 1959.<sup>4</sup> Of usable property.<sup>5</sup> On usable property.<sup>6</sup> Proceeds.<sup>7</sup> Adjusted to show comparative transfers from operating expenses, Public Buildings Service (real property), and operating expenses Federal Supply Service (personal property).

## National Archives and Records Service—Selected statistics, fiscal years 1956–65

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
<b>Records centers (thousands of cubic feet):</b>										
<b>Accessions:</b>										
Regional centers.....	733	629	581	692	688	694	741	735	771	761
National personnel records centers.....	20	14	16	13	13	50	78	128	64	70
<b>Disposals:</b>										
Regional centers.....	285	325	346	405	411	570	537	555	542	552
National personnel records centers.....	7	6	5	5	5	17	13	6	28	10
<b>Inventory, end of period:</b>										
Regional centers.....	2,908	3,186	3,391	4,677	5,301	5,362	5,438	5,784	5,994	6,129
National personnel records centers.....	428	436	449	457	463	1,373	1,512	1,661	1,695	1,778
<b>Reference services (thousands):</b>										
Regional centers.....	1,226	1,663	1,944	2,621	2,946	2,972	3,110	3,125	3,104	3,166
National personnel records centers.....	642	685	559	530	483	1,842	1,794	1,690	1,640	1,673
<b>Operating expenses (obligations in millions).....</b>	<b>\$6.6</b>	<b>\$7.0</b>	<b>\$7.9</b>	<b>\$9.1</b>	<b>\$9.4</b>	<b>\$14.2</b>	<b>\$13.9</b>	<b>\$14.4</b>	<b>\$14.7</b>	<b>\$15.8</b>
All records centers.....	3.8	4.0	4.2	4.8	5.0	8.9	8.6	8.6	8.6	9.5
All other activities.....	2.8	3.0	3.7	4.3	4.4	5.3	5.3	5.8	6.1	6.3
<b>Number of employees, end of period.....</b>	<b>969</b>	<b>991</b>	<b>1,096</b>	<b>1,156</b>	<b>1,168</b>	<b>1,846</b>	<b>1,848</b>	<b>1,795</b>	<b>1,739</b>	<b>1,797</b>
All records centers.....	584	590	680	658	655	1,310	1,306	1,235	1,172	1,224
All other activities <sup>1</sup> .....	385	401	416	498	513	536	542	560	567	573
<b>Central office.....</b>	<b>338</b>	<b>353</b>	<b>357</b>	<b>440</b>	<b>452</b>	<b>470</b>	<b>464</b>	<b>492</b>	<b>490</b>	<b>512</b>
<b>Field.....</b>	<b>631</b>	<b>638</b>	<b>739</b>	<b>716</b>	<b>716</b>	<b>1,376</b>	<b>1,384</b>	<b>1,303</b>	<b>1,249</b>	<b>1,285</b>

<sup>1</sup> Excludes gift and trust funds.

Transportation and Communications Service <sup>1</sup>—Selected statistics, fiscal years 1956–1965

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Regulatory proceedings:										
Transportation cases:										
Entered.....	7	21	16	9	12	9	2	10	8	5
Concluded.....	6	7	18	7	11	14	4	9	11	9
Pending—end of period.....	8	22	20	22	23	18	16	17	14	10
Utility cases—GSA:										
Entered.....		6	7	2	5	4	5	2	4	2
Concluded.....	1	2	3	3	7	4	2	5	4	4
Pending—end of period.....	1	5	9	8	6	6	9	5	5	3
Utility cases—delegated.....			2		10	11	9	4	3	6
Communications: including SAGE cases:										
Entered.....		2	1	3	7	9	2	7	5	2
Concluded.....					2	3	2	4	3	7
Pending—end of period.....		2	3	6	9	15	15	19	21	16
Estimated freight savings (in millions).....	\$9.3	\$9.7	\$12.1	\$16.9	\$15.6	\$24.1	\$16.9	\$19.1	\$12.5	\$31.0
Intergency motor vehicles pools: <sup>2</sup>										
Studies completed (cumulative).....	14	29	42	56	68	73	78	78	91	99
Pools activated (cumulative).....	12	22	33	44	56	60	66	75	82	91
Operating expense: (obligations in thousands) <sup>4</sup> .....	\$1,694	\$1,959	\$2,515	\$2,995	\$2,977	\$3,305	\$4,046	\$4,800	\$5,129	\$5,834
Operating expenses.....	1,672	1,829	2,305	2,758	2,755	3,057	3,807	4,554	4,915	5,634
Other.....	22	130	210	237	222	248	239	246	214	200
Federal telecommunications fund: <sup>5</sup>										
Income.....	\$14.4	\$15.5	\$17.1	\$19.3	\$21.1	\$22.7	\$27.1	\$33.6	\$41.8	\$63.5
Expense.....	\$14.4	\$15.4	\$17.0	\$19.4	\$21.2	\$22.8	\$26.7	\$33.3	\$39.5	\$68.0
Number of employees—end of period:										
Regular:										
Central office.....	163	193	214	193	165	165	190	223	221	236
Field.....	101	98	125	125	169	168	183	195	177	188
Total.....	264	291	339	318	334	333	373	418	398	424
General supply fund: <sup>6</sup>										
Central office.....			10	12	16	14	12	12	14	14
Field.....	201	284	338	375	449	485	502	535	681	794
Total.....	201	284	348	387	465	499	514	547	695	808

Federal telecommunications funds: <sup>1</sup> <sup>2</sup>										
Central office.....									12	28
Field.....							1,274	1,366	1,488	1,469
Total.....							1,274	1,366	1,500	1,497
Total, Transportation and Communications Service:										
Central office.....	163	193	224	205	181	179	202	235	247	278
Field.....	302	382	463	500	618	653	1,959	2,096	2,346	2,451
Total.....	465	575	687	705	799	832	2,161	2,331	2,593	2,729

<sup>1</sup> Established in fiscal year 1962.

<sup>2</sup> Transferred from Federal Supply Service during fiscal year 1962.

<sup>3</sup> Telecommunications function transferred from Public Buildings Service during fiscal year 1962.

<sup>4</sup> Motor vehicle and communications management transferred during fiscal year 1962 from FSS and PBS, respectively.

<sup>5</sup> Activated July 1, 1963.

## Defense Materials Service—Selected statistics, fiscal years 1956–65

[Dollars in millions]

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
All programs (acquisition cost):										
Inventories end of period:										
National stockpile.....	\$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	\$5,394.6
Supplemental stockpile.....		216.6	291.9	604.1	754.2	950.6	1,141.1	1,276.1	1,358.2	1,396.5
Defense production.....	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	1,379.9
Department of the Interior.....		17.9	23.0							
RFC/FFC.....		9.2	9.5	9.5	9.5	9.5				
Commodity Credit Corporation.....	162.6	143.5	226.5	98.5	119.1	108.8	99.9	57.4	15.3	10.1
Total.....	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	8,181.1
Disposals:										
SCM.....						\$42.2	\$47.7	\$80.5	\$127.1	\$343.3
DPA.....						\$27.1	\$29.2	\$30.0	\$40.0	\$80.2
FFC tin.....							\$10.6			
Other.....										\$9.0
Number of storage locations, end of period (excludes NIER).....	242	224	216	217	215	213	208	165	158	152
OCDM warehousing:										
Warehouses in operation.....	18	21	24	23	22	22	21	161	152	141
Inventory, end of period.....	\$78.3	\$85.0	\$96.2	\$99.5	\$99.5	\$100.8	\$117.5	*\$208.9	*\$216.6	*\$228.8
Strategic and critical materials:										
Expenses (obligations):										
New materials purchases.....	\$229.4	\$191.2	\$80.8	\$4.3	\$1.6	\$0.6	\$1.0	\$0.7	\$0.0	\$0.3
Upgrading of materials.....			2.3	4.5	0.6	3.6	.4	.1	( <sup>1</sup> )	( <sup>1</sup> )
Rotation purchases.....	09.1	70.2	40.2	48.1	14.4	8.5	13.4	.4		
Storage, industrial equipment, and operating expenses.....	17.2	18.2	20.3	25.1	19.0	17.6	17.1	16.5	15.2	16.4
Total.....	336.7	279.6	143.6	82.0	35.6	30.3	31.9	17.7	15.8	16.7
Defense Production Act:										
Cumulative gross transactions contracted, end of period.....	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	7,719.9
Deliveries of strategic materials.....	286.7	216.2	495.2	246.6	135.1	72.0	57.0	21.5	4.0	
Gross expenditures for operations.....	349.6	281.7	552.0	310.1	224.1	163.8	129.9	90.8	74.4	79.8

Number of employees, end of period:										
Central office.....	248	233	214	176	152	143	138	138	130	137
Field.....	398	685	596	553	513	525	793	909	889	835
Total.....	646	913	810	729	665	668	931	1,047	1,019	972

<sup>1</sup> Includes storage locations under fallout shelter supply program: June 30, 1963, 40; June 30, 1964, 33; June 30, 1965, 24. No activity prior to fiscal year 1963.

<sup>2</sup> Does not include value of material used as payment of upgrading fees (1964, \$936,000; 1965, \$3,015,300).

<sup>3</sup> Includes prepositioned hospitals of \$50,500,000.

*Relationship of A.O. fund employment to total GSA employment—Selected statistics, fiscal years 1956–65*

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Total GSA employment.....	26,426	27,410	27,891	27,946	28,213	29,044	31,519	32,650	34,897	36,092
Total A.O. fund employment:										
Number.....	1,826	1,951	2,009	2,005	<sup>1</sup> 1,960	<sup>2</sup> 1,982	2,167	2,297	2,289	2,330
Percent of total GSA.....	6.9	7.1	7.2	7.2	6.9	6.6	6.8	7.0	6.6	6.6
Finance and administration (excludes ADP).....	1,729	1,685	1,713	1,702	1,554	1,542	1,587	1,670	1,656	1,710
Percent of total GSA.....	6.5	6.1	6.1	6.1	5.5	5.1	5.0	5.1	4.7	4.7
Automatic data processing.....		149	171	177	275	315	466	489	495	482
Percent of total GSA.....		0.5	0.6	0.6	1.0	1.1	1.4	1.5	1.4	1.3
Legal services.....	97	117	125	126	131	125	134	138	138	138
Percent of total GSA.....	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4

<sup>1</sup> Excludes 432 youth opportunity campaign employees.

<sup>2</sup> Gives effect to comparative transfer of employees to "Salaries and expenses, Office of Administrator."

*Savings and economies to the Government as a result of GSA operations—Fiscal years 1964 and 1965*

[In millions of dollars]

Selected statistics	1965	1964
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.....	307.0	270.2
(b) Reduction in freight costs of GSA and other Government agencies through consolidation of shipments, negotiation of rates with carriers, etc.....	31.0	12.5
(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.....	24.0	31.3
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.....	.4	.6
(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.....	5.0	4.9
(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.....	8.1	7.9
(2) Conversion of manual operations by use of mechanical devices.....	1.1	.7
(d) The expansion of the motor pool program (activated in 1954) as compared with prepool operations by agencies continues to pay dividends to the Government—annual savings.....	16.0	11.1
(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).....	918.6	\$801.0
(2) Proceeds from sales of:		
a. Personal property.....	11.3	10.1
b. Real property.....	46.3	90.1
(3) Rehabilitation of personal property and distribution of such property through the GSA supply system (acquisition cost).....	73.6	53.4
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.....	.1	.2
(b) Automation of mass paperwork operations in accounting, payrolling, billings, and collections.....	.3	.1
(c) Economies resulting from audit of contractor operations and adoption of employee suggestions for improvement of procedures.....	.2	1.1
Total.....	1,443.0	1,295.2