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ECONOMIC IMPACT OF FEDERAL
PROCUREMENT

REPORT
OF THE
SUBCOMMITTEE ON FEDERAL PROCUREMENT
AND REGULATION
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



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LETTERS OF TRANSMITTAL

JULY 19, 1965.

To the Members of the Joint Economic Committee:

I am transmitting herewith for your use, and for the use of other interested Members of Congress, a report on the "Economic Impact of Federal Procurement," by the Subcommittee on Federal Procurement and Regulation.

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

JULY 16, 1965.

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

DEAR MR. CHAIRMAN: Transmitted herewith is a report of the Subcommittee on Federal Procurement and Regulation on the "Economic Impact of Federal Procurement." This report is a followup to the recommendations of the subcommittee reports of October 1960, July 1963, and September 1964, and is based upon hearings of April 27, 28, and 29, 1965, staff field investigations and material.

The subcommittee calls attention to the splendid cooperation received from the witnesses and staff of the testifying agencies; i.e., Department of Defense, General Accounting Office, General Services Administration, and Bureau of the Budget.

Special credit must be accorded to Comptroller General Joseph Campbell and staff, and to a joint Department of Defense-General Services Administration study group for excellent reports prepared at our request on the management of short-shelf-life items by Federal agencies. These confirming studies of a relatively small inventory of \$703,493,000 reflect the quality of Federal supply management generally from requirements determination, through procurement, storage, inventorying, utilization, and disposal. Further, they indicate the pressing need for much better supply management including the development of a national supply system as recommended in this report.

In the subcommittee's hearings and in this report, emphasis has been placed on the impact of procurement and related activities on the economy, and there has been a careful avoidance of subjects of a military nature.

Faithfully yours,

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

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ECONOMIC IMPACT OF FEDERAL PROCUREMENT

INTRODUCTION

Since 1950 the Subcommittee on Federal Procurement and Regulation has issued three reports,¹ has held five hearings² covering 12 days, and its staff has issued four compilations³ on background materials relating to the subcommittee's interests.

It is impossible to portray the scope of Federal procurement. The Department of Defense alone issues some 10 million contract actions annually.⁴ The estimated dollar range of Federal procurement obligations is shown by Budget Bureau statistics as follows for the fiscal year 1965:⁵

¹ Report, October 1960: "Economic Aspects of Military Procurement and Supply," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, 86th Cong., 2d sess. (Hereinafter called "Report, October 1960.")

Report, July 1963: "Impact of Military Supply and Service Activities on the Economy," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, 88th Cong., 1st sess., July 1963. (Hereinafter called "Report, July 1963.")

Report, September 1964: "Economic Impact of Federal Supply and Service Activities," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, Congress of the United States, 88th Cong., 2d sess. (Hereinafter called "Report, September 1964.")

² Hearings, 1960: "Impact of Defense Procurement," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 86th Cong., 2d sess., Jan. 28, 29, and 30, 1960. (Hereinafter called "Hearings, 1960.")

Hearings, 1961: "Progress Made by the Department of Defense in Reducing the Impact of Military Procurement on the Economy," hearing before the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 87th Cong., 1st sess., June 12, 1961. (Hereinafter called "Hearings, 1961.")

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

Hearings, 1964: "Impact of Military and Related Civilian Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 88th Cong., 2d sess., Apr. 16 and 21, 1964. (Hereinafter called "Hearings, 1964.")

Hearings, 1965: "Economic Impact of Federal Procurement," hearings before the Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, 89th Cong., 1st sess., Apr. 27, 28, and 29, 1965. (Hereinafter called "Hearings, 1965.")

³ Staff study, 1960: "Background Material on Economic Aspects of Military Procurement and Supply," materials prepared for the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 86th Cong., 2d sess., February 1960.

Staff study, 1963: "Background Material on Economic Aspects of Military Procurement and Supply," materials prepared for the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 88th Cong., 1st sess., March 1963.

Staff study, 1964: "Background Material on Economic Aspects of Military Procurement and Supply, 1964," materials prepared for the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 88th Cong., 2d sess., April 1964. (Hereinafter called "Staff Materials, 1964.")

Staff study, 1965: "Background Material on Economic Impact of Federal Procurement, 1965," materials prepared for the Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, 89th Cong., 1st sess., April 1965. (Hereinafter called "Staff Materials, 1965.")

⁴ "Hearings, 1965," p. 2.

⁵ "Staff Materials, 1965," p. 3. Detail may not add to total because of rounding.

	<i>Billions</i>
Contractual services and supplies:	
Travel and transportation of persons.....	\$1.262
Transportation of things.....	2.989
Rent, communications, and utilities.....	2.258
Printing and reproduction.....	.266
Other services.....	20.441
Services of other agencies.....	.846
Supplies and materials.....	20.896
Total.....	48.959
Acquisition of capital assets:	
Equipment.....	14.971
Lands and structures.....	4.574
Investments and loans.....	9.912
Total.....	29.457
Grand total.....	78.416

In addition to such annual outlays are the estimated Federal real and personal property holdings, generally computed at acquisition cost, as of June 30, 1964:⁶

	<i>Billions</i>
Personalty.....	\$230
Realty.....	94

It is obvious that the questions of how the functions of procurement, transportation, storage, issuance, and disposal are done—and where, when, and by whom—vitaly affect our economy. These activities have great impact even on an economy with an anticipated gross national product of \$660 billion in 1965.

As in previous years, the subcommittee has been interested in determining the quality of the job being performed by the Federal procurement system and the progress achieved in the elimination of waste. Procurement is one of the major functions of the Federal Government and historically the most wasteful.

It is gratifying, therefore, to the subcommittee that the Department of Defense is now organized and operated so that its cost reduction program reflects savings in the fiscal 1966 budget of \$4.1 billion and has a goal of \$4.8 billion savings by fiscal 1968.⁷ In the view of the subcommittee members who have long been conversant with this problem of waste, savings of such magnitude have been possible over the past decade and longer.

The hearings held by the subcommittee, as well as the excellent reports issued by the Comptroller of the United States during the past year, have indicated that greater improvement is attainable.⁸ With the proper attitude that now prevails in top management in both the Department of Defense and the General Services Administration, and with the vital support of the Executive Office of the President, the subcommittee believes that a solution to the major problems can be found. The foundation has been laid, the necessary tools and know-how are available, and the problem areas have been identified to a large extent and are awaiting resolution.

Findings and recommendations for improvement on some major points are briefly stated in the following pages of this report.

⁶ "Federal Real and Personal Property Inventory Report," as of June 30, 1964. Committee on Government Operations, U.S. House of Representatives, 88th Cong., 2d sess., p. 11.

⁷ See Secretary McNamara's statement, "Hearings, 1965," pp. 9-10.

⁸ See digests of reports, "Staff Materials, 1965," pp. 66-212.

FINDINGS AND RECOMMENDATIONS

I. DEVELOPMENT OF A NATIONAL SUPPLY SYSTEM

Findings. The prospect for an economical and efficient supply and general services system as intended by Congress⁹ for the Federal Government has never been so bright. The President has declared "war on waste" and has launched a cost reduction program Governmentwide thus enlarging and fortifying the successful efforts of Secretary McNamara in the Department of Defense.

Pursuant to the subcommittee's urging the development of an overall plan for supply management,¹⁰ the Department of Defense and the General Services Administration, with the participation of the Bureau of the Budget have entered into a cooperative agreement for the development of a national supply system.¹¹

Recommendation. The Bureau of the Budget, General Services Administration, Department of Defense, and other agencies involved, should resolve, within the next year, the long-pending problem as to the management of the common commodity classes under consideration; i.e., subsistence, medical, photographic, electronics, and clothing and textiles. A report on action taken is expected at next year's hearings.

Decisions are also expected on the optimum integration of the Veterans' Administration, Post Office Department, National Aeronautics and Space Administration, Federal Aviation Agency, and other agency supply systems into the national system.

II. UTILIZATION OF PERSONAL PROPERTY INVENTORIES

Findings. The Department of Defense reports a stores inventory of almost \$40 billion.¹² About one-third of this is or soon will be in long supply. In fiscal 1964, total dispositions of surplus personal property amounted to \$5.399 billion with \$3.818 billion going to scrap; \$0.980 billion sold (other than scrap and salvage); \$0.273 billion donated; \$0.194 billion used by other Government agencies; \$0.117 billion abandoned or destroyed; and \$0.017 billion, other.¹³

There is a potential for much greater Government utilization of inventories from which surplus declarations have averaged \$5.833 billion for fiscal years 1958-64.¹⁴

A Federal catalog system has been developed at a cost of \$400 to \$500 million that includes some 4 million items; standardized requisitioning procedures and documentation have been developed; and large-scale computers are available in the big supply operations of the Government. The Defense Logistics Supply Center at Battle Creek,

⁹ Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 471, sec. 2.

¹⁰ See "Report, 1960," pp. XII, 59, and "Report, 1963," pp. 4-5, 48. See also "Hearings, 1964," p. 175; "Staff Materials, 1964," pp. 169-170; and "Staff Materials, 1965," pp. 214 et seq.

¹¹ For text of agreement, see "Staff Materials, 1965," p. 217.

¹² "Hearings, 1965," p. 3.

¹³ "Staff Materials," 1965, p. 27.

¹⁴ *Ibid.*, p. 27.

Mich., as a screening agency for the Defense Supply Agency, is particularly well equipped with computers necessary for such an expanded function.

Recommendation. As a part of the national supply system, the Department of Defense and the General Services Administration, with the assistance of the Bureau of the Budget, should institute a program at the earliest date to match agency needs against existing long stocks of the Federal Establishment. This is a program which could save the taxpayers untold millions of dollars. Necessary regulations and procedures should be issued as Executive orders under existing legislation to insure success.

The subcommittee, at next year's hearing, will be vitally interested in the results achieved.

III. SPECIAL PROGRAM FOR MANAGEMENT OF SHORT-SHELF-LIFE ITEMS

Findings. The subcommittee's hearings in previous years disclosed that large amounts of military paint, photographic supplies, rubber goods, adhesive tape, and other items were overstocked and eventually became unusable.¹⁵ When the management of paint was transferred from the Department of Defense to the General Services Administration it was found that a considerable amount of the stock was not issuable.¹⁶ The General Accounting Office was requested to make a study and report on the subject to the subcommittee by March 1965.¹⁷

The General Accounting Office report revealed large losses and faulty inventory records when the stocks were transferred. The report concludes:

* * * we found evidence that basically the losses were attributable to deficient supply management practices within the Department of Defense.¹⁸

Of concern to the subcommittee is whether such unissuable stock would have remained undetected and issued. This would result in the loss of time and expense; but in an emergency this could result in the loss of life and property. Unissuable stocks have no place in inventories, reserves, or stockpiles.

What, too, are the facts about the stocks of medical supplies, chemicals, rubber goods, photographic supplies, and the many other items and classes of short-shelf-life items which have a reported value of \$703 million? And what are the facts about the entire \$40 billion inventory? When the time comes to use costly stocks, long held at added expense, they should meet the anticipated needs and the records should be accurate.

The subcommittee report of September 1964 also recommended:

* * * that the General Services Administration and the Defense Supply Agency set up a joint project to identify and use throughout the Government the existing short-shelf-life items now in stock and to devise ways and means to reduce losses from these items in the future:¹⁹

¹⁵ Six million dollars paint inventory surplus in 1957-58, "Hearings, 1960," p. 181. See also "Hearings, 1961," p. 53.

¹⁶ "Report, 1964," pp. 25-26.

¹⁷ *Ibid.*, pp. 10-11.

¹⁸ Full text of GAO report in "Staff Materials, 1965," pp. 224-241.

¹⁹ "Report, 1964," p. 11.

A study was promptly initiated, an excellent joint report prepared, and a program developed which will produce worthwhile savings if the recommendations are vigorously pursued inasmuch as short-shelf-life items totaling \$703 million have been identified.²⁰

There are, of course, roadblocks to success as shown by the subcommittee's recent hearings on the use and rotation of medical stockpile material.²¹ First, agencies are loath to reveal their overstocks which may be, but are not necessarily, the result of poor requirements determination. Second, there may be differences in packaging. Third, though the life of an item may not have expired, agencies do not want to acquire aging or secondhand items. Fourth, there is the question of reimbursement. However, despite the problems, the stakes are large.

Recommendation. The subcommittee recommends that top management in the Department of Defense, General Services Administration, Bureau of the Budget, and in the using agencies, as one step, put a freeze on purchases until excessive inventories which may otherwise become useless have been consumed. This has recently been done by Executive order on the purchasing of file cabinets with real success.²² The program can be expanded many times over since filing cases and short-shelf-life items comprise only a fraction of the multi-billion-dollar Federal inventory.

IV. DEFENSE SUPPLY AGENCY

Findings. One of the recent major developments in Federal supply management was the creation of the Defense Supply Agency in 1961. Since the Defense Supply Agency became operational on January 1, 1962, the Agency has achieved remarkable success. By the end of fiscal 1965, this Agency will be doing the missions assigned with 7,800 fewer people than the services were using for the same functions. This is about a 25-percent reduction in force. Annual savings by the Defense Supply Agency are estimated at \$56.1 million. Despite the increase in workload and reduction in staff, the Agency has achieved a remarkable customer support with a 90.9 percent "stock availability" and an 85 percent "on time fill" of requisitions for fiscal 1965 as compared to 89.2 and 72.4 percent, respectively, for fiscal 1964.²³

In its report last year, the subcommittee noted that the military services were retaining items for management on the theory that they were "weapons related" though similar items of a common nature were managed by the Defense Supply Agency. The subcommittee, therefore, recommended:

* * * that the Office of the Secretary of Defense make the division of responsibility on the basis of effectiveness, efficiency, and economy, in the light of developments in improved inventory controls and advanced systems of distribution.²⁴

The matter was restudied with the result that 500,000 additional items will be turned over to the Defense Supply Agency for manage-

²⁰ "Hearings, 1965," pp. 379 et seq.

²¹ *Ibid.*, pp. 120 et seq.

²² *Ibid.*, pp. 198-199.

²³ "Hearings, 1965," p. 88.

²⁴ "Report, 1964," p. 4.

ment.²⁵ This will give the Agency the management of approximately 1,500,000 items of the 3,894,000 in the military system.

Recommendation. There should be a periodic review of the assignment of items between the Defense Supply Agency and the services to determine where they can be most effectively managed.

It is also recommended that the General Accounting Office review the requisitioning procedures and practices of those who use the facilities of the Defense Supply Agency and the General Services Administration. It has been noted that some units habitually order the same items several times in 1 day thus placing a heavy workload on the system. There is also the tendency for some units to place a high priority on their orders thus degrading the priority system, delaying other requisitions, and burdening the supply system.

While first-class supply service should be rendered by the depots, the requisitioners also have a responsibility to do a reasonable job of planning.

V. REAL PROPERTY MANAGEMENT

Findings. Secretary McNamara testified that 669 surplus facilities were declared by the Department of Defense from January 20, 1961, through December 31, 1964; 149,881 jobs were eliminated; and 1,480,267 acres released, with a total annual savings of \$1,038 million.²⁶

In many cases the Office of Economic Adjustment of the Department of Defense, working with community leaders, industry groups, congressional delegations, and others, has done admirable work in developing tax-paying industries from surplus properties and restoring them to the tax roll by sale to individuals and small companies. Others of these surplus properties have been transferred to public uses such as municipal airports, schools and universities, parks, recreation lands, and community development projects.

The subcommittee notes that, despite the highly commendable work of the Department of Defense in the face of diverse and determined opposition, the value of the Department of Defense real property holdings has risen without exception year by year. From fiscal 1955 through 1964, as additional facilities were needed to meet the changing and expanding worldwide programs and commitments, real property holdings rose from \$21.343 billion, as of June 30, 1955, to \$36.734 billion as of June 30, 1964—an increase of \$15 billion.²⁷

Recommendation. It is recommended that a continuous review be made by responsible agencies of federally owned facilities with the objective of declaring surplus those facilities no longer required for current purposes or those facilities not economically feasible for operation.

Foresight and advance planning of facility closings and transfers can do much to minimize the economic disruption and personal hardships which often attend decisions even though the expected savings are clear and undebatable.

²⁵ "Hearings, 1965," p. 56.

²⁶ *Ibid.*, pp. 15, 17.

²⁷ "Staff Materials," 1965, p. 6.

VI. COMMON SERVICES: DEPARTMENT OF DEFENSE

Findings. Since the enactment of the McCormack-Curtis amendment to the National Security Act of 1958, the subcommittee has urged the listing or identification of common supply and service activities in the Department of Defense as a step toward their study, analysis, and possible improved management.²⁸

During Secretary McNamara's incumbency, genuine progress has been made in the management of common activities through the establishment of the Defense Supply Agency, Defense Communications Agency, Defense Intelligence Agency, Military Traffic Management and Terminal Service, Contract Administration Service, and Contract Audit Agency. A considerable portion of the economies from the cost reduction program has stemmed from these actions.

Additional study is being made on the managerial aspects of still and motion photography, television, and training in audiovisual skills to determine if the best management methods are being employed.

A survey of publications and printing in the Department of Defense has been completed but decision on its recommendations has been deferred pending an overall survey of publications and printing within the executive branch of the Federal Government.²⁹

The study and solution of this problem has been long deferred. The Second Hoover Commission failed to consider the subject although the act creating the Commission³⁰ was specifically drafted to make such a study possible, as stated in the House report:³¹

In order that the work of the Commission will be aided in its investigation of all relationships affecting the executive branch of the Government, section 9(a) provides for study and investigation of all agencies of the Government except the judiciary and the Congress of the United States. This means that the Government Printing Office, which reportedly does 75 to 80 percent of its work for the executive departments, may be studied in conjunction with those departments.

Inasmuch as the Government Printing Office is the mandatory source of many items of supply and of printing for executive agencies, the subcommittee asked the Bureau of the Budget if the overlap in functions between the General Services Administration and the Government Printing Office, and to some extent between both these agencies and the Post Office was being considered in the development of a Federal supply system.³²

The Bureau of the Budget reply³³ indicates an unawareness of the overall study mentioned by the Department of Defense, *supra*.

Recommendation. It is recommended that the Department of Defense continue to study its common services in order to achieve better management at reduced cost, and that the responsible agencies give full consideration to the duplication in supply functions as between the executive agencies and the Government Printing Office in the overall survey mentioned above as well as in the development of a national supply system.

²⁸ "Hearings, 1961," pp. 58-59.

²⁹ "Hearings, 1965," p. 332.

³⁰ Public Law 109, 83d Cong., 1st sess.

³¹ Report No. 505, 83d Cong., 1st sess., p. 6.

³² "Hearings, 1965," p. 332.

³³ *Ibid.*, pp. 333, 112-134.

VII. COMMON SERVICES: AUTOMATIC DATA PROCESSING EQUIPMENT

Findings. There was considerable testimony at subcommittee hearings again this year about procurement and management of automatic data processing equipment.³⁴ There was agreement that the annual cost of this equipment in purchase and rental is about \$3 billion for civilian agencies, the Department of Defense, and Government contractors. Witnesses also stated that the Federal Government uses about 30 percent of the total outlays for computers in the United States.³⁵

The General Accounting Office issued a basic report, B-115369, June 1958—7 years ago—calling attention to the automatic data processing equipment problem and the need for action. The problem has actually been increasing in scope and intensity for almost two decades.

There is disagreement between the General Accounting Office, which has issued dozens of reports to date on the problem, and the Bureau of the Budget, which recently has made a detailed study of the matter and issued a report which has been printed as a Senate document.³⁶ The disagreement centers on the degree of control which a central agency should have over the procurement, pooling, and management of this vital and expensive equipment.³⁷

Recommendation. The subcommittee again recommends that prompt and thorough hearings be held on pending bills H.R. 4845 (Brooks) and S. 1584 (Douglas).³⁸

If separate legislation is not enacted by the Congress, it is possible and feasible to use the existing authority in the Federal Property and Administrative Services Act of 1949 which has ample savings and exemption provisions to protect operating agencies' programs and responsibilities. The authority for a revolving fund which both the Bureau of the Budget and the General Accounting Office recommend could then be provided separately.

³⁴ Ibid., pp. 205-207, 286-293, 304-318, 406.

³⁵ Ibid., p. 306.

³⁶ S. Doc. No. 15, 89th Cong., 1st sess., "Report to the President on the Management of Automatic Data Processing in the Federal Government."

³⁷ "Hearings, 1965," p. 310. Ibid., p. 406.

³⁸ "Report, 1964," p. 11.

VIII. SURPLUS PROPERTY DISPOSITION

Findings. Basic legislation³⁹ gives the Administrator of General Services supervision and direction over the disposition of surplus property. However, the Administrator, as a practical matter, delegated authority to the Department of Defense to dispose of its surplus property, except for certain classes predetermined to be usable in the Federal Establishment. These classes of property are known as "reportable property."

For some time the Administrator has considered revoking the delegation of authority given to the Department of Defense. Testimony at the recent subcommittee hearings indicated that this move was imminent.⁴⁰ The Administrator has subsequently abandoned the idea of the revocation of the delegation.⁴¹ The function will remain in the Department of Defense which has in its custody an estimated 90 to 95 percent of the property in question.

Recommendation. The subcommittee recommends that the status quo in surplus property disposition be maintained at least until the full potential of the Defense Logistics Supply Center at Battle Creek, Mich., is realized. The Center, which has the disposal mission, should be developed to utilize existing stocks, prior to disposal action, as previously indicated in this report.

³⁹ Federal Property and Administrative Services Act, as amended, 40 U.S.C. 471, sec. 203.

⁴⁰ "Hearings, 1965," pp. 95, 131, 134-136, 188-192, 202-205, 324-327.

⁴¹ *Ibid.*, pp. 326-327.

GENERAL OBSERVATIONS

CONTRACT ADMINISTRATION SERVICES AND THE DEFENSE CONTRACT AUDIT AGENCY

The consolidated contract administration function has been placed under the Contract Administration Services in the Defense Supply Agency. Secretary McNamara testified that, by the end of fiscal 1966, 150 field offices and some 20,000 personnel, concerned with the administration of defense contracts after they are awarded, will be consolidated under a single management.

Considerable savings are expected from this action including \$19 million resulting from the reduction in force by about 1,800.

A new defense agency, to be known as the Defense Contract Audit Agency, will bring under single management the work now performed in 268 field offices employing over 3,400 people. It is expected that 40 of the present field offices will be eliminated with a 5-percent savings in personnel.

The subcommittee commends these actions by the Department of Defense, and plans to review the results brought about by the changes after they have had sufficient time to become effective.

ADVERTISED BIDDING

For several years, the subcommittee has urged the wider use of advertised bidding, not only to secure better prices, but to prevent favoritism, collusion, fraud, nepotism, and other evils which beset negotiated or subjective procurement.

It is pleasing to the subcommittee, therefore, that statistics for fiscal 1964 show a 2-percent increase in formally advertised procurement over the previous year.⁴² And more hopefully, the Secretary of Defense advised that the figures for the first 8 months of fiscal 1965 show that 18.6 percent of the Department of Defense contracts were awarded through advertised competitive bidding as compared with 11.9 percent in 1961 and 14.8 percent in 1964.⁴³

The subcommittee commends this improvement which will probably increase as the standardization, breakout, and the program to improve engineering data and specifications gain momentum.

CONTRACTOR INVENTORY CONTROL

An important question was raised at the hearings concerning the adequacy of the controls over Government-owned inventory in the possession of contractors and also as to the adequacy of the regulations pertaining thereto.⁴⁴

Since time did not permit a full development of this subject, the General Accounting Office is requested to investigate and report its finding to the subcommittee by March 10, 1966.

⁴² "Staff Materials, 1965," p. 21.

⁴³ "Hearings, 1965," p. 39.

⁴⁴ "Hearings, 1965," pp. 200-201, 221-223.

TECHNICAL DATA AND SPECIFICATIONS

Last year's report stated: ⁴⁵

Perhaps no point was stressed so much during the subcommittee's 1964 hearings as the need to have an adequate package of engineering drawings and detailed specifications in order that genuine advertised competitive bidding might be achieved with all the benefits flowing therefrom.

This point was not stressed at this year's hearings since an impressive program has been instituted to deal with the problem as explained by Assistant Secretary of Defense Ignatius:

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

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

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

1. Issued a Department of Defense policy directive governing the determination of data requirements and the procurement of technical data and standardization from exploratory development through production, distribution, use, maintenance, and disposal of military items.
2. Reviewed specifications over 10 years old and as a result canceled 50 percent of those reviewed.
3. Established a Department of Defense-wide data managers' training program.
4. Revised and issued engineering drawing specification (MIL-D-70327), to include drawing acquisition.
5. Initiated a Department of Defense-wide pilot test program to determine the utility for rapid retrieval by Government and contractor engineers of technical information on components.
6. Established other priority projects to bring into sharper focus problems related to technical manuals, data cost, and storage and retrieval systems.

⁴⁵ "Report, 1964," pp. 6-7.

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

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

As data management visibility increases, cost reductions are anticipated. It is not our policy, however, to achieve cost reductions at the expense of quality. Interestingly enough, our experience to date indicates that when valid cost reductions can be achieved in data management, quality of data tends to increase. During the next year, I feel our effectiveness in managing data will increase still further.⁴⁶

⁴⁶ "Hearings, 1965," pp. 52-53.

