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JOINT COMMITTEE PRINT

ECONOMY IN GOVERNMENT—1967: UPDATED BACKGROUND MATERIAL

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FOR THE

SUBCOMMITTEE ON ECONOMY IN GOVERNMENT

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NOVEMBER 1967

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LETTER OF TRANSMITTAL

NOVEMBER 17, 1967.

To the Members of the Joint Economic Committee:

I am transmitting herewith for your use, and for the use of other members of the Congress and the interested public, selected background material on economy in Government. These updated data have been compiled especially for the supplementary hearings of the Subcommittee on Economy in Government scheduled for November 27, 28, 29, and 30, 1967.

This study was prepared by Mr. Ray Ward, temporary economic consultant to the subcommittee, and any findings and conclusions herein are the author's and are neither approved nor disapproved by the subcommittee.

Sincerely,

WILLIAM PROXMIRE,
Chairman, Joint Economic Committee.

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ECONOMY IN GOVERNMENT—1967: UPDATED BACKGROUND MATERIAL

INTRODUCTION

The background material selected herein is intended to indicate the enormity of the Federal Government's property management activities.

Previous reports and hearings of the Subcommittee on Economy in Government and those of other committees and qualified sources, especially the General Accounting Office, continue to show that great economies are possible in these areas at a time of critical need.

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 $184 billion at the end of fiscal year 1966.

Real property holdings increased from $21 to $38 billion and personal property holdings, including construction in progress, from $107 to $145 billion during the 12-year period.

However, "supply systems" inventories have been reduced by $13 billion during this period and "stock funds" by $2 billion. During 1966, there was a small buildup of supply inventories.

TABLE 1.—DOD PROPERTY HOLDINGS AS OF JUNE 30, FISCAL YEARS 1955-66 (1967 FIGURES NOT AVAILABLE)

[In millions of dollars]

Total and type of property	1955	1956	1957	1958	1959	1960
Total	128,694	134,082	146,021	149,465	150,660	154,617
Real	21,343	22,918	24,892	26,891	29,689	31,997
Personal	107,351	111,164	121,129	112,574	120,971	122,620
Supply systems	50,780	50,974	53,799	47,652	44,467	42,002
Stock funds	8,153	9,772	10,970	8,913	8,162	7,312
Appropriated funds	42,627	41,202	42,829	38,739	36,305	34,690
	1961	1962	1963	1964	1965	1966
Total	158,508	164,835	171,364	173,455	176,221	183,570
Real	34,038	35,378	36,565	36,734	37,557	38,390
Personal	124,470	129,457	134,799	136,721	138,664	145,180
Supply systems	40,837	40,652	40,096	38,795	36,986	37,661
Stock funds	6,413	6,154	6,527	5,749	5,327	5,850
Appropriated funds	34,424	34,498	33,569	33,046	31,659	31,811

[1] 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 increased by 5 percent in fiscal 1966 and are estimated to increase more sharply in 1967 and 1968.

TABLE 2.—FEDERAL GOVERNMENT EXPENDITURES AND GROSS NATIONAL PRODUCT—COMPARISON WITH NATIONAL DEFENSE PROGRAMS AND MILITARY FUNCTIONS EXPENDITURES, FISCAL YEARS 1939–68

Fiscal year	Gross national product (billions)	Total, Federal Government		National defense programs [1]			DOD military functions [2] (excluding military assistance)		
		Expenditures (millions)	Percent GNP	Expenditures (millions)	Percent GNP	Percent total Government	Expenditures (millions)	Percent GNP	Percent total Government
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1939	$88.2	$8,841	10.0	$1,075	1.2	12.2	$1,075	1.2	12.2
1940	95.0	9,055	9.5	1,498	1.6	16.5	1,492	1.6	16.5
1941	109.4	13,255	12.1	6,054	5.5	45.7	5,998	5.5	45.2
1942	139.2	34,037	24.5	23,970	17.2	70.4	23,570	16.9	69.2
1943	177.5	79,368	44.7	63,216	35.6	79.6	62,664	35.3	79.0
1944	201.9	94,986	47.0	76,757	38.0	80.8	75,797	37.5	79.8
1945	216.8	98,303	45.3	81,277	37.5	82.7	80,048	36.9	81.4
1946	201.6	60,326	29.9	43,226	21.4	71.7	42,044	20.9	69.7
1947	219.8	38,923	17.7	14,398	6.6	37.0	13,838	6.3	35.6
1948	243.5	32,955	13.5	11,779	4.8	35.7	10,937	4.5	33.2
1949	260.0	39,474	15.2	12,926	5.0	32.7	11,573	4.5	29.3
1950	263.3	39,544	15.0	13,018	4.9	32.9	11,891	4.5	30.1
1951	310.5	43,970	14.2	22,471	7.2	51.1	19,764	6.4	44.9
1952	337.2	65,303	19.4	44,037	13.1	67.4	38,897	11.5	59.6
1953	358.9	74,120	20.7	50,442	14.1	68.1	43,604	12.1	58.8
1954	362.1	67,537	18.7	46,986	13.0	69.6	40,326	11.1	59.7
1955	378.6	64,389	17.0	40,695	10.7	63.2	35,531	9.4	55.2
1956	409.4	66,224	16.2	40.723	9.9	61.5	35,792	8.7	54.0
1957	431.3	68,966	16.0	43,368	10.1	62.9	38,436	8.9	55.7
1958	440.3	71,369	16.2	44,234	10.0	62.0	39,071	8.9	54.7
1959	469.1	80,342	17.1	46,483	9.9	57.9	41,223	8.8	51.3
1960	495.2	76,539	15.5	45,691	9.2	59.7	41,215	8.3	53.8
1961	506.5	81,515	16.1	47,494	9.4	58.3	43,227	8.5	53.0
1962	542.1	87,787	16.2	51,103	9.4	58.2	46,815	8.6	53.3
1963	573.4	92,642	16.2	52,755	9.2	56.9	48,252	8.4	52.1
1964	612.0	97,684	16.0	54,181	8.9	55.5	49,760	8.1	50.9
1965	651.8	96,507	14.8	50,163	7.7	52.0	46,173	7.1	47.8
1966	712.0	106,978	15.0	57,718	8.1	54.0	54,409	7.6	50.9
1967 (estimate)	762.5	126,729	16.6	70,222	9.2	55.4	66,950	8.8	52.8
1968 (estimate)	814.0	135,033	16.6	75,487	9.3	55.9	72,300	8.9	53.5

[1] Bureau of the Budget "National Defense Programs" include Department of Defense military functions, military assistance, atomic energy activities, stockpiling of strategic and critical materials, defense production expansion, Selective Service System, and emergency preparedness activities.

[2] Amounts are adjusted for comparability with current coverage of military functions.

Source: OASD (Comptroller).

Table 3, when compared to table 4, reflects an increase of 32,675 military personnel and 100,533 civilian employees between June 30, 1966, and June 30, 1967.

Table 5, when compared to table 6, reflects an increase of $1,092 million in military pay costs and $833 million in civilian employee pay costs between fiscal years 1966 and 1967.

TABLE 3.—DEFENSE PERSONNEL AND TOTAL POPULATION IN THE UNITED STATES, BY STATE, AS OF JUNE 30, 1967

	Population, July 1, 1966, census (estimated)		Department of Defense as percent of State population	Total Department of Defense [1]		Army		Navy [2]		Air Force	
	Number	Percent of United States		Number	Percent of United States	Number	Percent of United States	Number	Percent of United States	Number	Percent of United States
United States (including Alaska and Hawaii):											
Military				1,864,722	100.0	790,258	100.0	434,656	100.0	639,808	100.0
Civilian				1,135,328	100.0	398,121	100.0	371,150	100.0	287,813	100.0
Total	195,936,000	100.0	1.5	3,000,050	100.0	1,188,379	100.0	805,806	100.0	927,621	100.0
Alabama:											
Military				31,142	1.7	22,107	2.8	546	0.1	8,489	1.3
Civilian				31,274	2.8	21,736	5.4	56	(3)	8,984	3.1
Total	3,511,000	1.8	1.8	62,416	2.1	43,843	3.7	602	0.1	17,473	1.9
Alaska:											
Military				31,641	1.7	13,147	1.7	3,627	.8	14,867	2.3
Civilian				6,775	0.6	2,954	0.7	517	.1	3,265	1.1
Total	265,000	0.1	14.5	38,416	1.3	16,101	1.4	4,144	.5	13,132	1.9
Arizona:											
Military				27,363	1.5	7,371	.9	2,698	.6	17,294	2.7
Civilian				9,162	.8	4,630	1.2	302	.1	4,004	1.4
Total	1,603,000	.8	2.3	36,525	1.2	12,001	1.0	3,000	.4	21,298	2.3
Arkansas:											
Military				9,160	.5	387	(3)	108	(3)	8,665	1.4
Civilian				4,836	.4	3,760	.9	4	(3)	1,016	.4
Total	1,956,000	1.0	0.7	13,996	.5	4,147	.3	112	(3)	9,681	1.0
California:											
Military				251,232	13.5	49,483	6.3	124,807	28.7	76,942	12.0
Civilian				179,445	15.8	25,416	6.4	104,235	28.1	41,064	14.4
Total	18,802,000	9.7	2.3	430,677	14.4	74,899	6.3	229,042	28.4	118,006	12.7

See footnotes at end of table, p. 11.

TABLE 3.—DEFENSE PERSONNEL AND TOTAL POPULATION IN THE UNITED STATES, BY STATE, AS OF JUNE 30, 1967—Continued

	Population, July 1, 1966, census (estimated)		Department of Defense as percent of State population	Total Department of Defense [1]		Army		Navy [2]		Air Force	
	Number	Percent of United States		Number	Percent of United States	Number	Percent of United States	Number	Percent of United States	Number	Percent United of States
Colorado:											
Military				46,816	2.5	25,830	3.3	451	0.1	20,535	3.2
Civilian				17,360	1.5	9,054	2.3	6	(3)	8,148	2.8
Total	1,955,000	1.0	3.3	64,176	2.1	34,884	2.9	457	.1	28,683	3.1
Connecticut:											
Military				4,273	.2	204	(3)	3,989	.9	80	(3)
Civilian				4,051	.4	210	.1	3,010	.8	70	(3)
Total	2,878,000	1.5	.3	8,324	.3	414	(3)	6,999	.9	150	(3)
Delaware:											
Military				9,199	.5	111	(3)	145	(3)	8,943	1.4
Civilian				1,480	.1	67	(3)	0	0	1,397	.5
Total	513,000	.2	2.1	10,679	.3	178	(3)	145	(3)	10,340	1.1
Florida:											
Military				71,807	3.9	3,668	.5	26,435	6.1	41,704	6.5
Civilian				31,667	2.8	1,933	.5	18,750	5.1	10,438	3.6
Total	5,895,000	3.0	1.8	103,474	3.5	5,601	.5	45,185	5.6	52,142	5.6
Georgia:											
Military				94,910	5.1	79,738	10.1	5,837	1.4	9,335	1.5
Civilian				44,910	4.0	20,099	5.0	2,776	.7	21,221	7.4
Total	4,446,000	2.3	3.1	139,820	4.7	99,837	8.4	8,613	1.1	30,556	3.3
Hawaii:											
Military				34,370	1.8	10,697	1.4	12,824	3.0	10,849	1.7
Civilian				22,570	2.0	5,967	1.5	13,065	3.5	3,490	1.2
Total	724,000	0.4	7.9	56,940	1.9	16,664	1.4	25,889	3.2	14,339	1.5
Idaho:											
Military				4,131	.2	68	(3)	920	1.2	3,143	.5
Civilian				580	.1	133	(3)	3	(3)	444	.2
Total	697,000	.3	.7	4,711	.1	201	(3)	923	.1	3,587	.4

Illinois:											
Military				55,929	3.0	6,821	.9	30,005	6.9	19,103	3.0
Civilian				31,933	2.8	17,781	4.5	6,447	1.7	5,540	1.9
Total	10,785,000	5.5	.8	87,862	2.9	24,602	2.1	36,452	4.5	24,643	2.6
Indiana:											
Military				10,405	.5	4,897	.6	613	.2	4,895	.8
Civilian				17,289	1.5	7,351	1.8	8,460	2.3	927	.3
Total	4,951,000	2.5	.6	27,694	.9	12,248	1.0	9,073	1.1	5,822	.6
Iowa:											
Military				1,570	.1	230	(3)	185	(3)	1,155	.2
Civilian				886	.1	536	.1	4	(3)	147	.1
Total	2,760,000	1.4	.1	2,456	.1	766	.1	189	(3)	1,302	.1
Kansas:											
Military				23,496	1.3	11,888	1.5	743	.2	10,865	1.7
Civilian				5,973	.5	4,494	1.1	144	(3)	1,200	0.4
Total	2,275,000	1.2	1.3	29,469	1.0	16,382	1.4	887	.1	12,065	1.3
Kentucky:											
Military				57,051	3.0	56,254	7.1	215	.1	582	.1
Civilian				18,137	1.6	15,377	3.9	2,714	.7	24	(3)
Total	3,181,000	1.6	2.4	75,188	2.5	71,631	6.0	2,929	.4	606	.1
Louisiana:											
Military				35,839	1.9	24,827	3.2	1,183	.3	9,829	1.5
Civilian				8,497	.7	5,134	1.3	1,401	.4	1,721	.6
Total	3,617,000	1.9	1.2	44,336	1.5	29,961	2.5	2,584	.3	11,550	1.2
Maine:											
Military				10,518	.6	158	(3)	1,324	.3	9,036	1.4
Civilian				2,176	.2	59	(3)	778	.2	1,314	.5
Total	978,000	.5	1.3	12,694	.4	217	(3)	2,102	.3	10,350	1.1
Maryland:											
Military				44,225	2.4	27,541	3.5	15,034	3.5	1,650	.3
Civilian				30,467	2.7	20,379	5.1	9,562	2.6	102	(3)
Total	2,609,000	1.3	2.9	74,692	2.5	47,920	4.0	24,596	3.1	1,752	1.1

See footnotes at end of table, p. 11.

TABLE 3.—DEFENSE PERSONNEL AND TOTAL POPULATION IN THE UNITED STATES, BY STATE, AS OF JUNE 30, 1967—Continued

	Population, July 1, 1966, census (estimated)		Department of Defense as percent of State population	Total Department of Defense [1]		Army		Navy [2]		Air Force	
	Number	Percent of United States		Number	Percent of United States	Number	Percent of United States	Number	Percent of United States	Number	Percent of United States
Massachusetts:											
Military				26,837	1.4	9,060	1.1	3,111	0.7	14,666	2.3
Civilian				24,131	2.1	7,170	1.8	9,603	2.6	5,357	1.9
Total	5,403,000	2.8	0.9	50,968	1.7	16,230	1.4	12,714	1.6	20,023	2.1
Michigan:											
Military				18,022	1.0	1,785	.2	1,022	.2	15,215	2.4
Civilian				13,946	1.2	8,814	2.2	183	.1	2,567	.9
Total	8,468,000	4.4	.4	31,968	1.1	10,599	.9	1,205	.2	17,782	1.9
Minnesota:											
Military				5,241	.3	1,230	.2	870	.2	3,141	.5
Civilian				2,532	.2	1,075	.3	128	(3)	842	.3
Total	3,572,000	1.8	.2	7,773	.3	2,305	.2	998	.1	3,983	.4
Mississippi:											
Military				22,247	1.2	702	.1	2,181	.5	19,364	3.0
Civilian				7,425	.7	2,848	.7	1,056	.3	3,489	1.2
Total	2,337,000	1.2	1.3	29,672	1.0	3,550	.3	3,237	.4	22,853	2.4
Missouri:											
Military				33,093	1.8	25,438	3.2	931	.2	6,724	1.1
Civilian				23,863	2.1	17,134	4.3	301	.1	5,431	1.9
Total	4,564,000	2.3	1.2	56,956	1.9	42,572	3.6	1,232	.2	12,155	1.3
Montana:											
Military				9,663	.5	88	(3)	45	(3)	9,530	1.5
Civilian				1,467	.3	254	.1	0	0	1,210	.4
Total	702,000	.3	3.6	11,130	.4	342	(3)	45	(3)	10,740	1.1
Nebraska:											
Military				12,221	.7	219	(3)	340	.1	31,662	1.8
Civilian				3,514	.3	1,574	.4	77	(3)	1,849	.7
Total	1,439,000	.7	1.1	15,735	.5	1,793	.2	417	.1	13,511	1.4

Nevada:											
Military				7,254	.4	33	(3)	1,151	.3	6,068	1.0
Civilian				2,831	.3	8	(3)	1,517	.4	1,188	.4
Total	431,000	.2	3.3	10,083	.3	41	(3)	2,668	.3	7,256	.8
New Hampshire:											
Military				5,428	.3	171	(3)	1,871	.4	3,386	.5
Civilian				9,258	.8	270	.1	8,237	2.2	670	.2
Total	677,000	.3	2.2	14,686	.5	441	(3)	10,138	1.3	4,055	.4
New Jersey:											
Military				47,500	2.5	35,223	4.5	2,529	.6	9,748	1.5
Civilian				31,132	2.7	23,765	6.0	3,797	1.0	2,034	.7
Total	6,899,000	3.5	1.1	78,632	2.6	58,988	5.0	6,326	.8	11,782	1.3
New Mexico:											
Military				14,828	.8	3,211	.4	1,016	.2	10,601	1.7
Civilian				12,123	1.1	6,128	1.5	145	(3)	4,290	1.5
Total	1,002,000	.5	2.7	26,951	.9	9,339	.8	1,161	.2	14,891	1.6
New York:											
Military				32,338	1.7	11,359	1.4	6,008	1.4	14,971	2.3
Civilian				33,477	2.9	14,165	3.5	7,965	2.2	7,502	2.6
Total	18,205,000	9.4	.4	65,815	2.2	25,524	2.2	13,973	1.7	22,473	2.4
North Carolina:											
Military				100,287	5.4	48,166	6.1	41,465	9.5	10,656	1.7
Civilian				14,030	1.2	5,448	1.4	7,178	1.9	1,220	.4
Total	4,972,000	2.6	2.3	114,317	3.8	53,614	4.5	48,643	6.0	11,876	1.3
North Dakota:											
Military				12,373	.7	74	(3)	18	(3)	12,281	1.9
Civilian				1,470	.1	161	(3)	0	0	1,308	.5
Total	643,000	.3	2.2	13,843	.5	235	(3)	18	(3)	13,589	1.4
Ohio:											
Military				19,915	1.1	2,043	.3	780	.2	17,092	2.7
Civilian				39,431	3.5	2,503	.6	1,270	.4	23,427	8.1
Total	10,364,000	5.3	.6	59,346	2.0	4,546	.4	2,050	.3	40,519	4.4
Oklahoma:											
Military				44,106	2.4	31,320	4.0	408	.1	12,378	1.9
Civilian				35,215	3.1	5,904	1.5	3,770	1.0	25,348	8.8
Total	2,477,000	1.3	3.2	79,321	2.6	37,224	3.1	4,178	.5	37,726	4.0

See footnotes at end of table, p. 11.

TABLE 3.—DEFENSE PERSONNEL AND TOTAL POPULATION IN THE UNITED STATES, BY STATE, AS OF JUNE 30, 1967—Continued

	Population, July 1, 1966, census (estimated)		Department of Defense as percent of State population	Total Department of Defense[1]		Army		Navy[2]		Air Force	
	Number	Percent of United States		Number	Percent of United States	Number	Percent of United States	Number	Percent of United States	Number	Percent of United States
Oregon:											
Military				3,671	0.2	230	(3)	330	0.1	3,111	0.5
Civilian				4,064	.4	3,038	.8	5	(3)	901	.3
Total	1,973,000	1.0	0.4	7,735	.2	3,268	.3	335	(3)	4,012	.4
Pennsylvania:											
Military				14,545	.8	6,227	.8	7,360	1.7	958	.1
Civilian				75,027	6.6	29,586	7.4	30,155	8.1	2,708	.9
Total	11,601,000	6.0	.8	89,572	3.0	35,813	3.0	37,515	4.7	3,666	.4
Rhode Island:											
Military				7,743	.4	342	(3)	7,350	1.7	51	(3)
Civilian				10,165	.9	345	.1	9,736	2.6	2	(3)
Total	896,000	.4	2.0	17,908	.6	687	.1	17,086	2.1	53	(3)
South Carolina:											
Military				56,196	3.0	19,572	2.5	19,939	4.6	16,685	2.6
Civilian				19,411	1.7	3,566	.9	13,379	3.6	2,427	.8
Total	2,588,000	1.3	2.9	75,607	2.5	23,138	2.0	33,318	4.1	19,112	2.0
South Dakota:											
Military				5,918	.3	84	(3)	16	(3)	5,818	.9
Civilian				1,253	.1	531	.1	0	0	720	.3
Total	679,000	.3	1.1	7,171	.2	615	.1	16	(3)	6,538	.7
Tennessee:											
Military				20,405	1.1	510	.1	14,438	3.3	5,457	.9
Civilian				7,470	.7	2,388	.6	1,123	.3	647	.2
Total	3,866,000	2.0	.7	27,875	.9	2,898	.2	15,561	1.9	6,104	.6
Texas:											
Military				192,462	10.3	88,916	11.3	9,907	2.3	93,639	14.6
Civilian				77,362	6.8	30,155	7.6	2,426	.7	43,542	15.1
Total	10,747,000	5.5	2.5	269,824	9.0	119,071	10.0	12,333	1.5	137,181	14.8
Utah:											
Military				4,730	.2	1,122	.1	134	(3)	3,474	.5
Civilian				31,277	2.8	7,440	1.9	197	.1	18,437	6.4
Total	1,007,000	.5	3.6	36,007	1.2	8,562	.7	331	(3)	21,911	2.3

Vermont:											
Military				246	(3)	57	(3)	10	(3)	179	(3)
Civilian				78	(3)	32	(3)	0	0	18	(3)
Total	411,000	0.2	.1	324	(3)	89	(3)	10	(3)	197	(3)
Virginia:[4]											
Military				75,279	4.0	35,798	4.5	28,209	6.5	11,272	1.8
Civilian				56,731	5.0	12,193	3.1	39,026	10.5	1,757	.6
Total	3,781,000	1.9	3.5	132,010	4.4	47,991	4.0	67,235	8.4	13,029	1.4
Washington:											
Military				51,130	2.7	33,220	4.2	4,519	1.0	13,391	2.1
Civilian				27,868	2.5	7,038	1.8	17,407	4.7	3,138	1.1
Total	3,041,000	1.6	2.6	78,998	2.6	40,258	3.4	21,926	2.7	16,529	1.8
Washington, D.C. metropolitan area:[5]											
Military				75,372	4.0	35,417	4.5	19,954	4.6	20,001	3.1
Civilian				94,621	8.3	34,882	8.8	40,200	10.8	9,921	3.4
Total	2,496,000	1.3	6.8	169,993	5.7	70,299	5.9	60,154	7.5	29,922	3.2
West Virginia:											
Military				464	(3)	190	(3)	74	(3)	200	(3)
Civilian				1,214	0.1	1,133	0.3	0	0	17	(3)
Total	1,809,000	0.9	0.1	1,678	0.1	1,323	0.1	74	(3)	217	(3)
Wisconsin:											
Military				3,100	0.2	855	0.1	289	0.1	1,966	0.3
Civilian				2,722	0.2	1,493	0.4	4	(3)	591	0.2
Total	4,167,000	2.1	0.1	5,832	0.2	2,348	0.2	293	(3)	2,557	0.3
Wyoming:											
Military				3,799	0.2	26	(3)	23	(3)	3,750	0.6
Civilian				752	0.1	10	(3)	1	(3)	739	0.2
Total	319,000	0.1	1.4	4,551	0.1	36	(3)	24	(3)	4,489	0.5
Undistributed:											
Military				83,224	4.5	52,143	6.6	26,669	6.1	4,412	0.7
Civilian				0	0	0	0	0	0	0	0
Total				83,224	2.8	52,143	4.4	26,669	3.3	4,412	0.5

[1] Includes 78,244 civilians employed by other defense activities such as Defense Supply Agency and Office of the Secretary of Defense. Therefore, total Department of Defense column will not add across in all cases.

[2] Includes Marine Corps.

[3] Less than .05 percent.

[4] Excludes personnel in the Washington, D.C. metropolitan area.

[5] Consists of the District of Columbia; Montgomery and Prince Georges counties in Maryland; Alexandria, Fairfax and Falls Church cities, and Arlington and Fairfax Counties in Virginia.

Source: Directorate for Statistical Services, Office of Secretary of Defense, September 26, 1967.

TABLE 4.—DEFENSE PERSONNEL AND TOTAL POPULATION IN THE UNITED STATES, BY STATE, AS OF JUNE 30, 1966

	Population, July 1, 1965, census (revised)		Department of Defense as percent of State population	Total Department of Defense [1]		Army		Navy [2]		Air Force	
	Number	Percent of United States		Number	Percent of United States	Number	Percent of United States	Number	Percent of United States	Number	Percent of United States
United States (including Alaska and Hawaii):											
Military	----------	----------	----------	1,832,047	100.0	715,251	100.0	454,549	100.0	662,247	100.0
Civilian	----------	----------	----------	1,034,795	100.0	358,292	100.0	327,948	100.0	280,549	100.0
Total	193,795,000	100.0	1.5	2,866,842	100.0	1,073,543	100.0	782,497	100.0	942,796	100.0
Alabama:											
Military	----------	----------	----------	32,093	1.7	22,655	3.2	413	.1	9,025	1.4
Civilian	----------	----------	----------	33,211	3.2	20,331	5.7	42	(3)	12,383	4.4
Total	3,486,000	1.8	1.9	65,304	2.3	42,986	4.0	455	.1	21,408	2.3
Alaska:											
Military	----------	----------	----------	29,216	1.6	12,161	1.7	3,001	.7	14,054	2.1
Civilian	----------	----------	----------	6,592	.6	3,048	.9	494	.1	3,016	1.1
Total	267,000	.1	23.4	35,808	1.2	15,209	1.4	3,495	.5	17,070	1.8
Arizona:											
Military	----------	----------	----------	20,675	1.1	4,822	.7	1,731	84	14,122	2.1
Civilian	----------	----------	----------	7,953	.8	3,390	1.0	576	.2	3,766	1.3
Total	1,755,000	.8	1.8	28,628	1.0	8,212	.8	2,307	.3	17,888	1.9
Arkansas:											
Military	----------	----------	----------	9,203	.5	429	.1	125	(3)	8,649	1.3
Civilian	----------	----------	----------	4,523	.4	3,665	1.0	0	0	821	.3
Total	1,941,000	1.0	.7	13,726	.5	4,094	.4	125	(3)	9,470	1.0
California:											
Military	----------	----------	----------	246,610	13.5	45,256	6.3	128,416	38.2	72,933	11.0
Civilian	----------	----------	----------	158,252	15.3	21,692	6.1	90,527	27.6	38,908	13.9
Total	18,403,000	9.5	2.2	404,863	14.1	66,948	6.2	218,943	38.0	111,846	11.9
Colorado:											
Military	----------	----------	----------	40,516	2.2	17,833	2.5	415	.1	22,268	3.4
Civilian	----------	----------	----------	15,578	1.5	7,587	2.1	2	(3)	7,841	2.8
Total	1,949,000	1.0	2.9	56,094	3.0	25,420	2.4	417	.1	30,109	3.2

Connecticut:											
Military				4,226	.2	196	(3)	3,954	.9	76	(3)
Civilian				3,605	.4	208	.1	2,751	.8	75	(-)
Total	2,830,000	1.5	3.0	7,831	.3	404	(3)	6,605	.9	151	(3)
Delaware:											
Military				7,128	.4	108	(3)	136	(3)	6,884	1.0
Civilian				1,321	.1	52	(3)	0	0	1,256	.4
Total	503,000	.3	1.7	8,449	.3	160	(3)	146	(3)	8,140	.9
Florida:											
Military				69,207	3.8	3,409	.5	28,213	6.2	37,585	5.7
Civilian				27,653	2.7	2,123	.6	15,493	4.7	9,627	3.4
Total	5,796,000	3.0	1.7	96,860	3.4	5,532	.5	43,706	5.6	47,212	5.0
Georgia:											
Military				109,420	6.0	86,542	12.1	5,431	1.2	17,447	2.6
Civilian				39,939	3.9	15,839	4.4	2,493	.8	20,870	7.4
Total	4,391,000	2.3	.34	149,359	5.2	102,381	9.5	7,924	1.0	38,317	4.1
Hawaii:											
Military				28,695	1.6	6,827	1.0	10,777	2.4	11,091	1.7
Civilian				20,755	2.0	5,652	1.6	11,859	3.6	3,201	1.1
Total	710,000	.4	7.0	49,450	1.7	12,479	1.2	22,636	2.9	14,292	1.5
Idaho:											
Military				3,976	.2	73	(3)	814	.2	3,089	.5
Civilian				514	.1	98	(3)	3	(3)	413	.1
Total	693,000	.4	.6	4,490	.1	171	(3)	817	(3)	3,502	.4
Illinois:											
Military				60,287	3.3	6,382	.9	34,453	7.6	19,443	2.9
Civilian				29,449	2.9	16,233	4.5	5,728	1.8	5,558	2.0
Total	10,641,000	5.5	.8	89,727	3.1	22,615	2.1	40,181	5.1	25,001	2.6
Indiana:											
Military				9,840	.5	4,386	.6	597	.1	4,857	.7
Civilian				14,917	1.5	6,500	1.8	7,068	2.2	860	.3
Total	4,893,000	2.5	.5	24,757	.9	10,886	1.0	7,665	1.0	5,717	.6

See footnotes at end of table, p. 19.

TABLE 4.—DEFENSE PERSONNEL AND TOTAL POPULATION IN THE UNITED STATES, BY STATE, AS OF JUNE 30, 1966—Continued

	Population, July 1, 1965, census (revised)		Department of Defense as percent of State population	Total Department of Defense [1]		Army		Navy [2]		Air Force	
	Number	Percent of United States		Number	Percent of United States	Number	Percent of United States	Number	Percent of United States	Number	Percent of United States
Iowa:											
Military				1,555	0.1	250	(3)	204	(3)	1,101	0.2
Civilian				781	.1	491	.1	1	(3)	124	(3)
Total	2,758,000	1.4	0.1	2,336	.1	741	.1	205	(3)	1,225	.1
Kansas:											
Military				34,792	1.9	24,328	3.4	761	.2	9,703	1.5
Civilian				5,481	.5	4,053	1.1	133	(3)	1,170	.4
Total	2,248,000	1.2	1.8	40,273	1.4	28,381	2.6	894	.1	10,873	1.1
Kentucky:											
Military				51,884	2.8	51,133	7.2	228	.1	523	.1
Civilian				15,184	1.5	12,852	3.6	2,290	.7	23	(3)
Total	3,173,000	1.6	2.1	67,068	2.3	63,985	6.0	2,518	.3	546	.1
Louisiana:											
Military				40,084	2.2	28,846	4.0	1,323	.3	9,915	1.5
Civilian				7,661	.8	4,805	1.3	1,206	.4	1,454	.5
Total	3,560,000	1.8	1.3	47,745	1.7	33,651	3.1	2,529	.3	11,369	1.2
Maine:											
Military				10,785	.6	221	(3)	1,248	.3	9,316	1.4
Civilian				1,806	.2	57	(3)	701	.2	1,029	.4
Total	986,000	.5	1.3	12,591	.4	278	(3)	1,949	.3	10,345	1.1
Maryland: [4]											
Military				47,463	2.6	30,232	4.2	15,034	3.3	2,197	.3
Civilian				28,172	2.7	18,951	5.3	8,737	2.7	105	(3)
Total	2,587,000	1.3	2.9	75,635	2.6	49,183	4.6	23,771	3.0	2,302	.2
Massachusetts:											
Military				28,222	1.5	11,464	1.6	2,798	.6	13,960	2.1
Civilian				22,938	2.2	7,960	2.2	8,146	2.5	5,123	1.8
Total	5,361,000	2.8	1.0	51,160	1.8	19,424	1.8	10,944	1.4	19,083	2.0

Michigan:											
Military				18,265	1.0	1,818	.3	1,079	.2	15,368	2.3
Civilian				12,713	1.2	8,443	2.4	167	.1	2,020	.7
Total	8,317,000	4.3	.4	30,978	1.1	10,261	1.0	1,246	.2	17,388	1.8
Minnesota:											
Military				5,141	.3	1,233	.2	903	.2	3,005	.5
Civilian				2,314	.2	1,049	.3	100	(3)	718	.3
Total	3,562,000	1.8	.2	7,455	.3	2,282	.2	1,003	.1	3,723	.4
Mississippi:											
Military				28,011	1.5	592	.1	1,920	.4	25,499	3.9
Civilian				7,357	.7	2,800	.8	838	.3	3,690	1.3
Total	2,309,000	1.2	1.5	35,368	1.2	3,392	.3	2,758	.4	29,189	3.1
Missouri:											
Military				38,846	2.1	31,561	4.4	846	.2	6,439	1.0
Civilian				20,601	2.0	14,331	4.0	192	.1	5,266	1.9
Total	4,492,000	2.3	1.3	59,447	2.1	45,892	4.3	1,038	.1	11,705	1.2
Montana:											
Military				9,395	.5	95	(3)	35	(3)	9,265	1.4
Civilian				1,233	.1	284	.1	0	0	947	.3
Total	703,000	.4	1.5	10,628	.4	379	(3)	35	(3)	10,212	1.1
Nebraska:											
Military				12,385	.7	246	(3)	372	.1	11,767	1.8
Civilian				3,678	.4	1,830	.5	154	(3)	1,684	.6
Total	1,459,000	.8	1.1	16,063	.6	2,076	.2	526	.1	13,451	1.4
Nevada:											
Military				6,329	.3	28	(3)	1,144	.2	5,157	.8
Civilian				2,792	.3	11	(3)	1,416	.4	1,268	.5
Total	434,000	.2	2.1	9,121	.3	39	(3)	2,560	.3	6,425	.7
New Hampshire:											
Military				5,213	.3	153	(3)	1,525	.3	3,535	.5
Civilian				8,437	.8	281	.1	7,577	2.3	540	.2
Total	673,000	.3	2.0	13,650	.5	434	(3)	9,102	1.2	4,075	.4

See footnotes at end of table, p. 19.

TABLE 4.—DEFENSE PERSONNEL AND TOTAL POPULATION IN THE UNITED STATES, BY STATE, AS OF JUNE 30, 1966—Continued

	Population, July 1, 1965, census (revised)		Department of Defense as percent of State population	Total Department of Defense [1]		Army		Navy [2]		Air Force	
	Number	Percent of United States		Number	Percent of United States	Number	Percent of United States	Number	Percent of United States	Number	Percent of United States
New Jersey:											
Military				48,762	2.7	36,721	5.1	2,635	0.6	9,406	1.4
Civilian				28,327	2.7	20,481	5.7	4,641	1.4	1,894	.7
Total	6,781,000	3.5	1.1	77,089	2.7	57,202	5.3	7,276	.9	11,300	1.2
New Mexico:											
Military				18,655	1.0	3,599	.5	1,030	.2	14,026	2.1
Civilian				11,892	1.1	5,889	1.7	123	(3)	4,490	1.6
Total	1,014,000	.5	3.0	30,547	1.1	9,488	.9	1,153	.1	18,516	2.0
New York:											
Military				33,241	1.8	12,299	1.7	6,029	1.3	14,913	2.3
Civilian				35,357	3.4	14,702	4.1	9,715	3.0	7,453	2.7
Total	18,106,000	9.4	.4	68,598	2.4	27,001	2.5	15,744	2.0	22,366	2.4
North Carolina:											
Military				92,702	5.1	35,191	4.9	47,536	10.5	9,975	1.5
Civilian				11,591	1.1	4,103	1.1	6,304	1.9	1,047	.4
Total	4,935,000	2.5	2.1	104,293	3.6	39,294	3.7	53,840	6 9	11,022	1.2
North Dakota:											
Military				12,165	.7	62	(3)	15	(3)	12,088	1.8
Civilian				1,227	.1	193	.1	0	0	1,033	.4
Total	652,000	.3	2.1	13,392	.5	255	(3)	15	(3)	13,121	2.4
Ohio:											
Military				19,756	1.1	2,256	.3	812	.2	16,688	2.5
Civilian				38,318	3.7	2,923	.8	1,159	.4	23,310	8.3
Total	10,241,000	5.3	.6	58,074	2.0	5,177	.5	1,971	.3	39,998	4.2
Oklahoma:											
Military				37,866	2.1	25,768	3.6	378	.1	11,720	1.8
Civilian				31,361	3.0	5,143	1.4	2,154	.7	23,878	8.5
Total	2,448,000	1.3	2.8	69,227	2.4	30,911	2.9	2,532	.3	35,598	3.8

Oregon:											
Military				3,578	.2	190	(3)	348	.1	3,040	.5
Civilian				3,528	.3	2,675	.8	1	(3)	771	.3
Total	1,938,000	1.0	.4	7,106	.2	2,865	.3	349	(3)	3,811	.4
Pennsylvania:											
Military				14,878	.8	5,843	.8	7,626	1.7	1,409	.2
Civilian				71,386	6.9	27,294	7.6	25,901	7.9	6,152	2.2
Total	11,583,000	6.0	.7	86,264	3.0	33,137	3.1	33,527	4.3	7,561	.8
Rhode Island:											
Military				9,486	.5	356	.1	9,074	2.0	56	(3)
Civilian				9,332	.9	345	.1	8,921	2.7	1	(3)
Total	891,000	.5	2.1	18,818	.6	701	.1	17,995	2.3	57	(3)
South Carolina:											
Military				60,191	3.3	25,200	3.5	18,568	4.1	16,423	2.5
Civilian				17,689	1.7	3,050	.9	12,365	3.8	2,213	.8
Total	2,550,000	1.3	3.1	77,800	2.7	28,250	2.6	30,933	4.0	18,636	2.0
South Dakota:											
Military				6,160	.3	96	(3)	18	(3)	6,046	.9
Civilian				1,348	.1	766	.2	0	0	580	.2
Total	686,000	.4	1.1	7,508	.3	862	.1	18	(3)	6,626	.7
Tennessee:											
Military				21,869	1.2	644	.1	15,583	3.4	5,642	.9
Civilian				6,690	.6	2,269	.6	985	.3	636	.2
Total	3,850,000	2.0	.7	28,559	1.0	2,913	.3	16,568	2.1	6,278	.7
Texas:											
Military				206,882	11.3	78,631	11.0	9,712	2.1	118,539	17.9
Civilian				70,043	6.8	25,209	7.0	2,134	.7	41,643	14.9
Total	10,591,000	5.5	2.6	276,925	9.7	103,840	9.7	11,846	1.5	160,182	17.0
Utah:											
Military				4,480	.2	902	.1	137	(3)	3,441	.5
Civilian				27,005	2.6	6,705	1.9	181	.1	16,689	6.0
Total	994,000	.5	3.2	31,485	1.1	7,608	.7	318	(3)	20,130	2.1

See footnotes at end of table, p. 19.

TABLE 4.—DEFENSE PERSONNEL AND TOTAL POPULATION IN THE UNITED STATES, BY STATE, AS OF JUNE 30, 1966—Continued

	Population, July 1, 1965, census (revised)		Department of Defense as percent of State population	Total Department of Defense [1]		Army		Navy [2]		Air Force	
	Number	Percent of United States		Number	Percent of United States	Number	Percent of United States	Number	Percent of United States	Number	Percent of United States
Vermont:											
Military				263	(3)	61	(3)	10	(3)	192	(3)
Civilian				63	(3)	28	(3)	0	0	11	(3)
Total	404,000	0.2	0.1	326	(3)	89	(3)	10	(3)	203	(3)
Virginia: [4]											
Military				66,253	3.6	28,976	4.1	28,385	6.2	8,892	1.4
Civilian				49,821	4.8	10,837	3.0	34,218	10.4	1,608	.6
Total	3,756,000	1.9	3.1	116,074	4.0	39,813	3.7	62,603	8.0	10,500	1.1
Washington:											
Military				47,557	2.6	30,348	4.3	4,512	1.0	12,688	1.9
Civilian				24,534	2.4	6,075	1.7	15,196	4.6	2,998	1.1
Total	2,973,000	1.5	2.4	72,091	2.5	36,423	3.4	19,717	2.5	15,686	1.7
Washington, D.C. metropolitan area: [5]											
Military				70,526	3.9	33,723	4.7	17,054	3.7	19,749	3.0
Civilian				85,638	8.3	32,567	9.1	35,354	10.8	9,210	3.3
Total	2,413,000	1.2	6.5	156,164	5.4	66,290	6.2	52,408	6.7	28,959	3.1
West Virginia:											
Military				528	(3)	240	(3)	76	(3)	212	(3)
Civilian				1,125	.1	1,052	.3	0	0	17	(3)
Total	1,815,000	.9	.1	1,653	.1	1,292	.1	76	(3)	229	(3)
Wisconsin:											
Military				3,401	.2	836	.1	288	.1	2,277	.3
Civilian				2,485	.2	1,360	.4	0	0	549	.2
Total	4,140,000	2.1	.1	5,886	.2	2,196	.2	288	(3)	2,826	.3
Wyoming:											
Military				3,992	.2	30	(3)	18	(3)	3,944	.6
Civilian				624	.1	11	(3)	2	(3)	610	.2
Total	330,000	.2	1.4	4,616	.2	41	(3)	20	(3)	4,554	.5

Undistributed:											
Military				39,403	2.2	0	0	36,800	8.1	2,603	.4
Civilian				0	0	0	0	0	0	0	0
Total				39,403	1.4	0	0	36,800	4.7	2,603	.3

[1] Includes 68,006 civilians employed by other defense activities such as Defense Supply Agency and Office of the Secretary of Defense. Therefore, total Department of Defense column will not add across in all cases.

[2] Includes Marine Corps.

[3] Less than 0.05 percent.

[4] Excludes personnel in the Washington, D.C., metropolitan area.

[5] Consists of the District of Columbia; Montgomery and Prince Georges Counties in Maryland; Alexandria, Fairfax, and Falls Church cities, and Arlington and Fairfax Counties in Virginia.

TABLE 5.—DEPARTMENT OF DEFENSE—ESTIMATED PAYROLLS FOR MILITARY AND CIVILIAN PERSONNEL, FISCAL YEAR 1967

[In thousands of dollars]

	Active duty military personnel				Civilian employees				
	Total, Department of Defense	Army	Navy and Marine Corps	Air Force	Total, Department of Defense	Army	Navy and Marine Corps	Air Force	Other Defense activities
United States (including Alaska and Hawaii)	9,349,830	3,664,156	1,650,257	4,035,417	8,044,446	2,614,457	2,580,498	2,225,948	623,543
Alabama	183,682	112,817	1,512	69,353	233,054	150,825	332	77,248	4,649
Alaska	166,177	69,033	12,480	84,664	55,368	21,603	4,185	30,177	403
Arizona	139,190	30,689	8,791	99,710	60,744	24,547	5,652	28,330	2,215
Arkansas	57,753	2,364	492	54,897	32,759	26,286		6,303	170
California	1,149,666	216,919	442,916	489,831	1,327,522	155,705	781,465	319,218	70,134
Colorado	223,226	92,846	1,993	128,387	115,751	52,879	7	60,789	2,076
Connecticut	19,461	1,034	17,719	648	32,195	1,509	22,808	875	7,003
Delaware	49,944	487	607	48,850	10,497	398		9,793	306
District of Columbia	185,772	99,035	43,450	43,227	209,226	73,018	91,319	43,341	1,548
Florida	384,402	15,250	132,651	236,501	213,393	15,958	114,726	78,031	4,678
Georgia	531,870	422,417	24,445	85,008	286,579	113,643	16,950	148,155	7,831
Hawaii	176,346	55,710	48,547	72,089	170,611	40,023	102,487	27,609	492
Idaho	21,974	516	3,885	17,573	3,951	703	89	3,159	
Illinois	303,567	55,853	132,847	114,862	221,233	118,450	45,773	40,954	16,056
Indiana	51,928	19,259	2,833	29,836	115,747	49,964	53,262	7,286	5,235
Iowa	9,269	1,328	934	7,007	5,795	3,594	5	667	1,529
Kansas	179,409	115,030	3,253	61,126	39,980	28,781	970	8,843	1,386
Kentucky	289,334	285,286	1,021	3,027	109,344	90,082	18,888	166	208
Louisiana	198,809	129,911	5,943	62,955	56,816	34,355	9,644	11,133	1,684
Maine	61,161	1,054	5,233	54,874	13,248	450	3,843	8,727	228
Maryland	326,965	181,513	84,237	61,215	366,331	171,525	154,166	34,212	6,428
Massachusetts	138,941	36,047	14,180	88,714	192,862	58,252	67,905	49,434	17,271
Michigan	104,398	8,818	4,697	90,883	103,294	64,670	1,347	16,231	21,046
Minnesota	26,396	5,199	3,805	17,392	18,067	7,743	864	5,015	4,445
Mississippi	143,227	3,235	9,489	130,503	49,549	20,635	4,819	24,000	95
Missouri	178,439	133,124	3,723	41,592	165,871	109,956	2,035	46,877	7,003
Montana	57,185	527	152	56,506	10,142	2,108		8,017	17
Nebraska	83,034	1,193	1,972	79,869	30,490	13,946	1,549	14,919	76
Nevada	36,524	160	4,969	31,395	18,836	86	9,389	8,522	839
New Hampshire	29,021	919	5,816	22,286	65,271	2,150	59,260	3,399	462
New Jersey	226,565	160,049	10,553	55,963	243,069	152,366	34,821	15,064	40,818
New Mexico	96,162	16,181	5,394	74,537	88,061	43,242	1,085	32,898	10,836
New York	168,249	50,046	26,226	91,977	313,218	104,204	115,563	56,282	37,169
North Carolina	438,637	219,557	156,056	63,024	87,523	29,357	48,852	7,594	1,720
North Dakota	75,829	476	60	75,293	9,416	1,404		8,000	12
Ohio	135,453	11,058	4,094	120,301	354,184	20,797	7,992	230,575	94,820
Oklahoma	209,527	126,741	1,739	81,047	226,097	37,436	12,760	174,593	1,308
Oregon	20,303	1,258	1,383	17,662	25,057	19,055	12	5,142	848

Pennsylvania	76,650	31,170	37,258	8,222	527,887	196,012	218,620	39,754	73,501
Rhode Island	44,077	1,721	41,979	377	70,632	2,679	67,274	----------	679
South Carolina	242,561	97,565	46,789	98,207	130,139	21,517	92,624	15,552	446
South Dakota	37,611	601	68	36,942	10,135	5,211	----------	4,904	20
Tennessee	89,632	3,120	52,269	34,243	48,534	16,297	6,168	4,870	21,199
Texas	1,067,477	405,980	45,606	615,891	514,532	178,436	14,381	309,498	12,217
Utah	28,338	4,932	782	22,624	203,417	45,761	1,558	132,057	24,041
Vermont	1,392	360	46	986	512	187	----------	91	234
Virginia	590,139	283,277	173,550	133,312	622,809	224,009	262,047	29,875	106,878
Washington	250,093	147,324	20,157	82,612	196,530	44,340	122,811	26,291	3,088
West Virginia	2,947	1,336	377	1,234	8,557	7,925	----------	109	523
Wisconsin	17,010	3,548	1,194	12,268	23,170	9,294	181	6,044	7,651
Wyoming	24,108	158	85	23,865	5,441	84	10	5,325	22

TABLE 6.—DEPARTMENT OF DEFENSE—ESTIMATED PAYROLLS FOR MILITARY AND CIVILIAN PERSONNEL, FISCAL YEAR 1966

[In thousands of dollars]

	Active duty military personnel				Civilian employees				
	Total, Department of Defense	Army	Navy and Marine Corps	Air Force	Total, Department of Defense	Army	Navy	Air Force	Other Defense activities
United States (including Alaska and Hawaii)	8,257,497	2,615,910	1,922,473	3,719,114	7,211,331	2,281,413	2,368,684	2,070,957	490,277
Alabama	143,775	78,067	2,203	63,505	232,672	134,174	297	93,118	5,083
Alaska	163,025	69,530	14,222	79,273	50,567	21,387	4,051	24,751	378
Arizona	107,250	20,336	6,622	80,292	46,165	21,662	5,480	18,107	916
Arkansas	55,198	2,564	563	52,071	20,202	14,939	----------	4,565	698
California	1,067,373	163,035	472,072	432,266	1,195,076	137,245	714,779	302,105	40,947
Colorado	182,809	72,085	2,501	108,223	128,341	68,834	8	57,871	1,628
Connecticut	20,176	898	18,401	877	28,094	1,469	20,941	1,462	4,222
Delaware	40,603	589	686	39,328	9,484	545	----------	8,703	236
District of Columbia	192,124	88,670	67,988	35,466	166,380	65,151	85,721	14,522	986
Florida	374,507	14,428	138,211	221,868	190,926	15,286	105,380	68,795	1,465
Georgia	421,313	286,115	27,056	108,142	239,567	81,979	16,083	130,553	10,952
Hawaii	208,225	93,129	55,626	59,470	152,541	36,514	93,423	22,204	400
Idaho	25,614	479	4,580	20,555	3,105	573	81	2,451	----------
Illinois	249,956	32,208	131,828	85,920	216,892	109,673	42,722	48,574	15,923
Indiana	47,705	16,638	3,202	27,865	95,344	40,535	47,832	6,685	292
Iowa	8,061	1,286	958	6,357	4,444	3,396	3	43	1,002
Kansas	118,379	49,941	3,830	64,608	32,517	22,421	892	8,363	841
Kentucky	191,347	186,966	1,420	2,961	90,349	72,825	17,151	17	356
Louisiana	167,755	95,578	7,230	64,947	45,784	25,971	8,713	9,750	1,350
Maine	63,986	2,981	5,799	55,206	10,384	417	3,557	6,262	148
Maryland	257,390	103,643	95,867	57,880	303,984	121,031	140,920	38,042	3,991
Massachusetts	166,250	55,094	16,368	94,788	186,194	61,722	61,550	44,666	18,256
Michigan	106,088	7,865	5,567	92,566	80,180	48,372	1,270	12,723	17,815
Minnesota	26,988	5,809	4,298	16,881	15,481	7,211	904	4,594	2,772
Mississippi	115,522	1,533	9,099	104,890	47,469	20,998	4,062	21,914	495
Missouri	146,667	102,998	3,703	39,966	140,664	92,689	1,873	41,432	4,670
Montana	54,697	712	161	53,824	7,763	1,775	----------	5,988	----------
Nebraska	91,771	5,022	2,211	84,538	29,602	14,304	1,571	613,713	14
Nevada	36,234	188	5,651	30,395	18,657	77	8,051	9,768	761
New Hampshire	35,104	693	5,740	28,671	61,014	1,861	54,332	4,371	450
New Jersey	212,391	145,402	11,657	55,332	181,790	134,801	32,396	13,783	810
New Mexico	116,886	17,202	5,917	93,767	80,347	38,578	1,008	31,832	8,929
New York	197,112	72,190	33,002	91,920	319,938	103,247	114,722	78,671	23,298
North Carolina	266,314	48,155	160,980	57,179	74,475	23,613	44,728	5,097	1,037
North Dakota	70,154	546	79	69,529	9,585	2,984	----------	6,594	7
Ohio	119,503	11,151	4,601	103,751	329,263	23,133	7,500	214,799	83,831
Oklahoma	167,251	91,639	2,016	73,596	190,669	29,079	10,767	148,892	1,931
Oregon	23,255	1,109	1,673	20,473	20,444	19,064	11	843	526

Pennsylvania	80,666	28,979	39,883	11,804	521,405	177,276	198,167	70,485	75,477
Rhode Island	39,936	1,775	37,824	337	64,502	2,612	61,351	10	529
South Carolina	249,788	88,974	63,465	97,349	117,328	18,263	85,450	13,272	343
South Dakota	36,555	699	67	35,789	9,213	5,484	------	3,729	------
Tennessee	92,574	1,937	60,943	29,694	44,597	17,382	5,626	4,433	17,156
Texas	833,607	278,003	50,721	504,883	443,784	147,105	12,973	275,139	8,567
Utah	27,178	5,116	747	21,315	168,779	40,848	1,504	110,857	15,570
Vermont	1,568	519	59	990	418	220	------	------	198
Virginia	452,529	172,305	167,533	112,691	574,876	194,733	238,490	32,651	109,002
Washington	194,326	85,539	23,587	85,200	174,689	36,390	112,089	24,207	2,003
West Virginia	2,749	1,289	324	1,136	1,088	629	------	12	447
Wisconsin	19,693	4,073	1,385	14,235	15,398	5,814	246	5,783	3,555
Wyoming	24,878	228	105	24,545	3,901	122	9	3,756	14
Undistributed [1]	142,152	------	142,152	------	15,000	15,000	------	------	------

[1] Includes classified activities and transients.

Supply Systems Inventories

As stated in table 1 above, the total of "supply systems" inventories from fiscal year 1955 through fiscal year 1966, was reduced from $51 to $38 billion, or $13 billion. The stratification of such stocks, or breakdown into purpose for which they are held, reflects a distinct change during fiscal years 1964, 1965, and 1966. 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 7.

Stratification of supply systems inventories as of June 30, 1964, and June 30, 1965, was in accordance with improved logistics guidance which called for application of assets first against requirements to support (1) approved forces; that is, Active and high-priority Reserve Forces of the 5-year force structure and financial program; and (2) general forces.

The guidance was again changed so that, as of June 30, 1966, assets are applied to approved forces, either as authorized for acquisition or for retention.

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,[1] fiscal years 1958–66
(DATA NOT AVAILABLE FOR FISCAL YEAR 1967)

[In millions of dollars]

Total and inventory strata	1958	1959	1960	1961	1962	1963	1964	1965	1966
Total	46,585	44,203	41,727	40,537	40,299	39,684	38,383	36,506	37,167
Unstratified	2,440	3,056	2,093	1,819	1,837	1,425	2,582	2,704	3,221
Total stratified	44,145	41,147	39,644	38,717	38,462	38,259	35,801	33,802	33,946
Peacetime operating [2]	14,538	15,306	15,657	14,722	15,601	15,379	([3])	([3])	([3])
Mobilization reserve [4]	12,134	11,530	10,893	11,030	10,725	10,921	([3])	([3])	([3])
Economic retention [5]	5,593	4,703	6,618	6,343	5,454	5,912	3,596	3,629	4,180
Contingency retention [6]	1,050	1,611	1,361	1,246	1,040	636	1,248	1,814	1,865
Excess stocks [7]	10,418	7,146	5,115	5,377	5,643	5,411	5,528	3,466	3,250

[1] Total inventories in this table do not include value of Navy shipboard supplies included in table 1.
[2] Peacetime operating stock is that portion of the total quantity of an item on hand which is required to equip and train the planned peacetime forces and support the scheduled establishment through the normal appropriation and leadtime periods.
[3] These strata are not available for 1964, 1965, and 1966 because of changes in logistics guidance. In 1965 their sum was $24,893,000,000, divided into approved force stocks ($23,665,000,000) and general force stocks ($1,228,000,000). The guidance was again revised in 1966 when the sum of these two was $24,651,000,000 allocated to approved forces as levels of acquisition ($23,640,000,000) and retention ($1,011,000,000).
[4] 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.
[5] 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.
[6] 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 for U.S. or allied forces.
[7] 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.

Scope of Procurement Activities

The net value of military procurement actions amounted to $41.8 billion in fiscal year 1967—an increase of $6.1 billion over fiscal year 1966.

TABLE 8.—*Net value of military procurement actions in the United States and possessions, fiscal years 1951–67*

Fiscal year:	*Billions*	Fiscal year—Continued	*Billions*
1951	$31.9	1960	$22.5
1952	42.2	1961	24.3
1953	28.4	1962	27.8
1954	11.9	1963	28.1
1955	15.5	1964	27.5
1956	18.2	1965	26.6
1957	19.9	1966	35.7
1958	22.8	1967	41.8
1959	23.9		

Source: "Military Prime Contract Awards and Subcontract Payments or Commitments, July 1966–June 1967," Office of the Secretary of Defense.

NET VALUE OF PROCUREMENT ACTIONS BY STATES, FISCAL YEARS 1964–67

(See tables 9 and 9–A)

The percentage breakdown of military procurement actions by States and the District of Columbia shows for fiscal year 1967:

Percent of total:	Number of States	Percent of total—Continued	Number of States
15 to 20	1	2 to 3	5
5 to 10	4	1 to 2	9
4 to 5	2	0 to 1	27
3 to 4	3		

TABLE 9.—NET VALUE OF MILITARY PROCUREMENT ACTIONS BY STATES,[1] FISCAL YEARS 1964, 1965, 1966, AND 1967

[Dollar amounts in thousands]

State	Fiscal year 1964		Fiscal year 1965		Fiscal year 1966		Fiscal year 1967	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total, United States[2]	$27,470,379	-------	$26,631,132	-------	$35,713,061	-------	$41,817,093	-------
Not distributed by State[3]	3,053,272	-------	3,363,052	-------	3,999,758	-------	4,435,384	-------
State total[4]	24,417,107	100.0	23,268,080	100.0	31,713,303	100.0	37,381,709	100.0
Alabama	190,681	.8	165,176	.7	281,549	.9	297,065	.8
Alaska	101,545	.4	74,175	.3	71,666	.2	85,648	.2
Arizona	173,825	.7	176,857	.8	248,228	.8	249,559	.7
Arkansas	29,731	.1	39,284	.2	95,701	.3	127,180	.3
California	5,100,650	21.0	5,153,639	22.1	5,813,078	18.3	6,688,812	17.9
Colorado	389,511	1.6	249,151	1.1	255,893	.8	210,409	.6
Connecticut	1,126,054	4.6	1,180,111	5.1	2,051,560	6.5	1,935,895	5.2
Delaware	30,424	.1	38,239	.2	37,445	.1	51,672	.1
District of Columbia	222,947	.9	247,576	1.0	328,111	1.0	357,666	1.0
Florida	782,591	3.2	633,332	2.7	766,955	2.4	799,005	2.1
Georgia	520,169	2.1	662,417	2.8	799,362	2.5	1,148,355	3.1
Hawaii	52,112	.2	72,213	.3	64,170	.2	65,445	.2
Idaho	7,804	(5)	11,724	.1	20,004	(5)	14,772	(5)
Illinois	429,201	1.8	421,899	1.8	919,779	2.9	1,063,776	2.8
Indiana	537,940	2.2	604,925	2.6	1,068,259	3.4	898,247	2.4
Iowa	103,392	.4	133,951	.6	247,619	.8	279,328	.8
Kansas	289,045	1.2	229,051	1.0	312,629	1.0	398,918	1.1
Kentucky	40,476	.2	42,749	.2	70,057	.2	124,294	.3
Louisiana	181,427	.7	255,834	1.1	302,906	1.0	656,031	1.8
Maine	31,531	.1	68,771	.3	51,340	.2	56,558	.2
Maryland	547,936	2.3	584,333	2.5	842,527	2.7	868,396	2.3
Massachusetts	1,032,062	4.2	1,178,729	5.1	1,335,952	4.2	1,422,272	3.8
Michigan	591,290	2.4	532,897	2.3	918,426	2.9	1,033,706	2.8
Minnesota	217,941	.9	259,500	1.1	497,994	1.6	650,584	1.7
Mississippi	155,911	.6	152,188	.7	162,305	.5	114,800	.3
Missouri	1,349,071	5.5	1,060,781	4.6	1,112,665	3.5	2,277,597	6.1
Montana	16,422	.1	69,375	.3	13,779	(5)	78,452	.2
Nebraska	33,921	.1	42,708	.2	80,478	.3	103,522	.3
Nevada	6,361	(5)	19,142	.1	32,028	.1	29,315	(5)
New Hampshire	64,857	.3	52,400	.2	109,591	.3	162,551	.4
New Jersey	917,561	3.8	820,309	3.5	1,090,122	3.4	1,234,768	3.3
New Mexico	71,486	.3	84,137	.4	86,230	.3	80,472	.2
New York	2,496,438	10.2	2,229,473	9.6	2,819,153	8.9	3,261,750	8.7
North Carolina	273,516	1.1	288,408	1.2	449,331	1.4	447,608	1.2
North Dakota	192,025	.8	48,997	.2	83,113	.3	16,729	(5)
Ohio	1,028,946	4.2	863,113	3.7	1,588,955	5.0	1,602,593	4.3
Oklahoma	122,489	.5	119,803	.5	158,492	.5	157,350	.4
Oregon	29,104	.1	39,624	.2	89,983	.3	99,319	.3
Pennsylvania	883,065	3.6	988,811	4.2	1,665,087	5.3	1,649,091	4.4
Rhode Island	38,173	.2	86,323	.4	131,722	.4	198,030	.5
South Carolina	51,621	.2	81,580	.4	176,424	.6	180,777	.5
South Dakota	23,308	.1	21,062	.1	23,315	.1	9,486	(5)
Tennessee	193,564	.8	197,283	.8	502,168	1.6	538,225	1.5
Texas	1,294,431	5.3	1,446,769	6.2	2,291,454	7.2	3,546,978	9.5
Utah	340,040	1.4	191,713	.8	169,681	.5	178,850	.5
Vermont	14,012	.1	32,202	.1	81,066	.3	100,157	.3

See footnotes at end of table, p. 27.

TABLE 9.—NET VALUE OF MILITARY PROCUREMENT ACTIONS BY STATES,[1] FISCAL YEARS 1964, 1965, 1966, AND 1967—Continued

[Dollar amounts in thousands]

State	Fiscal year 1964		Fiscal year 1965		Fiscal year 1966		Fiscal year 3967	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Virginia	$690,852	2.8	$469,097	2.0	$425,487	1.3	$665,376	1.8
Washington	1,085,696	4.5	545,607	2.3	444,368	1.4	606,114	1.6
West Virginia	87,327	.4	90,312	.4	149,300	.5	141,736	.4
Wisconsin	177,217	.7	203,003	.9	364,684	1.1	383,602	1.0
Wyoming	49,408	.2	7,867	(5)	11,112	(5)	32,868	.1

[1] Notes on coverage: It is emphasized that data on prime contracts by State do not provide any direct indication as to the State in which the actual production work is done. For the majority of contracts with manufacturers, the data reflect the location of the plant where the product will be finally processed and assembled. If processing or assembly is to be performed in more than 1 plant of a prime contractor, the location shown is the plant where the largest dollar amount of work will take place. Construction contracts are shown for the State where the construction is to be performed. For purchases from wholesale or other distribution firms, the location is the address of the contractor's place of business. For service contracts, the location is generally the place where the service is performed, but for transportation and communications services the home office address is frequently used.

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

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

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

[2] Includes all contracts awarded for work performance in the United States. The United States includes the 50 States, the District of Columbia, U.S. possessions, the Canal Zone, the Commonwealth of Puerto Rico, and other areas subject to the complete sovereignty of the United States, but does not include occupied Japanese islands and trust territories.

[3] Includes contracts of less than $10,000, all contracts awarded for work performance in the Commonwealth of Puerto Rico, U.S. possessions, and other areas subject to the complete sovereignty of the United States, contracts which are in a classified location, and any intragovernmental contracts entered into overseas.

[4] Net value of contracts of $10,000 or more for work in each State and the District of Columbia.

[5] Less than 0.05 percent.

TABLE 9-A.—NET VALUE OF MILITARY PROCUREMENT BY STATES, BY PERCENT OF TOTAL, FISCAL YEAR 1967

Inverse rank	State	Percent	Total	Inverse rank	State	Percent	Total
1	South Dakota	(1)	---	27	Alabama	0.8	8.7
2	Idaho	(1)	---	28	District of Columbia	1.0	9.7
3	North Dakota	(1)	---	29	Wisconsin	1.0	10.7
4	Nevada	0.1	0.1	30	Kansas	1.1	11.8
5	Wyoming	.1	.2	31	North Carolina	1.2	13.0
6	Delaware	.1	.3	32	Tennessee	1.4	14.4
7	Maine	.2	.5	33	Washington	1.6	16.0
8	Hawaii	.2	.7	34	Minnesota	1.7	17.7
9	Montana	.2	.9	35	Louisiana	1.8	19.5
10	New Mexico	.2	1.1	36	Virginia	1.8	21.3
11	Alaska	.2	1.3	37	Florida	2.1	23.4
12	Oregon	.3	1.6	38	Maryland	2.3	25.7
13	Vermont	.3	1.9	39	Indiana	2.4	28.1
14	Nebraska	.3	2.2	40	Michigan	2.8	30.9
15	Mississippi	.3	2.5	41	Illinois	2.8	33.7
16	Kentucky	.3	2.8	42	Georgia	3.1	36.8
17	Arkansas	.3	3.1	43	New Jersey	3.3	40.1
18	West Virginia	.4	3.5	44	Massachusetts	3.8	43.9
19	Oklahoma	.4	3.9	45	Ohio	4.3	48.2
20	New Hampshire	.4	4.3	46	Pennsylvania	4.4	52.6
21	Utah	.5	4.8	47	Connecticut	5.2	57.8
22	South Carolina	.5	5.3	48	Missouri	6.1	63.9
23	Rhode Island	.5	5.8	49	New York	8.7	72.6
24	Colorado	.6	6.4	50	Texas	9.5	82.1
25	Arizona	.7	7.1	51	California	17.9	100.0
26	Iowa	.8	7.9				

[1] Less than 0.05 percent.

AWARDS TO 100 LARGEST MILITARY CONTRACTORS, FISCAL YEAR 1966—(JULY 1965–JUNE 1966 (DATA NOT AVAILABLE FOR FISCAL YEAR 1967)

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 1966 accounted for 63.8 percent of the U.S. total. This was 5.1 percentage points below the 68.9 percent obtained by the top 100 companies in fiscal year 1965, and was the lowest percentage for the 100 top companies since reporting was initiated in fiscal year 1957. The table below shows that the first 25 companies received 5.2 percent less than in fiscal year 1965 with a decrease of 4.4 percent occurring in the first five companies.

[In percent of U.S. total]

Companies	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965	Fiscal year 1966
1st	6.0	6.5	5.6	5.9	5.8	7.1	4.6
2d	5.1	5.2	4.7	5.2	5.4	4.9	3.5
3d	4.8	5.2	4.4	4.1	4.6	3.5	3.4
4th	4.6	4.1	4.0	4.0	4.1	3.4	3.4
5th	4.3	3.8	3.8	4.0	3.9	3.1	2.7
1 to 5	24.8	24.8	22.5	23.2	23.8	22.0	17.6
6 to 10	11.3	11.8	11.1	10.9	12.0	10.2	9.0
11 to 25	17.4	18.2	17.2	17.8	17.1	16.0	16.4
1 to 25	53.5	54.8	50.8	51.9	52.9	48.2	43.0
26 to 50	11.3	11.0	12.6	13.7	12.9	13.0	12.1
51 to 75	5.4	5.5	6.0	5.5	5.1	5.2	5.4
76 to 100	3.2	2.9	2.9	2.8	2.5	2.5	3.3
1 to 100	73.4	74.2	72.3	73.9	73.4	68.9	63.8

Negotiated and Advertised Procurement Actions

Negotiated procurements for fiscal year 1967 were 86 percent of total awards with business firms in the United States, up 1 percent from the previous year.

TABLE 10.—NET VALUE OF MILITARY PROCUREMENT ACTIONS, WITH BUSINESS FIRMS FOR WORK IN THE UNITED STATES, CLASSIFIED BY METHOD OF PROCUREMENT, FISCAL YEARS 1951–67

[Dollar amounts in millions]

Fiscal year	Total net value	Formally advertised procurement		Negotiated procurement	
		Amount	Percent	Amount	Percent
1951	$30,823	$3,720	12.1	$27,103	87.9
1952	41,482	4,479	10.8	37,003	89.2
1953	27,822	3,089	11.1	24,733	88.9
1954	11,448	1,789	15.6	9,659	84.4
1955	14,930	2,386	16.0	12,544	84.0
1956	17,750	2,815	15.9	14,935	84.1
1957	19,133	3,321	17.4	15,812	82.6
1958	21,827	3,115	14.3	18,712	85.7
1959	22,744	3,089	13.6	19,655	86.4
1960	21,302	2,978	14.0	18,324	86.0
1961	22,992	2,770	12.0	20,222	88.0
1962	26,147	3,412	13.1	22,735	86.9
1963	27,143	3,538	13.0	23,605	87.0
1964	26,221	3,889	14.8	22,332	85.2
1965	25,281	4,660	18.4	20,621	81.6
1966	34,026	5,147	15.1	28,879	84.9
1967	39,809	5,621	14.1	34,188	85.9
Total, 1951–67	430,880	59,817	13.9	371,062	86.1

Source: "Military Prime Contract Awards and Subcontract Payments or Commitments, July 1966–June 1967," Office of the Secretary of Defense.

Three types of negotiation authority account for 44 percent of all procurement in fiscal 1967, the same as in fiscal 1966. The results for fiscal years 1965, 1966, and 1967 follow:

CONTRACT AWARDS BY STATUTORY AUTHORITY

[Excerpt from table 11]

	Percent		
	1965	1966	1967
Impracticable to secure competition by formal advertising	14.4	15.5	17.3
Experimental, developmental, test, or research	16.6	12.1	11.2
Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture	23.0	16.2	15.0
Total	54.0	43.8	43.5

TABLE 11.—AWARDS BY STATUTORY AUTHORITY

[Dollar amounts in thousands]

JULY 1964–JUNE 1965

Statutory authority (10 U.S.C. 2304(a))	Total		Army amount	Navy amount	Air Force amount	Defense Supply Agency amount
	Amount	Percent				
Total	$27,997,037	--------	$6,327,460	$8,968,550	$9,658,648	$3,042,379
Intragovernmental	612,470	--------	111,620	278,303	199,478	23,069
Total, except intragovernmental	27,384,567	100.0	6,215,840	8,690,247	9,459,170	3,019,310
Formally advertised	4,817,214	17.6	1,563,378	1,709,438	431,132	1,113,266
Other authority (subtotal)	22,567,353	82.4	4,652,462	6,980,809	9,028,038	1,906,044
(1) National emergency (subtotal)	1,638,930	6.0	512,500	332,857	306,864	486,709
(a) Labor surplus area and industry set-asides	158,166	.6	36,110	26,127	24,595	71,334
(b) Small business set-asides (subtotal)	1,464,146	5.3	471,778	306,626	273,780	411,962
1. Unilateral	62,215	.2	30,351	24,479	6,053	1,332
2. Joint	1,401,931	5.1	441,427	282,147	267,727	410,630
(c) Balance-of-payments program	16,618	.1	4,612	104	8,489	3,413
(2) Public exigency	1,104,298	4.0	415,316	238,673	364,870	85,439
(3) Purchases not more than $2,500	1,392,953	5.1	378,499	443,970	344,145	226,339
(4) Personal or professional services	78,820	.3	35,023	31,051	12,746	0
(5) Services of educational institutions	431,284	1.6	99,178	150,391	181,715	0
(6) Purchases outside United States	1,036,916	3.8	486,086	104,293	185,474	162,063
(7) Medicines or medical supplies	67,353	.2	1,114	1,556	1,836	62,847
(8) Supplies purchased for authorized resale	170,674	.6	49,795	25,662	76,879	18,338
(9) Perishable or nonperishable subsistence	801,857	2.9	56,464	50,759	141,305	553,329
(10) Impractical to secure competition by formal advertising	3,929,339	14.4	729,401	1,470,132	1,552,010	177,796
JULY 1965–JUNE 1966						
(11) Experimental, developmental test, or research	$4,556,792	16.6	$932,697	$834,971	$2,789,104	$20
(12) Classified purchases	115,000	.4	78,409	35,801	790	0
(13) Technical equipment requiring standardization and interchangeability of parts	52,400	.2	6,109	30,315	15,976	0
(14) Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacturing	6,284,334	23.0	672,178	2,977,359	2,634,797	0
(15) Negotiation after advertising	1,616	(1)	0	793	806	17
(16) Purchases to keep facilities available in the interest of national defense or industrial mobilization	337,241	1.2	47,430	56,301	233,494	16
(17) Otherwise authorized by law	567,546	2.1	152,263	195,925	185,227	34,131

JULY 1965–JUNE 1966

Total	$38,243,107	.....	$11,298,202	$10,464,257	$10,740,754	$5,739,894
Intragovernmental	1,014,603	.....	158,799	448,909	363,531	43,364
Total, except intragovernmental	37,228,504	100.0	11,139,403	10,015,348	10,377,223	5,696,530
Formally advertised	5,283,158	14.2	1,792,440	1,417,196	455,292	1,618,230
Other authority (subtotal)	31,945,346	85.8	9,346,963	8,598,152	9,921,931	4,078,300
(1) National emergency (subtotal)	1,856,600	5.0	484,759	328,946	255,909	786,986
(a) Labor surplus area and industry set-asides	156,672	.4	37,375	23,264	7,690	88,343
(b) Small business set-asides (subtotal)	1,594,571	4.3	444,897	304,912	240,938	603,824
1. Unilateral	1,398,904	3.8	406,559	273,285	142,737	576,323
2. Joint	[4] 195,667	.5	38,338	31,627	98,201	27,501
(c) Balance-of-payments program	105,357	.3	2,487	770	7,281	94,819
(2) Public exigency	5,081,593	13.7	2,461,358	582,858	827,784	1,209,593
(3) Purchases not more thad $2,500	1,704,868	4.6	461,560	513,610	378,776	350,922
(4) Personal or professional services	92,431	.3	34,843	41,959	15,629	0
(5) Services of educational institutions	383,649	1.0	107,819	159,384	116,446	0
(6) Purchases outside United States	1,934,316	5.2	659,179	694,779	230,799	349,559
(7) Medicines or medical supplies	126,742	.3	2,227	2,455	1,403	120,657
(8) Supplies purchased for authorized resale	230,439	.6	56,487	49,261	102,541	22,150
(9) Perishable or nonperishable subsistence	1,088,222	2.9	61,865	44,951	135,207	846,199
(10) Impractical to secure competition by formal advertising	5,746,988	15.5	1,386,531	1,842,956	2,194,627	322,874
(11) Experimental, developmental test, or research	4,495,669	12.1	1,084,911	961,576	2,449,149	33
(12) Classified purchases	122,571	.3	74,284	44,736	3,551	0
(13) Technical equipment requiring standardization and interchangeability of parts	105,630	.3	2,461	43,119	53,769	6,281
(14) Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacturing	6,039,207	16.2	831,676	2,613,892	2,593,639	0
(15) Negotiation after advertising	9,889	([1])	6,225	3,530	108	26
(16) Purchases to keep facilities avilable in the interest of national defense or industrial mobilization	2,171,779	5.8	1,455,618	349,458	364,256	2,447
(17) Otherwise authorized by law	754,753	2.0	175,160	320,682	198,338	60,573

JULY 1966–JUNE 1967 [4]

Total	$44,632,600	.....	$12,390,578	$13,998,335	$12,065,423	$6,178,264
Intragovernmental	1,251,540	.....	227,387	667,771	315,786	40,596
Total, except intragovernmental	43,381,060	100.0	12,163,191	13,330,564	11,749,637	6,137,668
Formally advertised	5,791,979	13.4	1,588,342	2,112,261	409,701	1,681,675
Other authority (subtotal)	37,589,081	86.6	10,574,849	11,218,303	11,339,936	4,455,993

See footnotes at end of table, p. 32.

TABLE 11.—AWARDS BY STATUTORY AUTHORITY—Continued

[Dollar amounts in thousands]

JULY 1966–JUNE 1967 [1]

Statutory authority (10 U.S.C. 2304(a))	Total		Army amount	Navy amount	Air Force amount	Defense Supply Agency amount
	Amount	Percent				
(1) National emergency (subtotal)	$2,113,651	4.9	$514,494	$375,061	$251,232	$972,864
(a) Labor surplus area and industry set-asides	108,025	.3	4,835	17,109	8,409	77,672
(b) Small business set-asides (subtotal)	1,827,987	4.2	506,969	357,565	239,875	723,578
1. Unilateral	1,800,371	4.1	496,784	355,860	224,084	723,643
2. Joint	27,616	.1	10,185	1,705	15,791	−65
(c) Balance-of-payments program	177,639	.4	2,690	387	2,948	171,614
(2) Public exigency	6,028,574	13.9	2,319,437	1,640,269	1,052,505	1,016,363
(3) Purchases not more than $2,500	1,841,300	4.2	493,488	597,523	381,909	368,380
(4) Personal or professional services	90,549	.2	51,159	27,846	11,544	0
(5) Services of educational institutions	453,955	1.1	102,660	188,452	162,842	1
(6) Purchases outside United States	2,263,460	5.2	798,833	805,862	253,345	405,420
(7) Medicines or medical supplies	144,514	.3	3,476	1,250	1,384	138,404
(8) Supplies purchased for authorized resale	218,741	.5	68,559	19,190	109,882	21,110
(9) Perishable or nonperishable subsistence	1,178,015	2.7	80,241	59,806	160,754	877,214
(10) Impractical to secure competition by formal advertising	7,521,549	17.3	1,564,265	2,147,709	3,253,154	556,421
(11) Experimental, developmental, test, or research	4,848,162	11.2	1,080,291	1,292,607	2,475,246	18
(12) Classified purchases	129,148	.3	106,378	19,931	2,839	0
(13) Technical equipment requiring standardization and interchangeability of parts	132,084	.3	22,997	31,789	65,062	12,236
(14) Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacturing	6,500,576	15.0	976,180	3,189,760	2,334,636	0
(15) Negotiation after advertising	2,280	(1)	1,090	789	401	0
(16) Purchases to keep facilities available in the interest of national defense or industrial mobilization	3,292,966	7.6	2,184,424	455,979	650,227	2,336
(17) Otherwise authorized by law	829,557	1.9	206,877	364,480	172,974	85,226

[1] Less than 0.05 percent.

Fixed Price Versus Cost Reimbursement Contracts

Fixed price contracts decreased slightly to 78.9 percent in fiscal year 1967. Notable progress has been made in the use of fixed price contracts during the past several fiscal years. Since fiscal year 1961 the increase has been 21 percent.

TABLE 12.—NET VALUE OF MILITARY PROCUREMENT ACTIONS, BY TYPE OF CONTRACT PRICING PROVISIONS,[1] FISCAL YEARS 1952-67

[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	81.1	$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	16,101	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
1966	33,515	26,551	79.2	6,964	20.8
1967	39,249	30,974	78.9	8,275	21.1

[1] Includes Army, Navy, and Air Force, but excludes Armed Services Petroleum Purchasing Agency. Beginning Jan. 1, 1957, data for the Military Petroleum Supply Agency, the successor to 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 1966–June 1967," Office of the Secretary of Defense.

Utilization of Military Stocks

From fiscal year 1958 through fiscal year 1966 the amount of intraservice and interservice utilization rose steadily from $213 to $1,859 million. During fiscal year 1967, the total was $1,540 million, a reduction of approximately $300 million, which is attributed to the fiscal year 1966 reutilization of spares from the Air Force missile phaseout programs.

TABLE 13.—UTILIZATION OF DOD ASSETS, FISCAL YEARS 1958-67

[In millions]

Utilization of DOD assets	Fiscal year									
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
DOD interservice supply support program (wholesale)	$32	$119	$141	$228	$353	$420	$396	$357	$231	$348
Intraservice utilization of military service declared excess property	117	232	408	616	637	626	769	[1] 799	[1] 1,240	812
Interservice utilization of military service declared excess property	64	134	117	131	122	111	160	304	388	380
Total	213	485	666	975	1,112	1,157	1,325	1,460	1,859	1,540

[1] Includes reutilization of supply system inventories.

Source: Office of the Secretary of Defense.

Disposition of DOD Surplus Stocks

The volume of disposal of surplus DOD personal property has declined about 32 percent from fiscal year 1958 to fiscal year 1967 (table 14) while the percent of total gross proceeds to the total acquisition cost has declined from 3.38 to 2.88 percent and the percent of proceeds to acquisition cost (other than scrap and salvage) has increased almost 1¼ percent (table 15). Meanwhile the cost of sales have more than trebled as a percent of gross proceeds from fiscal year 1958 to fiscal year 1967 (table 16).

TABLE 14.—TOTAL DISPOSITIONS[1] (AT ACQUISITION COST) OF DOD SURPLUS PERSONAL PROPERTY, FISCAL YEARS 1958-67

[In millions of dollars]

	Fiscal year									
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Utilized by other Government agencies and MAP	168.0	361.0	141.0	349.0	271.0	188.0	194	395	604	628
Abandoned or destroyed	62.0	99.0	118.0	44.0	50.0	74.0	117	129	114	64
Authorized donations	221.0	314.0	347.0	275.0	258.0	233.0	273	282	285	231
Sales (other than scrap and salvage)	2,465.8	2,789.2	2,356.4	1,771.3	1,236.2	891.6	980	975	[2] 804	[3] 917
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	2,614	2,146
Total dispositions	5,911.0	8,141.0	6,589.0	6,791.0	4,061.0	3,941.0	5,399	4,769	4,421	3,986

[1] Exclusive of DOD interservice transfers.
[2] Includes sale of $86,000,000 of missile phaseout property.
[3] Includes sale of $290,000,000 of missile phaseout property.

TABLE 15.—PROCEEDS FROM DISPOSAL SALES OF SURPLUS PERSONAL PROPERTY BY THE MILITARY DEPARTMENTS, FISCAL YEARS 1958-67

[In millions]

Proceeds from disposal	Fiscal year									
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
From sale (other than scrap and salvage)	$128	$140	$124	$106	$87	$59	$61	$55	$47	$34
From sale of other property	55	72	70	61	48	40	42	53	[1] 52	[1] 54
Total	183	212	194	167	135	99	103	108	99	88
Acquisition cost (total)	5,460	7,366	5,983	6,123	3,482	3,446	4,815	3,958	3,418	3,063
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	2.90	2.88
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	6.52	5.42

[1] Includes proceeds realized from sale of missile phaseout property.

TABLE 16.—COSTS OF DISPOSAL SALES OF SURPLUS PROPERTY BY THE MILITARY DEPARTMENTS, FISCAL YEARS 1958-67

[In millions]

Costs of disposal sales of surplus property	Fiscal year									
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Cost for demilitarization	$24.0	$20.5	$26.6	$19.1	$9.1	$9.5	$12.7	$13.2	$13.5	$8.9
Costs for preparation and selling	18.5	37.8	51.8	65.5	69.0	62.6	64.6	65.1	62.9	60.7
Total	42.5	58.3	78.4	84.6	78.1	71.8	77.3	78.3	76.4	69.6
Gross proceeds	183.0	212.0	194.0	167.0	135.0	90.0	103.0	108.0	99.0	88.0
Percent of sales costs to gross proceeds	23.0	27.5	40.4	50.6	58.0	75.2	75.0	72.5	77.2	79.0

APPENDIX 1

DEPARTMENT OF DEFENSE

COST REDUCTION PROGRAM—YEAREND

FISCAL YEAR 1967 REPORT

[Memorandum for the Secretary of Defense]

WASHINGTON, D.C., *October 11, 1967.*

Subject: DOD cost reduction program, fiscal year 1967 yearend status report.

The DOD cost reduction program entered a new phase in fiscal year 1967. Upon completion of the intially established 5-year cost reduction program at the end of fiscal year 1966, the program was revised to report and measure the effects of new, improved, or intensified management actions on an annual basis. This change resulted in the establishment of new criteria for determining what type of actions qualify for reporting and in the decision to measure all savings on the basis of a "before" and "after" cost comparison of the effect of an individual management improvement action. Although these decisions simplified the basic system they have placed added emphasis on the importance of having good cost data available at the level where an action is initiated. The ability to react quickly to these and other changes have proven to be true tests of the substance of the program.

As in the past years, yearend results have exceeded original expectations. Savings realized in fiscal year 1967 exceeded the goal of $872 million by $180 million for a total of $1,052 million. The 3-year effects of fiscal year 1967 actions amount to $2,059 million, well in excess of the goal of $1,502 million. In view of the revised system and the expected learning curve associated with its implementation these results are indeed surprising.

It is apparent that the DOD cost reduction program remains a live, dynamic influence on the management practices utilized in the Department of Defense today.

THOMAS D. MORRIS,
Assistant Secretary of Defense (Installations and Logistics).

Department of Defense—Cost Reduction Program: Yearend

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DEPARTMENT OF DEFENSE COST REDUCTION PROGRAM—SUMMARY OF SAVINGS FROM FISCAL YEAR 1967 ACTIONS

[In millions]

	Realized savings		Estimated savings		Total savings	
	Goal	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1967–69	Goal
SUMMARY BY AREA						
I. Buying only what we need:						
A. Refining requirements calculations:						
1. Major items of equipment	$110	$136	$58	$2	$196	$203
2. Initial provisioning	20	31	21	9	61	40
3. Secondary items	45	110	7	6	123	56
4. Technical manuals	4	2	------	1	3	6
5. Technical data and reports	7	10	2	3	15	10
6. Industrial production base	4	4	------	------	4	4
B. Utilization of long supply and excess inventory:						
1. Equipment and supplies	37	49	11	2	62	51
2. Idle production plant equipment	1	------	------	------	-------	1
3. Excess contractor inventory	2	1	------	------	1	2
C. Eliminating goldplating	300	339	161	109	609	419
D. Inventory item reduction	4	3	------	------	3	4
Total, buying only what we need	534	685	260	132	1,077	796
II. Buying at the lowest sound price:						
A. Shift from noncompetitive to competitive procurement	54	30	21	28	79	130
B. Direct purchase breakout	10	11	4	4	19	15
C. Multiyear procurement	40	29	20	14	63	100
Total, buying at lowest sound price	104	70	45	46	161	245
III. Reducing operating costs:						
A. Terminating unnecessary operations	[1] 49	7	23	34	64	49
B. Reducing operating expense	63	135	117	108	360	147
C. Increasing efficiency of operations:						
1. Improving telecommunication management	13	11	15	14	40	31
2. Improving transportation and traffic management	39	53	57	30	140	73
3. Improving equipment maintenance management	25	32	34	27	93	64
4. Improving noncombat vehicle management	3	2	2	4	8	6
5. Decreasing use of contractor services	1	4	2	1	7	5
6. Improving military housing management	5	5	3	2	10	11
7. Improving real property management	17	14	9	8	31	42
8. Packaging, preserving, and packing	9	18	10	9	37	18
Total, reducing operating costs	224	281	272	237	790	446
IV. Military assistance program (MAP):						
ISA	9	15	6	8	29	14
Air Force	1	1	1	------	2	1
Total, military assistance program	10	16	7	8	31	15
Total program	872	1,052	584	423	2,059	1,502
SUMMARY BY MAJOR CATEGORY						
I. Buying only what we need	534	685	260	132	1,077	796
II. Buying at the lowest sound price	104	70	45	46	161	245
III. Reducing operating costs	224	281	272	237	790	446
IV. Military assistance program	10	16	7	8	31	15
Total program	872	1,052	584	423	2,059	1,502
SUMMARY BY DEPARTMENT/AGENCY						
Army	224	221	136	105	462	374
Navy	272	318	158	101	577	474
Air Force	332	464	267	192	923	583
DSA	31	33	14	14	61	51
DCA	4	1	3	3	7	6
ISA	9	15	6	8	29	14
Total program	872	1,052	584	423	2,059	1,502

[1] Represents the annual rate of savings expected to be realized from fiscal year 1967 decisions to consolidate, reduce, or close Defense installations and activities.

I. Buying Only What We Need

I.A.1. MAJOR ITEMS OF EQUIPMENT

I. Scope and objective

A. Major items of equipment encompass end items such as ships, aircraft, missiles, ammunition, tactical vehicles, noncombat vehicles, and other items which are controlled on a line item basis by the headquarters level of DOD components.

B. The primary objective of this area is to initiate management improvement actions which will reduce the amount of appropriated or revolving funds expended for major items of equipment. This objective can be achieved by taking actions which: (1) decrease the quantity of major items procured; or (2) reduce the cost of major items procured even though the quantity purchased is not reduced.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968	Fiscal year 1969	Fiscal years 1967–69	
	Goal	Realized	Estimated	Estimated	Total	Goal
Army	$17	$1	$2	--------	$3	$33
Navy	58	76	37	--------	113	105
Air Force	35	59	19	$2	80	65
Total	110	136	58	2	196	203

B. Achievements in this area substantially exceeded expectations during fiscal year 1967, particularly for Navy and Air Force. Army savings were disappointing, whereas Navy achieved realized savings of 131 percent and Air Force 170 percent of their respective goals. Overall DOD achievements amounted to 120 percent of the fiscal year 1967 goal.

III. Examples

There were more than 40 significant actions taken in this area during fiscal year 1967. The following examples are typical:

A. *Cancellation of Little John warhead procurement.*—The Army canceled procurement of 146 Little John warheads, FL/Smoke M8A1, based upon a special review conducted by the Army Materiel Command. This action saved $353,000 in fiscal year 1967.

B. *Reduction in Polaris A–3 missile procurement.*—The Navy, in conjunction with the development contractor, conducted intensive studies and reviews of progress during the development of the Poseidon missile. As a result, a decision was made to reduce the number of pilot test missiles and advance the operational availability date of the Poseidon missile system by 1 year. This action produced two benefits. It saved $46 million in Poseidon missile development and testing costs (reported in Area I.C. Value Engineering) and $43.9 million in major item procurement of the Polaris A–3 missile. The fiscal year

1967 programed procurement of the Polaris A–3 was canceled as a result of the advance in the operational availability date of the Poseidon missile system scheduled to replace the Polaris.

C. *Reduction in T–28 trainer aircraft procurement.*—A Navy internal audit report disclosed low utilization of T-28 aircraft assigned for proficiency flying at some installations. This report triggered a Navy-wide review of aircraft requirements for proficiency flying. The Navy-wide review disclosed that a quantity of the T–28 aircraft being used for proficiency flying could be transferred to the Basic Training Command and used to satisfy a procurement requirement for pilot training aircraft. Planned procurement of T–28 prop trainers in the amount of $18.2 million was canceled as a result of this action.

D. *Reduction in procurement of BLU–32/B and Napalm B (fire bombs).*—The Air Force, through an intensive review of requirements, asset positions and use data, was able to cancel a programed fiscal year 1967 procurement of 29,400 fire bombs and 11,300,200 pounds of Napalm B. This action produced savings of $5.2 million in fiscal year 1967.

E. *Termination of contract for power sharing gear box.*—The Air Force conducted a complete reanalysis and cost-effectiveness reevaluation of the requirement for a power sharing gear box which had been contracted for a cost of $1,500,000. As a result, the Air Force concluded that the benefits to be gained did not warrant the expenditure of $1.5 million. The contract was terminated at a cost of $54,126 and funds amounting to $1,350,373 were released for use on higher priority requirements.

I.A.2. INITIAL PROVISIONING

I. Scope and objective

A. Initial provisioning is the process of determining the range and quantity of items required to support and maintain end items of equipment for an initial period of time. Follow-on provisioning (a subsequent provisioning of the same equipment from the same contractor) and reprovisioning (a subsequent provisioning of the same equipment from a different contractor) are refinements of initial provisioning which are included in the scope of this area.

B. The primary objective of this area is to initiate management improvement actions which will reduce the amount of appropriated or revolving funds required during the initial provisioning phase. This objective can be achieved from two types of actions: (1) Those which decrease the quantity or range of items procured during initial provisioning phases; and (2) those which reduce the cost of items procured during initial provisioning even though no reductions are made in the quantities procured.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968	Fiscal year 1969	Fiscal year 1967-69	
	Goal	Realized	Estimated	Estimated	Total	Goal
Army						
Navy	$10	$16	$16	$7	$39	$20
Air Force	10	15	5	2	22	20
Total	20	31	21	9	61	40

B. Savings reported by the Navy and Air Force exceeded their fiscal year 1967 goal by more than 50 percent. However, as in past years, the Army failed to achieve significant savings in this area.

III. Examples

There were more than 30 actions reported in this area during fiscal year 1967, 13 of which produced savings of over $100,000 each. A few representative examples follow:

A. *Fleet logistics support improvement program (FLSIP).*—Savings of $13.3 million were achieved in fiscal year 1967 by a change in the method of calculating initial on-board ship requirements for ships scheduled for conversion. The change, effective in August 1966, resulted from studies and analysis made under the FLSIP.

B. *Phased provisioning.*—Savings of more than $3.4 million in initial provisioning were achieved by the Air Force through the application of phased provisioning on the C–141 aircraft program. Reductions of varying quantities on 27 selected high-cost items were made without adverse effect on mission support.

C. *Reduction in aircraft engine procurement.*—The Air Force reevaluated the methodology for computing spare engine requirements. As a result, selected factors were changed and a reduction of 11 TF 33–P9 engines, costing approximately $2.7 million, was made in fiscal year 1967.

I.A.3. SECONDARY ITEMS

I. Scope and objective

A. Secondary items consist of equipment and materiel not included in the scope of area I.A.1. major items of equipment. Secondary items include: (1) Spare components, subsystems and assemblies; (2) repair parts; (3) bulk items and material such as sheet aluminum, welding rods, gasket material, etc.; and (4) minor end items such as furniture, office equipment, shop equipment, etc.

B. The primary objective of this area is to initiate management improvement actions which will reduce the amount of appropriated or revolving funds expended for secondary items. To achieve this objective, actions must be taken to: (1) Decrease the quantity of items procured; or (2) reduce their cost.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968	Fiscal year 1969	Fiscal years 1967–69	
	Goal	Realized	Estimated	Estimated	Total	Goal
Army	$11	$67	$1	$1	$69	$14
Navy	11	11	2	1	14	13
Air Force	20	29	4	4	37	25
DSA	3	3	.....	.....	3	4
Total	45	110	7	6	123	56

B. In view of the increasing requirement (both dollars and items) for secondary items this area will continue to receive top management attention at all levels of the DOD. Each DOD component was able to achieve savings eqaul to or greater than their fiscal year 1967 goal. A substantial portion ($45.4 million) of the savings resulted from a change by Army in the supply pipeline from the continental United States to the Republic of Vietnam (RVN).

III. Examples

A. *Cancellation of excessive quantity requisitions.*—A special program to validate back orders and requisitions was initiated by the Army Tank Automotive Center. Items managers were directed to contact requisitioners and reconfirm requirements prior to procurement. While the original program involved only SEA, the program was subsequently expanded to include all customer requisitions. Customer requisitions totaling more than $30 million were canceled during fiscal year 1967. Savings of more than $18 million were reported from this action.

B. *Repair of center wing units of F–4 aircraft.*—Prior to development and implementation of this repair technique the center section wing units with damaged skins were surveyed. No Navy or commercial procedure existed for the repair of these wing units. The repair is now accomplished by removing the damaged skin and replacing it with new "Chem-Mill" machined torque box skins obtained from the manufacturer. The skins are individually form fitted to the wing section. All special tooling, support equipment, and procedures for reskinning were designed by the Navy. Savings of almost $0.4 million were realized in fiscal year 1967; fiscal year 1968 and fiscal year 1969 savings are estimated at $1 million for each year.

C. *Reduced stock levels for tenders and repa r ships.*—New tender and repair shipload lists were developed and placed in effect during fiscal year 1967. The range and depth of stock was reduced from a 1-year requirement to a 90-percent availability level for a 90-day period. Savings of $7.3 million were realized from this action in fiscal year 1967.

D. *Intensified review of TAC requirements.*—As a result of the Presidential memo of September 16, 1966, directing improved procurement and management of property, the Tactical Air Command directed each TAC to conduct a special step-by-step review of local funded requirements. Savings of $1.2 million in fiscal year 1967 resulted from this special review.

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I.A.4. TECHNICAL MANUALS

I. Scope and objective

A. This area deals with requirements for new technical manuals and revision to existing manuals, whether procured commercially or prepared in-house.

B. The area objective is to initiate management improvement actions which will (1) reduce quantitative requirements or (2) lower qualitative requirements without adversely affecting mission accomplishments.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968	Fiscal year 1969	Fiscal year 1967-69	
	Goal	Realized	Estimated	Estimated	Total	Goal
Army	$1	--------	--------	--------	--------	$1
Navy	1	--------	--------	--------	--------	2
Air Force	2	$2	--------	$1	$3	3
Total	4	2	--------	1	3	6

B. The Army and Navy achievements ($0.3 million each) for fiscal year 1967 are disappointing. These results tend to indicate a lessening of emphasis when compared to accomplishments of prior years.

III. Examples

The following two Air Force examples are indicative of the actions which are possible in this area:

A. *Reduction in manuals for C–141 aircraft.*—Representatives of the Air Force, the prime contractor and various subcontractors cooperated in an intensive review of manual requirements for the C–141 aircraft. As a result, some manuals were combined and others were deleted upon disclosure that existing manuals for similar systems could be adapted for use in the C–141 program. This action reduced the cost of manuals by more than $0.7 million.

B. *Air Force ground wire communications requirements.*—In the past the Air Force has procured technical manuals from the equipment prime contractor in sets configured for each individual system; i.e., 500 line system, 1,000 line system, 2,500 line system, etc. During fiscal year 1967, communications equipment specialists and technical data control officers explored the advantages of buying basic manuals on a typical XY telephone central office system which contained data applicable to all varying line system configurations. It was concluded that this approach would eliminate duplications of basic common data contained in individual system technical manuals and would reduce the cost of revisions to upgrade for future system configurations. Application of this new approach produced savings of over $0.2 million in fiscal year 1967.

I.A.5. TECHNICAL DATA AND REPORTS

I. Scope and objective

This area deals with the determination of technical data and report requirements, and the acquisition and distribution of technical data and reports. Savings result from new, improved, or intensified management actions that eliminate or reduce requirements, reduce the scope of content, reduce the frequency of submissions, or otherwise produce economies without adversely affecting mission objectives.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army	$1	$2	$1	$1	$4	$1
Navy	2	1	.....	1	2	3
Air Force	4	7	1	1	9	6
Total	7	10	2	3	15	10

B. Total savings for fiscal year 1967 exceeded expectations by approximately $3 million, or 40 percent. The Air Force achievements are particularly noteworthy since they represented 70 percent of the total savings reported for fiscal year 1967.

III. Examples

There were more than 800 validated actions reported during fiscal year 1967, of which 19 produced savings of more than $100,000 each. The following two examples set forth the types of actions reported in this area:

A. *Utilization of contractor format and deletion of data requirements.*—The cost of technical data requirements on an Army contract for the T64–GE–16 engine was estimated at $1,141,750. Through an intensified review of the Army requirements, which required conformance to specific format and content, this cost was reduced by $583,000 by accepting certain data in contractor format and deletion of some data items of questionable necessity.

B. *Deletion of equipment failure reports.*—An average of 30 unit failure reports were being prepared weekly under an Air Force contract at a cost of $250 each. A subsequent review of this report requirement revealed that unit failure information was being recorded by the contractor for his own use and could be used in lieu of the unit failure reports. The unit failure reporting requirement was deleted from the contract with a net savings of $0.2 million accruing to the Government.

I.A.6. INDUSTRIAL PRODUCTION BASE

I. Scope and objective

This area encompasses the acquisition, construction, expansion, replacment, modernization, and utilization of industrial facilities and equipment. It includes facilities and equipment made available to

both commercial contractors and Government-owned plants. The primary objective of this area is to encourage the initiation of management improvement actions which will decrease the amount of funds required for acquisition, expansion, or modernization of industrial facilities and production equipment.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968, estimated	Fiscal year 1969, estimated	Fiscal year 1967–69	
	Goal	Realized			Total	Goal
Army	-------	-------	-------	-------	-------	-------
Navy	$1	-------	-------	-------	-------	$1
Air Force	3	$4	-------	-------	$4	3
Total	4	4	-------	-------	4	4

B. The Air Force was the only DOD component which realized savings of any significance in this area. All but a few thousand dollars of the Air Force saving resulted from the combined management efforts of many parties on the CBU–24/29 munitions program. As a result of these efforts, a reduction of over $3.7 million in projected facilities expansion was achieved.

I.B.1. UTILIZATION OF LONG SUPPLY AND EXCESS INVENTORY—EQUIPMENT AND SUPPLIES

I. Scope and objective

This area encompasses long supply, excess and surplus equipment and supplies. It includes all types of end items (aircraft, ships, missiles, etc.), spares and repair parts, and other items of equipment and supplies which are stratified as long supply, excess, or surplus within the Department of Defense. The primary objective is to initiate management mprovement actions which will result in the utilization of this material in lieu of new procurement.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army	$17	$11	$2	----------	$13	$22
Navy	4	7	5	$2	14	5
Air Force	12	28	4	----------	32	18
DSA	4	3	----------	----------	3	6
Total	37	49	11	2	62	51

B. The criteria for reporting savings in this area were changed significantly commencing with fiscal year 1967 reporting. In prior years savings were reported to the extent that the gross utilization of long supply and excess inventory in the current year exceeded the gross utilization in the base year. Beginning in fiscal year 1967, savings are reported only when it can be demonstrated that the utilization occurred as a result of a new, improved, or intensified management action taken in the current year. The actual utilization of long supply and excess stocks within the DOD in fiscal year 1967 was over $1.5 billion. This is approximately the same level of gross utilization achieved in fiscal year 1966.

III. Examples

The following examples are typical of the innovations reported in this area:

A. *Rebuild/retrofit of carburetor- to fuel injection-type engines.*—The Army satisfied a fiscal year 1967 requirement for 700 each 895–5 fuel injection engines by instituting a program involving the rebuild/retrofit of a like number of 895–3 carburetor-type engines which were in an excess status. This action resulted in a saving of $1,292,611 after deducting the costs of the rebuild/retrofit program and the salvage value which would have been realized from the sale of the excess 895–3 engines. It is estimated that an additional 150 carburetor-type engines will be rebuilt/retrofited during fiscal year 1968 and during fiscal year 1969, with an additional savings of $276,897 in each year.

B. *Use of excess axle assemblies.*—After extensive field tests, the Army determined that 1,950 excess axle assemblies used on gasoline trucks could be used, after modification, on multifuel trucks. This action saved $378,605 in fiscal year 1967 and will save another $567,906 in fiscal year 1968.

C. *Modification of excess MK–52 mod. 0 detonating fuses.*—The Navy satisfied a requirement for MK–52 mod. 3 auxiliary detonating fuses (ADF) and saved $974,842 in fiscal year 1967 by devising a way of modifying excess MK–52 mod. O detonating fuses. Previously, the excess fuses had limited usage as point detonating fuses with projectiles of 8 inches or more.

D. *Replacement of an obsolete powerplant.*—A requirement at Pearl Harbor for replacing an obsolete battery powerplant was satisfied by the Navy through the use of an excess modern diesel generator plant scheduled for disposal from an offshore location of the Naval Mine Defense Laboratory, Panama City, Fla. This action resulted in a net saving of $884,000 after deduction of the cost of removal, estimated salvage value of the equipment, and the estimated cost of alterations.

E. *Use of Navy surplus aircraft engines.*—The Air Force realized a net saving of $777,500 through the modification and use of Navy surplus aircraft engines. These engines, originally procured for use on Navy SP–5B aircraft, will support, after modification, the Air Force AT–37 aircraft.

F. *Use of Navy excess fuel tanks.*—The Air Force canceled the procurement of 337 new auxiliary fuel tanks for A–1E aircraft by modifying and using Navy excess MK–VII tanks. This action resulted in a fiscal year 1967 saving of $306,100 and an estimated saving in fiscal year 1968 of $465,900.

G. *Use of excess large sizes of Army overcoats.*—The Defense Supply Agency modified 77,802 excess large sizes of CG–107 Army overcoats

to regular and medium sizes, thus precluding size shortage buys for this overcoat which was being phased out and replaced by the new AG–44 overcoat. The modification resulted in a net saving of $1,074,000.

I.B.2. UTILIZATION OF IDLE INDUSTRIAL PLANT EQUIPMENT

I. Scope and objective

This area relates to the utilization of industrial plant equipment. The basic objective of the area is to initiate management improvement actions which will result in the use of idle industrial plant equipment.

II. Goals and accomplishments

A. A summary of results follow:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army						
Navy	$1					$1
Air Force						
Total	1					1

B. Extensive procedures have been implemented in prior years to control, account for, and insure maximum utilization of industrial plant equipment under the central control of the Defense Industrial Plant Equipment Center (DIPEC). This area is, therefore, being dropped as a separate area in the cost reduction program in fiscal year 1968. Identifiable savings which result from new, improved and intensified management actions will be reportable in area III.B.1. General Management Improvements.

I.B.3. UTILIZATION OF EXCESS CONTRACTOR INVENTORY

I. Scope of objective

A. This area applies to Government-owned personal property in the hands of commercial contractors (raw material, parts, supplies, and plant equipment, special tooling and test equipment which is not centrally reportable to the Defense Industrial Plant Equipment Center).

B. The basic objective of this area is to initiate management improvement actions that will permit the use of Government-owned personal property which becomes excess to the requirements of current contracts or which is residual to terminated or completed Government contracts with commercial contractors.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968, Estimated	Fiscal year 1969, Estimated	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army	------	------	------	------	------	------
Navy	$1	$1	------	------	$1	$1
Air Force	1	------	------	------	------	1
Total	2	1	------	------	1	2

B. The total savings for fiscal year 1967 resulted from 11 actions, 10 of which amounted to less than $100,000 each. The other action produced a saving of $165,000, and it involved the acquisition by the Navy Underwater Sound Laboratory (USL) of RCA long-range ocean surveillance equipment residual to the terminated "Project Trident" contract. This equipment was refurbished and modified by RCA, under contract to USL, to provide USL with optical beam forming and frequency analyzing equipment.

C. Effective with fiscal year 1968 reporting, this area will be dropped as a separate cost reduction area. Savings resulting from future actions will be reportable in area I.B., Use of Long Supply, Excess and Surplus Inventory.

I.C. VALUE ENGINEERING

I. Scope and objective

Value engineering (VE) is a systematic effort directed at analyzing the functions of Defense systems, equipment, facilities, procedures, methods and supplies to achieve necessary functions at the lowest overall cost, consistent with requirements for performance, reliability, quality and maintainability. All savings to the DOD which result from VE actions taken by DOD personnel and certain VE actions taken by Defense contractors are reportable in this area.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968, estimated	Fiscal year 1969, estimated	Fiscal year 1967–69	
	Goal	Realized			Total	Goal
Army	$120	$78	$68	$36	$182	$142
Navy	69	113	24	14	151	97
Air Force	117	134	60	51	245	164
DSA	12	14	9	8	31	16
Total	300	339	161	109	609	419

B. This area continues to be one of the most fruitful areas in the cost reduction program. Although Army failed to achieve their goal for fiscal year 1967, the total DOD goal was exceeded by more than 10 percent.

III. Examples

During fiscal year 1967 there were approximately 550 individual VE actions which produced savings of more than $100,000 each. There were several thousand actions of lesser amounts with the Air Force reporting about 800 in the fourth quarter. The following examples are set forth to illustrate the actions which are being taken in the area of value engineering:

A. *Aircraft acceptance tests.*—A saving of $226,000 was achieved by a VE review which recommended elimination of certain acceptance test requirements for the CH–47 aircraft. Two major tests were found unnecessary based upon the electronic configuration of the delivered model. (Army.)

B. *Missile support.*—The support plan for the Pershing guidance and control section was subjected to a VE study team analysis. Implementation of the team recommendations for reduction of lifetime buys on select high dollar spare parts, increased general support capability for rework, reduced maintenance turnaround, and produced savings of $5.98 million. (Army.)

C. *Barracks.*—A VE review of engineering plans for new living quarters at a training station indicated that a reduction of overhead space was feasible without sacrifice of function. The final design reflected a reduction of 2 feet 8½ inches in the height of the building which cut construction costs by $141,000 in fiscal year 1967. (Navy.)

D. *Bomb fuse.*—Through a VE analysis on the EX 332 fuse, alternate manufacturing methods were suggested. Design changes were made which decreased production costs and saved $152,000. (Navy.)

E. *Strike cameras.*—Over $2.1 million was saved as the result of a VE design review of the KA–71A low-altitude aircraft panoramic camera. The required functions in the redesigned camera, designated KB–18A, were maintained, performance improved, and unit cost reduced by about 40 percent. (Air Force.)

F. *Minuteman test procedures.*—Methods, procedures, and test data from the service test laboratory responsible for LGM–30 propulsion subsystem certification, was subjected to a VE study. Results indicated that contractor performance of a similar test for comparative analysis was an unnecessary duplication of test effort. Dual conduct of nonballistic tests was eliminated, cutting costs by $250,000. (Air Force.)

G. *Oil drum adapter.*—Revision of detail drawings for the hose connection adapter to fuel drums was approved based upon a VE study. This change produced a saving of $139,000. (DSA.)

I.D. INVENTORY ITEM REDUCTION

I. Scope and objective

A. This area applies to the total number of items in the DOD supply system. It includes all types, kinds, and sizes of items managed by the military departments, the Defense Supply Agency, and other DOD components.

B. The basic objective of the area is to initiate management improvement actions which will reduce the number of items carried in the DOD supply system. This objective can be achieved by: (1) identifying interchangeable and substitute items; (2) improving and developing more complete item identification data; and (3) applying standardization studies to additional classes of items.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968	Fiscal year 1969	Fiscal years 1967–69	
	Goal	Realized	estimated	estimated	Total	Goal
Army	$1	$3	.....	.....	$3	$1
Navy	.....	.....	.....	.....	.....	.....
Air Force	1	.....	.....	.....	.....	1
DSA	2	.....	.....	.....	.....	2
Total	4	3	.....	.....	3	4

B. Savings occur in this area when an item of supply is eliminated from the Federal catalog as the result of a new, improved, or intensified management action. Unfortunately, the actual elimination of the item usually occurs some years after the action is taken and the decision is made to eliminate the item. This is because it is prudent to keep most items in the system as either substitutes for standard items or, in some cases, to fill MAP or other non-DOD requirements, until stocks are depleted. This necessary delay between the decision to eliminate and the actual elimination results in very few item reduction actions which qualify for reporting in an annual-type program. Also, due to the character of the system for funding for the operation of the overall departmental/agency supply systems, of which item reduction is one of many parts, it is very difficult to establish the realized savings effects of qualifying item reduction actions and provide the required documentation. For these reasons, inventory item reduction will not be included as an area for reporting dollar savings in the cost reduction program in fiscal year 1968.

II. Buying at the Lowest Sound Price

II.A. SHIFT FROM NONCOMPETITIVE TO COMPETITIVE PROCUREMENT

I. Scope and objective

Significant reductions are usually achieved in the cost of end items, spares, and services when they are procured competitively. Therefore, the objective of this area is to encourage maximum competition in procurement of end items, spares, and services.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968	Fiscal year 1969	Fiscal years 1967–69	
	Goal	Realized	estimated	estimated	Total	Goal
Army	$10	$10	$11	$17	$38	$25
Navy	25	3	2	3	8	60
Air Force	15	16	7	7	30	35
DSA	4	1	1	1	3	10
Total	54	30	21	28	79	130

B. During fiscal year 1967, 42.9 percent of the total procurement dollars was awarded on a price competitive basis. This is an outstanding achievement in view of the increased procurement volume and the urgency associated with many procurements as a result of Southeast Asia activity.

III. Examples

A few examples of the savings achieved from price competition are as follows:

Items	Noncompetitive unit price	Competitive unit price	Percent reduction	Savings
Electron tube	$2,538	$1,745	31.25	$396,400
Radio set	15,123	7,260	52.00	3,985,162
Night vision sight	1,573	984	37.45	884,130
Cluster bomb dispenser and container	710	310	56.34	7,276,056
Multiplexer equipment	4,806	2,808	41.58	272,700
Energy absorbers	24,557	9,926	59.58	1,020,459

II.B. DIRECT PURCHASE BREAKOUT

I. Scope and objective

Spare parts or components of major end items and systems can often be purchased at substantial savings direct from item manufacturers rather than from prime contractors for major equipments and systems in which the spares or components are used. The objective of this area is to encourage direct purchase from the item manufacturer when appropriate.

II. Goals and accomplishments

A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968	Fiscal year 1969	Fiscal years 1967–69	
	Goal	Realized	Estimated	Estimated	Total	Goal
Army	$1	$1	----	----	$1	$1
Navy	6	6	----	----	6	6
Air Force	3	4	$4	$4	12	8
Total	10	11	4	4	19	15

III. Examples

The following examples are illustrative of the savings realized from direct purchase breakout:

Items	Prime's price	Manufacturers' price	Percent reduction	Savings
90 spare parts	$8,500,000	$5,000,000	41	$3,500,000
Compensator, machine trim	2,500	1,801	28	244,500
Modification kit, radar scope	624	177	72	116,900

II.C. MULTIYEAR PROCUREMENT

I. Scope and objective

Multiyear procurement is the awarding of a contract which covers two or more program years' requirements in lieu of awarding a separate contract each year. Experience has shown that lower contract prices can be obtained by awarding contracts on a competitive multiyear basis versus repetitive single-year contracts. The basic objective of this area is to insure maximum utilization of the multiyear technique in the procurement of DOD material.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal year 1967–69	
	Goal	Realized			Total	Goal
Army	$10	$4	$9	$9	$22	$25
Navy	20	23	6	3	32	50
Air Force	10	2	5	2	9	25
Total	40	29	20	14	63	100

B. Significant actions have been taken to increase the use of the multiyear procurement procedure (MYP): (1) the criteria for use of the MYP was broadened in October 1966 to cover a wider range of procurement circumstances and (2) legislation is now pending in Congress to permit the use of 1-year funds.

III. Examples

More than 60 multiyear contracts awarded in fiscal year 1967 produced reportable cost reduction savings in fiscal year 1967. The following examples are indicative of the potential for savings which can be realized by using the multiyear procurement technique:

	Unit price		Fiscal year 1967 net savings
	Single year	Multiyear	
Army:			
Image intensifier assembly	$2,060.00	$1,795.00	$795,000
Radio set AN/PRC–77	985.00	937.16	258,336
Radio set AN/GRC–106	7,119.46	6,897.00	166,955
Rocket motors—M30A2	1,755.00	1,703.00	113,672
Navy:			
Navigational sets (AN/ARN–52(V))	6,531.00	5,060.00	287,000
Three coordinate radar	1,415,029.00	1,188,977.00	1,808,416
Mechanical time fuze—MK349 Mod 0	31.31	30.01	262,970
Air operation centrals (w/support equip)	8,696,800.00	8,000,000.00	1,393,600
Air Force: Aircraft engines, TF–41	354,090.00	342,904.00	973,182

III. Reducing Operating Costs

III.A. TERMINATING UNNECESSARY OPERATIONS

I. Scope and objective

All military installations and bases throughout the world are included in the scope of this area. The primary objective is to close completely or partially, by excessing, inactivating, or placing in a standby status, all facilities not required by the Department of Defense.

II. Goals and accomplishments

A. During fiscal year 1967 a total of 48 decisions was made to close or reduce the operations of military installations and bases. These actions are expected to produce annual savings of approximately $48 million upon final completion of the actions. A summary of savings already achieved and those expected to be realized during fiscal year 1968 and fiscal year 1969, as a result of the decisions made in fiscal year 1967, is as follows:

[In millions]

	Fiscal year 1967 realized	Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal year 1967–69 total
Army	----------	$1	$7	$8
Navy	$6	20	21	47
Air Force	1	2	5	8
DSA	----------	----------	1	1
Total	7	23	34	64

B. Some effects of the fiscal year 1967 decision are as follows:

[Dollar amounts in millions]

	Army	Navy	Air Force	DSA	Total
(1) Number of actions	29	10	7	2	4
(2) Acres released (thousands)	57	2	7	----------	66
(3) Acquisition cost	$18	$6	$9	----------	$33
(4) Personnel space reduction:					
(a) Military	683	297	689	17	1,686
(b) Civilian	1,789	587	113	46	2,535
Total	2,472	884	802	63	4,221
(5) Annual savings	$14	$28	$5	$1	$48

III.B. REDUCING OPERATING EXPENSES

I. Scope and objective

Savings from all valid actions which do not fall within the scope of any other area are reportable in this area of the cost reduction program. The primary objective is to initiate management improvement actions which will reduce operating expenses throughout the Department of Defense.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal year 1967–69	
	Goal	Realized			Total	Goal
Army	$15	$22	$20	$20	$62	$35
Navy	14	34	18	24	76	32
Air Force	30	69	75	61	205	70
DSA	4	10	4	3	17	10
Total	63	135	117	108	360	147

(In addition to the above savings, the Defense Atomic Support Agency (DASA) took actions in fiscal year 1967 which produced savings of $156,109 in this area DASA also reported savings totalling approximately $92,000 in several of the other cost reduction program areas.)

B. The fiscal year 1967 goal of $63 milion was exceeded by more than 100 percent. This high rate of achievement is indicative of the aggressive actions taken in the field to produce savings in a broad range of areas. It also appears to indicate a need for a more realistic goal in this area for fiscal year 1968.

C. Operating expense savings achieved by the Defense Supply Agency are now reported in this area. Prior to fiscal year 1967 they were reported as a separate area of the cost reduction program. DSA has been most successful in handling a tremendous increase in workload with a relatively small increase in personnel. Such accomplishments have been possible only through the continuing aggressive management actions taken by DSA personnel.

III. Examples

More than 3,000 individual cost reduction actions were validated in this area during fiscal year 1967. Approximately 125 of these produced savings of over $100,000 each. Examples of some of the actions taken in this area follow:

A. *Purchase of ADP equipment.*—Over $2.2 million will be saved by the Army during the period fiscal year 1967–69 through the purchase of eight pieces of ADP equipment which was previously rented.

B. *Change in school courses.*—The Army eliminated duplicate instruction, nonessential and nice to know information and consolidated several blocks of instruction. As a result of these actions, a well-balanced training program and necessary instruction is provided in a 2-week course which previously required 6 weeks. Savings of $13.8 million will be realized over the next 3 years.

C. *Ship construction economies.*—A longstanding Navy practice on ship construction was changed with resulting savings of more than $40 million. In the past large ship construction programs have been spread among several of the lowest competitive bidders. This practice was changed and the Navy awarded a single contract to the lowest competitive bidder on tank landing ships and destroyer escorts.

D. *Change in practice for repair of damaged cowls.*—In the past damaged magnesium cowls on Navy TALOS missiles were shipped to a contractor for repair and then returned to the Navy. During fiscal year 1967, the Navy developed a new repair procedure which permits the repair of damaged cowls on the spot at naval weapons stations. Savings of approximately $177,000 are estimated for the next 3 years.

E. *Consolidation of salvage operations.*—The Air Force Redistribution and Marketing Section responsible for salvage operations in the Washington area assumed responsibility for Navy salvage in the area while consolidating its own operations at one location. A reduction in Air Force personnel was achieved by this action with savings estimated at $229,000 for the next 3 years.

F. *Increasing capacity of recording devices.*—The Air Force uses continuous film recorders to obtain data on satellites passing through its radar sensor coverage. An investigation into the use of these film recorders revealed that the film could be run at half the former speed and still obtain the same data. Costs will be reduced by approximately $0.8 million as a result of this change.

G. *Increased pilot training productivity.*—Savings of more than $17 million were realized in fiscal year 1967 through management improvements in the undergraduate pilot training program of the Air Force. Development of a maximum capability study which (1) disclosed maximum limits of pilot training possible at each base; (2) maximum sortie saturation limits; (3) maximum airspace saturation limits; and (4) sorties losses caused by inclement weather, was a major contributing action to this saving. Other changes such as (1) introduction of new instructional material to supplement classroom instruction; (2) expanded use of radar for monitoring, controlling, and providing aircraft separation; (3) redivision of training airspace to provide optimum use of available working areas; and (4) reduction in the mission abort rate through intensified surveillance, are typical of the actions which made this saving possible.

III.C.1. IMPROVING TELECOMMUNICATION MANAGEMENT

I. Scope and objective

All telecommunication systems, networks, facilities, and equipments fall within the scope of this area. The cost reduction program objective is to initiate management improvement actions which will reduce communication operating costs and funds required for capital investment items.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 realized	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army	$2	$1	$2	$2	$5	$8
Navy	2					5
Air Force	5	9	10	9	28	12
DCA	4	1	3	3	7	6
Total	13	11	15	14	40	31

B. The overall DOD goal for this area was not achieved primarily because of shortfalls in the Navy and the Defense Communications Agency. Based upon the lack of current achievements and similar experience in past years there appears to be a basic telecommunication

management problem within the Navy. This situation has been brought to the attention of Navy telecommunication personnel on numerous occasions.

III. Examples

During fiscal year 1967 there were more than 3,000 individual management actions reported in this area. However, only 10 of these actions resulted in savings of more than $100,000 each. A few examples follow:

A. *Consolidation of communications facilities.*—Two physically separated communication centers were consolidated during fiscal year 1967. A reduction in space, equipment, and manpower resulted from this action. Savings of $342,200 have been realized by the Air Force.

B. *Discontinuance of leased teletype circuits.*—Cancellation of the SAC teletype net was made possible a year earlier than planned as a result of intensified management reviews. Savings of $0.6 million were realized in fiscal year 1967.

C. *Reduction in operating costs of the DEW line and the TVOR-Barter Island and NARS-Thule C–E complex.*—Savings of $3.9 million a year will be realized in the 3-year period, fiscal years 1967–69, as a result of innovations which permitted competitive bidding on a contract awarded for operation of the DEW line, TVOR, and NARS complexes. Previously the contract has been awarded on a noncompetitive basis.

III.C.2. TRANSPORTATION AND TRAFFIC MANAGEMENT

I. Scope and objective

This area encompasses the movement of persons and things by in-house or commercial land, sea, and air resources. It also includes the operational aspects of transportation systems and facilities throughout the DOD. The primary objective of the area is to initiate management improvement actions which will reduce transportation costs.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal year 1967–69	
	Goal	Realized			Total	Goal
Army	$4	$5	$4	$1	$10	$8
Navy	5	5	5	15	15	5
Air Force	30	43	48	24	115	60
Total	39	53	57	30	140	73

B. The results for fiscal year 1967 have been most encouraging. In view of the ever increasing transportation requirements, continued emphasis will be necessary to insure that transportation costs are kept at a minimum consistent with DOD requirements.

III. Examples

Over 700 validated actions were reported in fiscal year 1967. All except 45 produced savings of less than $100,000 each. This is not

surprising since most actions are taken by personnel located at field installations and activities. The following examples are representative of the many actions reported:

A. *Napalm bombs.*—The Army obtained permission to insert the explosive components in the bombs after they had been placed aboard ship. This permitted the loading of bombs over general cargo facilities at Long Beach, Calif., rather than at ammunition terminals. Lower ocean terminals costs and reduced ship loading time resulted. Fiscal year 1967 savings of $207,243 were realized.

B. *Stevedoring rates.*—Lower rates were obtained at NSD, Seattle, through use of a 2-year negotiated contract. Previously stevedoring was obtained on a "spot bid" vessel-by-vessel method under terms and conditions of the master agreement. This action saved $185,223 in fiscal year 1967.

C. *Change in negotiating technique.*—Savings of $3.7 million were realized on four routes as a result of Military Sea Transportation Service negotiations of ocean cargo rates with individual ocean carriers instead of negotiating with ocean carrier associations as was the previous practice.

D. *QUICKTRANS.*—Institution of exclusive use truck service between Quonset Point and the Boston Naval Shipyard permitted elimination of QUICKTRANS flights into Boston's Logan International Airport and NAS, Quonset Point. Savings totaling $97,674 were realized in fiscal year 1967 from this action.

E. *Reduction in airlift costs.*—Commercial airlift costs for fiscal year 1967 were reduced approximately $24 million as a result of an intensified management action by the Military Airlift Command pricing team. Based upon a comprehensive cost analysis, significant turbojet rate reductions were obtained for commercial airlift procured by the DOD.

III.C.3. EQUIPMENT MAINTENANCE MANAGEMENT

I. Scope and objective

This area includes the maintenance of all types of end items of equipment except noncombat vehicles which are included in area III.C.4. The primary objective of the area is to initiate management improvement actions which will reduce the cost of maintenance performed on equipment and items owned by the DOD.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal year 1967–69	
	Goal	Realized			Total	Goal
Army	$10	$6	$7	$5	$18	$25
Navy	7	11	17	15	43	25
Air Force	8	15	10	7	32	14
Total	25	32	34	27	93	64

B. This area should receive increased emphasis in fiscal year 1968. Although the total DOD goal for fiscal year 1967 was exceeded by approximately 28 percent, the Army goal was not achieved. Also, the fiscal year 1967 goals for Navy and Air Force were of a minimum nature. In view of the total dollars expended on equipment maintenance throughout the DOD each year, it appears that more substantive objectives should be established for fiscal year 1968.

III. Examples

Many hundreds of individual actions were reported in this area during fiscal year 1967. Several produced significant savings. Most actions, however, produced savings of less than $100,000 each A few examples follow:

A. *Improved methods procedures and work flow.*—Many improvements and reductions in costs are being achieved at Army depots, naval air rework facilities, and Air Force depots through changes resulting from the defense integrated management engineering system (DIMES). Costs of individual jobs are reduced in practically every instance when realistic engineered standards are established. In addition, bottlenecks are eliminated, smoother workflow is achieved, and improved parts supply is accomplished through the DIMES program. However, until more uniform measurement, documentation, and reporting techniques are prescribed for the DIMES program, a large portion of the resultant savings will be lost to cost reduction program. More than $3 million was saved during fiscal year 1967 at two Navy activities.

B. *B–58 aircraft pods.*—The Air Force saved over $0.9 million in fiscal year 1967 by a change in the method of contracting for overhaul of B–58 aircraft pods. The pods were previously overhauled (at a cost of $8,000 each) by the contractor performing the IRAN (inspect and repair as necessary) of the B–58 weapons systems. Based upon a special study, the Air Force concluded that the IRAN of pods could possibly be performed by a different contractor. The breakout was accomplished and a contract awarded for the IRAN of pods separate from the IRAN of the B–58 aircraft. The average cost of the pod IRAN was $1,955 each under the new contract.

C. *Maintenance of rigid and air-supported radomes.*—For the past several years the maintenance and overhaul of all radomes has been contracted for by general categories of work such as refurbishing of air-supported radomes, reconditioning of rigid radomes, etc. In fiscal year 1967, the Air Force requested price quotations by size within each general category of work to be accomplished. As a result of this breakout by size, the Air Force reduced costs by $144,000 in fiscal year 1967.

D. *Maintenance of O–1 aircraft.*—The Air Force saved about $2 million in fiscal year 1967 by a change in maintenance concept for the O–1 aircraft. Previously each airbase was manned to be self-sufficient in organization/field maintenance for all O–1 aircraft operating from each base. Early in fiscal year 1967 a delayed operating concept was implemented. Under this method, maintenance support was provided from central support locations.

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III.C.4. NONCOMBAT VEHICLES MANAGEMENT

I. Scope and objective

This area includes the maintenance and operational function of vehicles and mobile equipment used in administrative and logistic support of military installations. The major objective is to initiate management improvement actions which will reduce maintenance, administrative, and operational costs of noncombat vehicles.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army	$1	$1	$1	$1	$3	$2
Navy	1			1	1	2
Air Force	1	1	1	2	4	2
Total	3	2	2	4	8	6

III. Examples

Most savings in this area resulted from actions which produced savings of less than $100,000. Two of the larger savings actions follow:

A. *Consolidation of motor pools.*—The Army saved $112,000 in fiscal year 1967 by consolidating two motor pools.

B. *Installation of hard rubber tires.*—Savings of over $300,000 are expected to be realized during fiscal years 1967–69 by using hard rubber tires in lieu of pneumatic tires on forklifts.

III.C.5. DECREASING USE OF CONTRACTOR SERVICES

I. Scope and objective

This area encompasses all Contract Engineering and Technical Services (CETS) personnel provided to DOD components either by specific contractual agreements or as a part of the overhead or percentage of end item cost in a procurement contract. The objective of this area is to initiate management improvement actions which will reduce the number of CETS personnel or otherwise reduce CETS personnel costs.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army						
Navy		$1	$2	$1	$4	$1
Air Force	$1	3			3	4
Total	1	4	2	1	7	5

B. The potential for savings in this area has been greatly reduced during the past several years as a result of the program to replace contract personnel with civil service or military personnel. All savings resulted from the elimination of individual CETS position and the establishment of civil service or military positions at a lower overall cost to the Government.

III.C.6. MILITARY HOUSING MANAGEMENT

I. Scope and objective

All aspects of the military family housing program including administration, maintenance, and repair of buildings and furnishings, and alterations and improvements to housing units are within the scope of this cost reduction area. The primary objective is to initiate management improvement actions which will lower family housing costs within the Department of Defense.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army	$1	$1	$1	.....	$2	$3
Navy	1	1	.....	$1	2	2
Air Force	3	3	2	1	6	6
Total	5	5	3	2	10	11

B. Savings in this area were achieved from many actions taken at installation level. Ninety percent of these actions were in the less than $5,000 category and resulted in two-thirds of the total savings. One significant action, implementation of a major command civil engineer evaluation system, produced saving of $166,400 in fiscal year 1967. This system is designed to measure the performance and progress of major command civil engineer mission effectiveness. It provides a uniform method of evaluating performance in the management of civil engineering resources, and serves as a basis for isolating problem areas.

III.C.7. REAL PROPERTY MANAGEMENT

I. Scope and objective

This area encompasses the maintenance and repair aspects of all real property except that included in the military family housing program. The objective is to initiate management improvement actions which will lower maintenance and repair costs of real property owned or maintained by the DOD.

II. Goals and accomplishments

A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army	$5	$3	$2	$2	$7	$12
Navy	3	2	3	2	7	7
Air Force	9	9	4	4	17	23
Total	17	14	9	8	31	42

III. Examples

There were more than 1,000 individual actions reported in this area during fiscal year 1967. Eight of the actions produced savings of more than $100,000 each. A few of the actions were as follows:

A. The Army saved approximately $135,000 based on an action initiated by a post engineer. The action resulted in the shipment of repair and utilities type items (for use in Okinawa) in level "C" pack instead of a level "A" pack. The GSA surcharge on the level "C" pack is only 7 percent whereas a 25-percent surcharge was being paid on the level "A" pack.

B. The Navy saved $63,000 in the second half of fiscal year 1967 through intensified management in negotiating rates for water and sewage at one location. The lower rates were obtained by a study which showed that some rates were discriminatory against large water consumers.

C. The Air Force saved $604,200 by redesigning approved plans and specifications for the repair of steam heat mains at one Air Force installation. The original plans had been developed by a local architect-engineer and were approved by the Headquarters USAF. A subsequent review by Air Force civil engineering staff personnel disclosed that a significant reduction in cost could be achieved by changes to the plans and specification.

III.C.8. PACKAGING, PRESERVING, AND PACKING

I. Scope and objective

This area encompasses the various methods and techniques used to protect equipment and supplies during shipment, handling, and storage. The area objective is to initiate management improvement actions which will reduce packaging, preserving and packing costs.

II. Goals and accomplishments

A summary of savings already realized and those expected to be realized during fiscal years 1968 and 1969 from actions taken during fiscal year 1967 is as follows:

[In millions

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1969 estimated	Fiscal years 1967–69	
	Goal	Realized			Total	Goal
Army	$1	$5	$4	$3	$12	$2
Navy	1	1	1	-------	2	2
Air Force	6	10	5	5	20	12
DSA	1	2	-------	1	3	2
Total	9	18	10	9	37	18

III. Examples

More than 600 actions were reported during fiscal year 1967, 23 of which produced savings of more than $100,000 each. A few of the significant actions follow:

A. *Containers for engines.*—The Army saved $308,000 in fiscal year 1967 by using plastic bags and wooden boxes in lieu of metal containers for shipping engines.

B. *Improved procedure.*—The Navy saved $260,000 in fiscal year 1967 by developing an improved procedure for packing and loading 500 pound low-drag bombs on railroad cars.

C. *Change in shipment of 2.75 rocket motors and warheads.*—Previously, rocket motors and warheads were shipped separately in wooden boxes; six motors to a box and four warheads to a box. Now four unassembled motors and four warheads are shipped together in the same wooden box. This change produced savings of $260,900 in fiscal year 1967.

IV. Military Assistance Program (MAP)

I. Scope and objective

This area encompasses the military assistance grant aid program. The primary objective is to initiate management improvement actions in its administration and operation.

II. Goals and accomplishments

A. A summary of savings already realized and those expected to be realized during fiscal year 1968 and fiscal year 1969 from actions taken during fiscal year 1967 is as follows:

[In millions]

	Fiscal year 1967		Fiscal year 1968 estimated	Fiscal year 1959 estimated	Fiscal year 1967–69	
	Goal	Realized			Total	Goal
ISA	$9	$15	$6	$8	$29	$14
Air Force	1	1	1	-------	2	1
Total	10	16	7	8	31	15

B. Effective with fiscal year 1968, the Laos and Thailand program will be transferred to the military departments appropriations. Also, Congress is currently considering the transfer of the infrastructure program to the Army military construction appropriation. These actions will decrease the potential for cost reduction savings in future years.

III. Examples

Approximately 90 individual actions were reported in fiscal year 1967. Some examples follow:

A. The 1967 military assistance program for Thailand included 32 PRC 65 radios to provide the Royal Thai Air Force (RTAF) with sufficient VHF/AM radio backup. Based on an in-depth review by personnel of the communications and electronics division of the Air Force Advisory Group, it was determined that the RTAF had improved their in-country maintenance capacity to the point where the PRC 65 radios were no longer needed. Planned procurement was cancelled for a total saving of $161,200. (CINCPAC)

B. Savings of $125,136 resulted from a change in the single sideband radio configurations programed for the Brazilian Army's use at brigade and division level. Each set, as originally programed, consisted of a truck, trailer, shelter, and power unit. The reconfiguration consisted only of a truck with appropriate alternator as an integral part. (SOUTHCOM)

C. Headquarters USAF approved, funded, and directed implementation to provide two F–104 flight simulators and necessary logistic support for two MAP countries under grant aid. The original support package included land mass plates and slides for each supporting country at two different geographical areas. A subsequent study disclosed that a saving of $264,500 could be realized and that the requirements of both countries could be satisfied by utilizing one common geographical area.

DEPARTMENT OF DEFENSE COST REDUCTION PROGRAM—SUMMARY OF SAVINGS FROM FISCAL YEAR 1967 ACTIONS BY DOD COMPONENT

[In Millions]

	Realized savings		Estimated savings		Total savings	
	Goal	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1967–69	Goal
SUMMARY BY AREA						
I. Buying only what we need:						
A. Refining requirements calculations:						
1. Major items of equipment:						
Army	$17	$1	$2	----	$3	$33
Navy	58	76	37	----	113	105
Air Force	35	59	19	$2	80	65
Total	110	136	58	2	196	203
2. Initial provisioning:						
Army	----	----	----	----	----	----
Navy	10	16	16	7	39	20
Air Force	10	15	5	2	22	20
Total	20	31	21	9	61	40
3. Secondary items:						
Army	11	67	1	1	69	14
Navy	11	11	2	1	14	13
Air Force	20	29	4	4	37	25
DSA	3	3	----	----	3	4
Total	45	110	7	6	123	56
4. Technical manuals:						
Army	1	----	----	----	----	1
Navy	1	----	----	----	----	2
Air Force	2	2	----	1	3	3
Total	4	2	----	1	3	6

DEPARTMENT OF DEFENSE COST REDUCTION PROGRAM—SUMMARY OF SAVINGS FROM FISCAL YEAR 1967 ACTIONS BY DOD COMPONENT—Continued

[In Millions]

	Realized savings		Estimated savings		Total savings	
	Goal	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1967–69	Goal
SUMMARY BY AREA—Continued						
I. Buying only what we need—Continued						
A. Refining requirements calculations—Continued						
5. Technical data and reports:						
Army	$1	$2	$1	$1	$4	$1
Navy	2	1	----	1	2	3
Air Force	4	7	1	1	9	6
Total	7	10	2	3	15	10
6. Industrial production base:						
Army	----	----	----	----	----	----
Navy	1	----	----	----	----	1
Air Force	3	4	----	----	4	3
Total	4	4	----	----	4	4
B. Utilization of long supply and excess inventory:						
1. Equipment and supplies:						
Army	17	11	2	----	13	22
Navy	4	7	5	2	14	5
Air Force	12	28	4	----	32	18
DSA	4	3	----	----	3	6
Total	37	49	11	2	62	51
2. Redistribution of idle production equipment:						
Army	----	----	----	----	----	----
Navy	1	----	----	----	----	1
Air Force	----	----	----	----	----	----
Total	1	----	----	----	----	1
3. Excess contractor inventory:						
Army	----	----	----	----	----	----
Navy	1	1	----	----	1	1
Air Force	1	----	----	----	----	1
Total	2	1	----	----	1	2
C. Eliminating goldplating:						
Army	102	78	68	36	182	142
Navy	69	113	24	14	151	97
Air Force	117	134	60	51	245	164
DSA	12	14	9	8	31	16
Total	300	339	161	109	609	419
D. Inventory item reduction:						
Army	1	3	----	----	3	1
Navy	----	----	----	----	----	----
Air Force	1	----	----	----	----	1
DSA	2	----	----	----	----	2
Total	4	3	----	----	3	4
Total, buying only what we need	534	685	260	132	1077	796
II. Buying at the lowest sound price:						
A. Shift from noncompetitive to competitive procurement:						
Army	10	10	11	17	38	25
Navy	25	3	2	3	8	60
Air Force	15	16	7	7	30	35
DSA	4	1	1	1	3	10
Total	54	30	21	28	79	130
B. Direct purchase breakout:						
Army	1	1	----	----	1	1
Navy	6	6	----	----	6	6
Air Force	3	4	4	4	12	8
Total	10	11	4	4	19	15

DEPARTMENT OF DEFENSE COST REDUCTION PROGRAM—SUMMARY OF SAVINGS FROM FISCAL YEAR 1967 ACTIONS BY DOD COMPONENT—Continued

[In Millions]

	Realized savings		Estimated savings		Total savings	
	Goal	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1967–69	Goal
SUMMARY BY AREA—Continued						
II. Buying at the lowest sound price—Continued						
C. Multiyear procurement:						
Army	$10	$4	$9	$9	$22	$25
Navy	20	23	6	3	32	50
Air Force	10	2	5	2	9	25
Total	40	29	20	14	63	100
Total, buying at lowest sound prices	104	70	45	46	161	245
III. Reducing operating costs:						
A. Terminating unnecessary operations:						
Army	14	-------	1	7	8	14
Navy	29	6	20	21	47	29
Air Force	5	1	2	5	8	5
DSA	1	-------	-------	1	1	1
Total	[1] 49	7	23	34	64	49
B. Reducing operating expense:						
Army	15	22	20	20	62	35
Navy	14	34	18	24	76	32
Air Force	30	69	75	61	205	70
DSA	4	10	4	3	17	10
Total	63	135	117	108	360	147
C. Increasing efficiency of operation:						
1. Improving telecommunication management:						
Army	2	1	2	2	5	8
Navy	2	-------	-------	-------	-------	5
Air Force	5	9	10	9	28	12
DCA	4	1	3	3	7	6
Total	13	11	15	14	40	31
2. Improving transportation and traffic management:						
Army	4	5	4	1	10	8
Navy	5	5	5	5	15	5
Air Force	30	43	48	24	115	60
Total	39	53	57	30	140	73
3. Improving equipment maintenance management:						
Army	10	6	7	5	18	25
Navy	7	11	17	15	43	25
Air Force	8	15	10	7	32	14
Total	25	32	34	27	93	64
4. Improving noncombat vehicle management:						
Army	1	1	1	1	3	2
Navy	1	-------	-------	1	1	2
Air Force	1	1	1	2	4	2
Total	3	2	2	4	8	6
5. Decreasing use of contractor services:						
Army	-------	-------	-------	-------	-------	-------
Navy	-------	1	2	1	4	1
Air Force	1	3	-------	-------	3	4
Total	1	4	2	1	7	5

[1] Represents the annual rate of savings expected to be realized from fiscal year 1967 decisions to consolidate close Defense installations and activities.

DEPARTMENT OF DEFENSE COST REDUCTION PROGRAM—SUMMARY OF SAVINGS FROM FISCAL YEAR 1967 ACTIONS BY DOD COMPONENT—Continued

[In Millions]

	Realized savings		Estimated savings		Total savings	
	Goal	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1967–69	Goal
SUMMARY BY AREA—Continued						
III. Reducing operating costs—Continued						
C. Increasing efficiency of operation—Con.						
6. Improving military housing management:						
Army	$1	$1	$1	----	$2	$3
Navy	1	1	----	$1	2	2
Air Force	3	3	2	1	6	6
Total	5	5	3	2	10	11
7. Improving real property management:						
Army	5	3	2	2	7	12
Navy	3	2	3	2	7	7
Air Force	9	9	4	4	17	23
Total	17	14	9	8	31	42
8. Packaging, preservation and packing:						
Army	1	5	4	3	12	2
Navy	1	1	1	----	2	2
Air Force	6	10	5	5	20	12
DSA	1	2	----	1	3	2
Total	9	18	10	9	37	18
Total, reducing operating costs	224	281	272	237	790	446
IV. Military assistance program (MAP):						
ISA	9	15	6	8	29	14
Air Force	1	1	1	----	2	1
Total MAP	10	16	7	8	31	15
Total program	872	1,052	584	423	2,059	1,502
SUMMARY BY MAJOR CATEGORY						
I. Buying only what we need	534	685	260	132	1,077	796
II. Buying at the lowest sound price	104	70	45	46	161	245
III. Reducing operating costs	224	281	272	237	790	446
IV. Military assistance program	10	16	7	8	31	15
Total program	872	1,052	584	423	2,059	1,502
SUMMARY BY DEPARTMENT/AGENCY						
Army	224	221	136	105	462	374
Navy	272	318	158	101	577	474
Air Force	332	464	267	192	923	583
DSA	31	33	14	14	61	51
DCA	4	1	3	3	7	6
ISA	9	15	6	8	29	14
Total program	872	1,052	584	423	2,059	1,502

Department of Defense Cost Reduction Program

Summary of realized savings by appropriation for fiscal year 1967

[In millions of dollars]

Appropriation	*Realized savings*
Procurement:	
Procurement of equipment and missiles, Army	74
Procurement aircraft and missiles, Navy	54
Ship construction, Navy	44
Other procurement, Navy and Marine Corps	45
Aircraft procurement, Air Force	121

Summary of realized savings by appropriation for fiscal year 1967—Continued

[In millions of dollars]

Appropriation	*Realized savings*
Procurement—Continued	
Missile procurement, Air Force	29
Other procurement, Air Force	99
Total, procurement	466
Operations and maintenance (O. & M.):	
Army	41
Navy and Marine Corps	21
Air Force	70
Defense Supply Agency	9
Total, O. & M	141
Military personnel (MPA):	
Army	3
Navy and Marine Corps	4
Air Force	34
Total, MPA	41
Research, development, test, and evaluation (R.D.T. & E.):	
Army	15
Navy	6
Air Force	62
Total, R.D.T. & E	83
Military construction (MC):	
Army	9
Navy	7
Air Force	13
Total, MC	29
Industrial fund (IF):	
Army	5
Navy	28
Air Force	27
DCA	1
Total, IF	61
Stock funds (SF) and management funds (MF):	
Army	73
Navy and Marine Corps	108
Air Force	6
Defense Supply Agency	24
Total, SF and MF	211
Family housing:	
Army	1
Navy	1
Air Force	2
Total, family housing	4
Military assistance program (MAP):	
ISA	15
Air Force	1
Total, MAP	16
Total, program	1,052

Disposition of realized savings for fiscal year 1967

[In millions of dollars]

Type of disposition	*Amount*
Used within the same appropriation and budget activity to finance increased costs, apply to production of more items or units of work, or to increase service:	
Army	194
Navy	240
Air Force	450
DSA	33
DCA	1
MAP	15
Total	933
Transferred to another budget activity within the same appropriation to finance increased costs, apply to production of more items or units of work, or to increase service:	
Army	1
Navy	78
Air Force	7
Total	86
Reprogramed to another appropriation to finance increased costs, apply to production of more items or units of work, or to increase service: Army (total)	11
Returned to OSD for disposition: Air Force (total)	1
Other:	
Army	15
Air Force	6
Total	21
Total, program	1,052

DEPARTMENT OF DEFENSE COST REDUCTION PROGRAM—SUMMARY OF AUTHORIZED MANPOWER SPARES ELIMINATED/TRANSFERRED DURING FISCAL YEAR 1967

Department or agency	Military	Civilian	Total
Army	288	843	1,131
Navy	750	411	1,161
Air Force	4,423	1,003	5,426
DSA	15	141	156
Total	5,476	2,398	7,874

Department of Defense Cost Reduction Program—Yearend Fiscal Year 1967 Status Report

AUDIT OPINION

We have reviewed the Cost Reduction Program Status Report for fiscal year 1967, under the provisions of DOD Directive 5010.6, February 17, 1967; DOD Instruction 7720.6, November 2, 1966; and, where applicable, DOD Instruction 7720.6, May 19, 1967. Our review included selective evaluation of pertinent documents, records, and data and such other auditing procedures deemed appropriate and took into consideration the cost reduction program audits made by the Defense audit organizations. We did not make a detailed examination of all savings actions reported.

Based on this examination, it is our opinion that the realized and estimated savings reported are reasonable in amount and result from management actions which meet the criteria of the cost reduction program.

K. K. Kilgore,
Deputy Comptroller for Audit Systems.

APPENDIX 2

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 functions. As a major element of the Defense logistics establishment, the Agency provides responsive and efficient supply support and logistics services to its customers at less cost and thereby has fully justified its establishment.

HISTORY, MISSION, AND ORGANIZATION

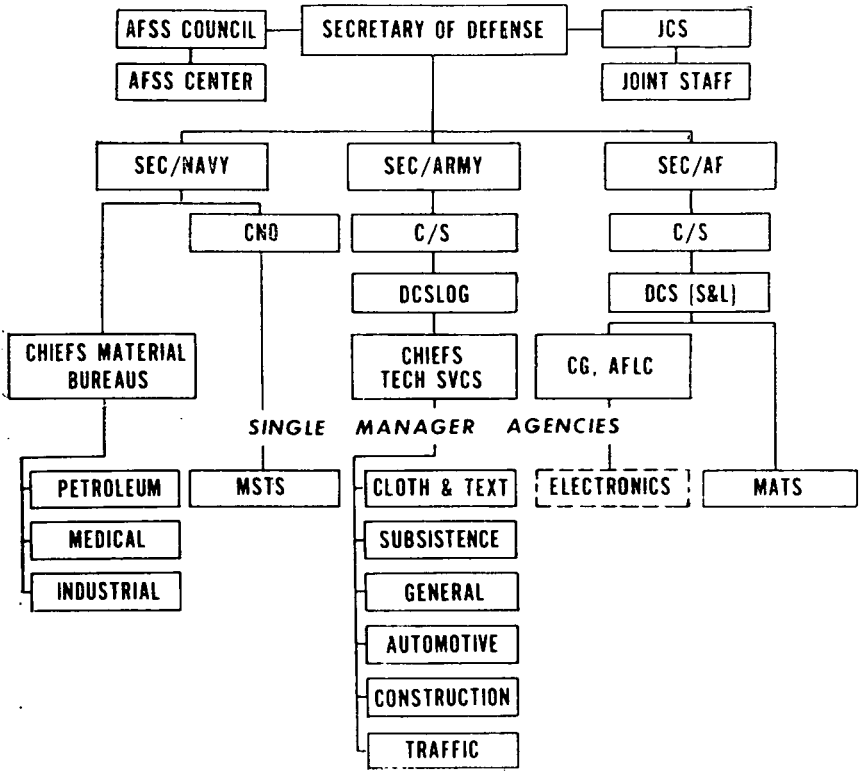
Pre-DSA Organization

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.

*Material in this report was prepared Apr. 5, 1967, for the Subcommittee on Economy in Government; however, all tables and figures 3, 4, and 5, reprinted herein have been updated to Oct. 20, 1967.

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 dashed lines 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, was turned over to DSA at the time of DSA's establishment. The Armed Forces Supply Support Center (AFSSC) administered the Defense-wide cataloging, standardization, and materiel utilization programs and conducted integrated management studies. Also transferred to the Defense Supply Agency, but not shown in figure (1), are the surplus property sales activities 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.

Mission

The DSA mission consists basically of three major elements:

Providing wholesale supply support to the military services and other Defense activities with assigned supply commodities.

Administering logistics services and programs.

Providing field contract administration services to the Defense Establishment and the National Aeronautics and Space Administration.

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 surplus property sales activities, which were assigned to the Defense Logistics Services Center, a DSA field activity. Figure (3) depicts the DSA organization today and reflects the assignment in June 1964 of contract administration functions previously performed by some 165 contract management offices of the military services and DSA.

Figure 2

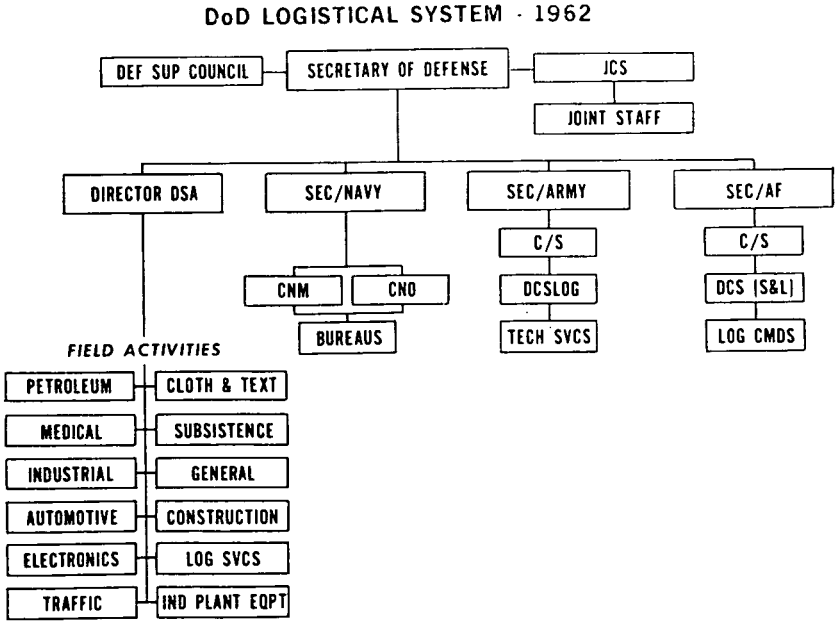
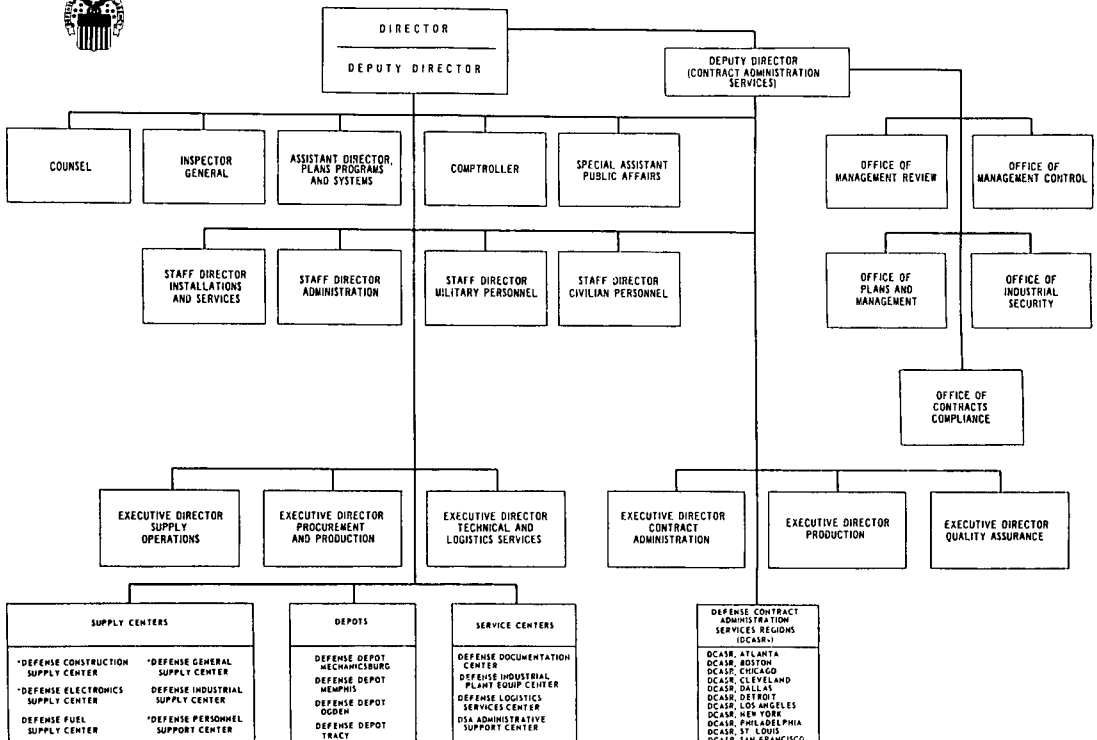


FIGURE 3

DEFENSE SUPPLY AGENCY



*Centers with Depot Operations

APPROVED Earl C. Hedlund

EARL C. HEDLUND
Lieutenant General, USAF
Director
1 July 1967

During the first 3 months of the Defense Supply 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 services 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 Deputy Director for Contract Administration Services acts for the Director, DSA, in exercising management and operating control over CAS missions, operating programs and supporting field activities; he is assisted by Executive Directors for Contract Administration, Quality Assurance, Production, and by the Chief of Industrial Security. The Executive Directors for Supply Operations, Procurement and Production, and Technical and Logistics Services are principal staff advisers and assistants to the Director, DSA, in the development and application of policies, plans, programs, and systems for their respective functional areas. The Counsel, the Inspector General, the Special Assistant for Public Affairs, and the Staff Directors for Installations and Services, Administration, Military Personnel, and Civilian Personnel perform staff support functions of a major headquarters.

85-698—67——6

FIGURE 4 (20 October 67)

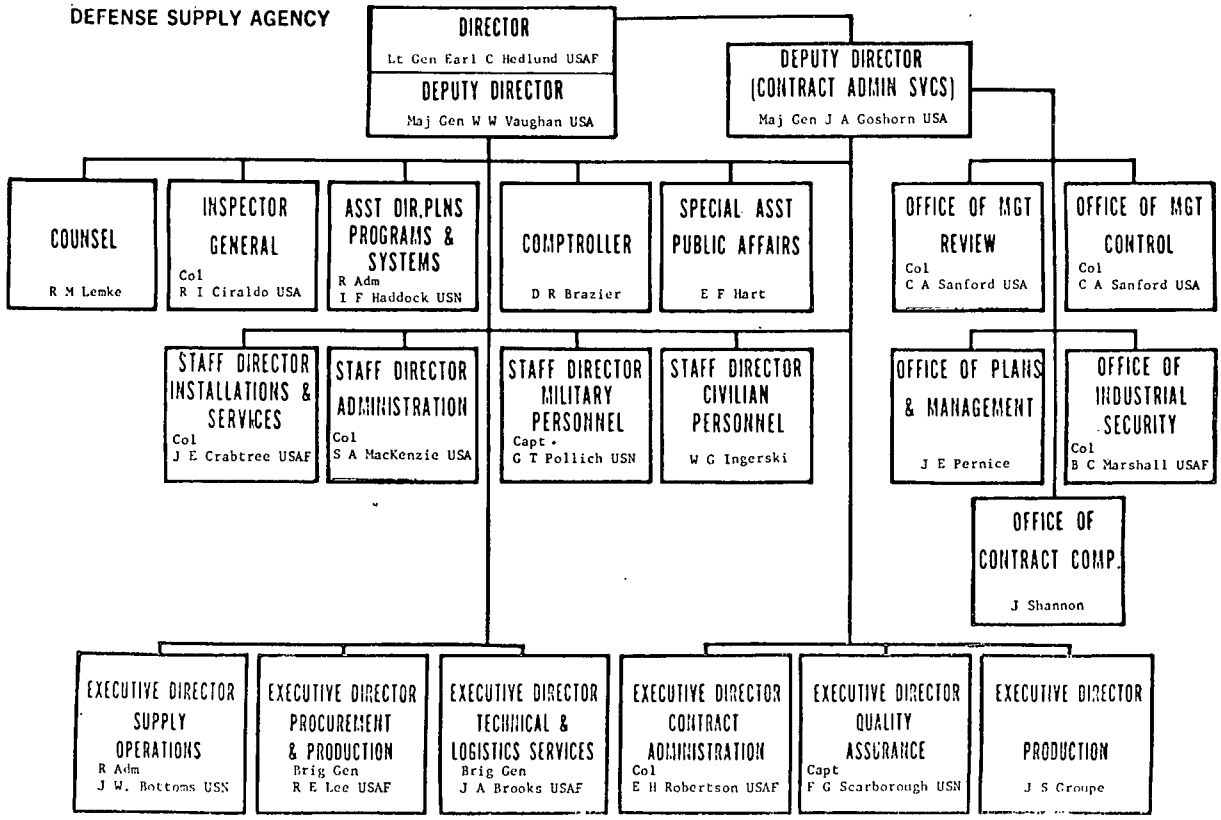


FIGURE 5

MAJOR FIELD ACTIVITIES AND COMMANDERS

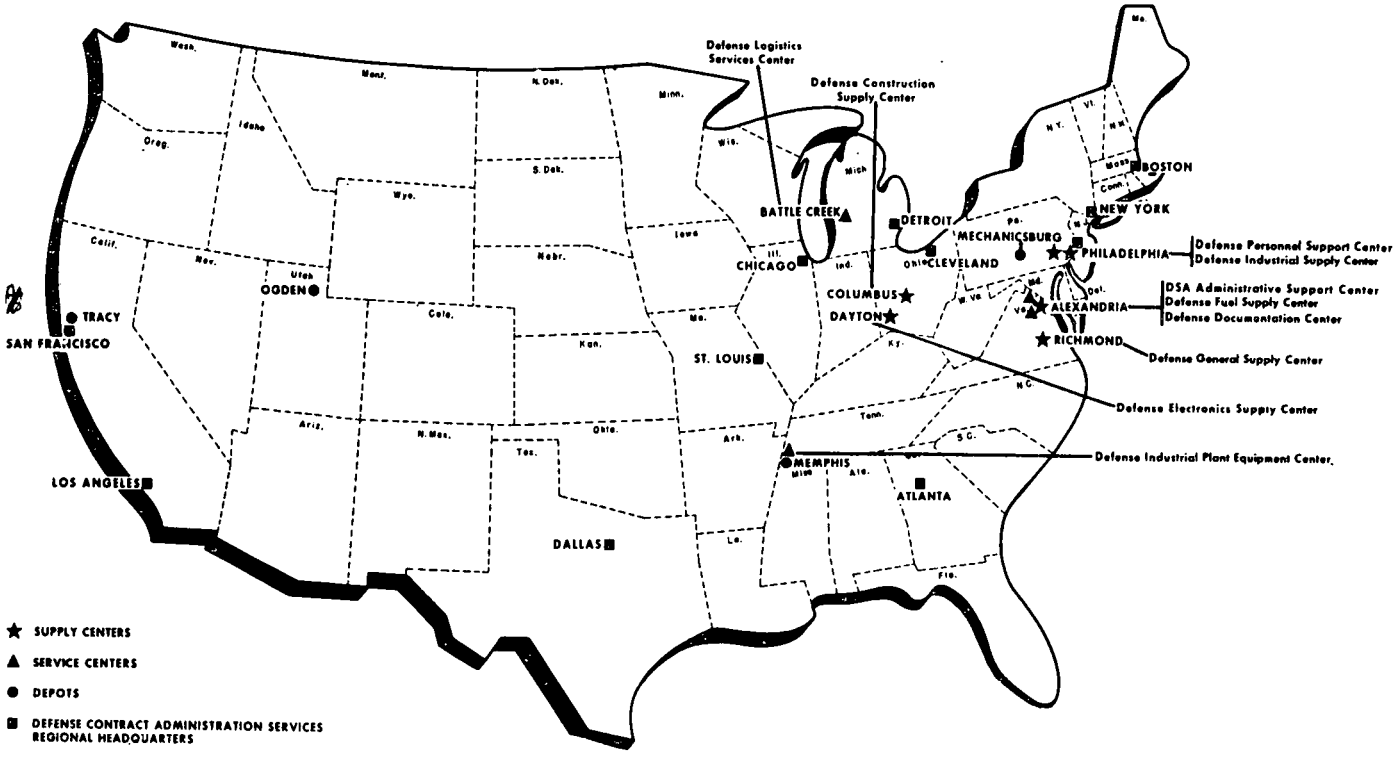
Defense Construction Supply Center: Maj. Gen. Emmett M. Tally, Jr., USAF.
Defense Electronics Supply Center: Brig. Gen. Glen J. McClernon, USAF.
Defense Fuel Supply Center: R. Adm. Fowler W. Martin, SC, USN.
Defense General Supply Center: Brig. Gen. John D. Hines, USA.
Defense Industrial Supply Center: R. Adm. Grover C. Heffner, SC, USN.
Defense Logistics Services Center: Capt. Ross A. Porter, SC, USN.
Defense Personnel Support Center: Brig. Gen. John M. Kenderdine, USA.
Defense Documentation Center: Dr. Robert B. Stegmaier, Jr.
Defense Depot, Mechanicsburg: Col. William H. Herndon, USA.
Defense Depot, Memphis: Col. T. I. Martin, USA.
Defense Depot, Ogden: Col. Robert B. Ladd, USAF.
Defense Depot, Tracy: Capt. Robert C. Dexter, Jr., SC, USN.
Defense Industrial Plant Equipment Center: Col. Fred H. Sitler, USAF.
DSA Administrative Support Center: Col. Stuart A. MacKenzie, USA.
Defense Contract Administration Services Region, Atlanta: Col. Loren P. Murray, Jr., USAF.
Defense Contract Administration Services Region, Boston: Col. Frank A. Bogart, USA.
Defense Contract Administration Services Region, Chicago: Col. J. P. Gibbons, USAF.
Defense Contract Administration Services Region, Cleveland: Col. Norman T. Dennis, USA.
Defense Contract Administration Services Region, Dallas: Capt. Walter G. Normile, SC, USN.
Defense Contract Administration Services Region, Detroit: Col. Kenneth R. Johnson, USA.
Defense Contract Administration Services Region, Los Angeles: Brig. Gen. Arthur E. Exon, USAF.
Defense Contract Administration Services Region, New York: Brig. Gen. Walter M. Vann, USA.
Defense Contract Administration Services Region, Philadelphia: Col. Gerald Johnson, Jr., USA.
Defense Contract Administration Services Region, San Francisco: Col. William K. Ashby USAF.
Defense Contract Administration Services Region, St. Louis: Capt. Raymond S. Sullivan, SC, USN.

[as of 20 October 1967]

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 6

DSA MAJOR FIELD ACTIVITIES



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.

Growth of DSA

DSA made rapid progress in the assumption of assigned functions, as indicated in table below 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 1966, the number of items centrally managed (excluding items designated for local purchase) exceeded 1.33 million, with a value of over $1.99 billion, and will approximate 1.51 million items by the end of fiscal year 1967. At that time, the inventory value is expected to be over $2.27 billion, and the annual rate of procurement will increase to over $6.25 billion.

INDICATORS OF DSA GROWTH

	End of January 1962	End of fiscal year 1963	End of fiscal year 1964	End of fiscal year 1965	End of fiscal year 1966	End of fiscal year 1967	End of fiscal year 1968 plan
Items centrally managed.thousands	87	1,029	1,328	1,369	1,335	1,538	1,729
Inventory.....millions	$1,588	$2,412	$2,232	$1,977	$1,994	$2,896	$2,613
Procurement.....do	.....	$2,670	$2,701	$3,042	$5,740	$6,178	$5,403
Personnel	9,500	25,970	31,141	34,128	[1] 53,554	[2] 62,063	[3] 58,369

[1] Excludes 3,426 temporary civilian personnel.
[2] Excludes 3,510 temporary civilian personnel.
[3] Current OSD Allocation (June 30, 1968) full-time permanent civilian and military personnel.

The increase of personnel, both headquarters and field, has proceeded in phase with the assumption of management tasks and the increased workload as a result of Vietnam. 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 1965, full-time DSA personnel numbered 34,128. By the end of fiscal year 1966, DSA personnel had increased to 53,554, principally due to assumption of contract administration services functions; and based on OSD allocation, full-time personnel can reach 56,683 by the end of fiscal year 1967. (End fiscal year 1967 data shown in Fig. 7 above.)

By the end of fiscal year 1965, DSA had 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. This review will be completed in December 1967.

SUPPLY SUPPORT

Inventory Control Points

DSA manages six Supply Centers (fig. 6) as follows:

Defense Construction Supply Center, Columbus, Ohio.
Defense Electronics Supply Center, Dayton, Ohio.
Defense Fuel Supply Center, Alexandria, Va.
Defense General Supply Center, Richmond, Va.
Defense Industrial Supply Center, Philadelphia, Pa.
Defense Personnel Support Center, Philadelphia, Pa.

The Fuel Supply Center 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 8,000 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.

Early in 1966, the Supply Centers assumed the purchasing responsibilities for decentralized and nonstandard items in DSA-managed classes of materiel required for support of Army and Air Force activities overseas; except for support of Air Force activities in the Pacific area which was assumed in January 1967.

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.

On January 1, 1962, items assigned to DSA or to be assigned to DSA were stored in 77 locations. On January 1, 1963, the DSA distribution system was implemented with 11 of the 77 becoming permanent DSA distribution activities and 18 becoming direct supply support points for support of the Navy.

The objectives of the distribution system were—

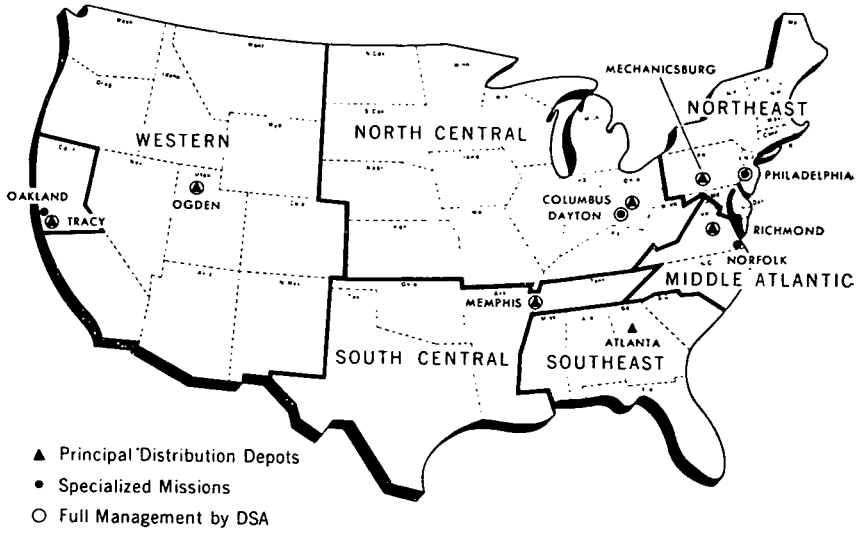
The establishment of a storage pattern based on the concept of positioning stocks close to the concentrations of military posts and ports of embarkation in the United States;

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

The DSA distribution system consists of seven principal depots and four specialized support depots (fig. 8).

FIGURE 8

DSA DISTRIBUTION SYSTEM



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.

Specialized support 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. The specialized support depots are—

Defense Electronics Supply Center, Dayton, Ohio.
Defense Personnel Support Center, Philadelphia, Pa.
Naval Supply Center, Norfolk, Va.
Naval Supply Center, Oakland, Calif.

The two Navy-operated specialized support depots support the fleet, Navy overseas activities, and selected Navy activities within a 25-mile radius. In addition, they support all military service requirements in emergency situations (priorities 1–8) when such support is not available elsewhere in the DSA system.

Direct supply support points.—The DSA distribution system also includes 10 direct supply support points (not included in fig. 8) which have been established in support of large volume users, such as Navy shipyards, repair facilities, and recruit training centers These points are under military service management. The supply mission for DSA commodities at these points is restricted to the stocking of FSG 95 (metals, bars, and shapes) for the support of on-base industrial and maintenance requirements and clothing for recruit training centers.

Attrition sites.—As of December 31, 1966, DSA materiel was stored at 20 temporary storage locations, or attrition sites However, the number of attrition sites at any given time 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, and until the current critical shortage of DSA-managed storage space is alleviated, 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.

Procurement and Production

DSA's procurement program objectives are generally being met as indicated below:

SMALL BUSINESS

Awards to small business during the first 6 months of fiscal year 1967 amounted to $1.37 billion or 43.5 percent of total awards to U.S. firms. This is 2.8 percent below the goal of 46.3 percent, however, it exceeds the accomplishment for the same period in fiscal year 1966 by $388 million or 0.8 percent. It is expected that the yearend goal will be met.

LABOR SURPLUS AREA AWARDS

Awards ($10,000 and above) to labor surplus areas during the first 6-month period of fiscal year 1967 amounted to $343 million—12.6 percent of total dollar awards within the United States and possessions. This is 1.6 percent in excess of the established fiscal year 1967 goal of 11 percent.

COMPETITIVE AWARDS

Competition remained at a high level of 93.1 percent of total awards subject to competition during the first 6-month period of fiscal year 1967. This is 1 percent above the established goal.

FORMAL ADVERTISING

Formal advertising has suffered somewhat due to the necessity to meet high-priority requirements from Southeast Asia by negotiated

procurements. The percentage of the value of all DSA procurements made through formal advertising was 27.4 percent in the first 8 months of fiscal year 1967, compared to 31.9 percent during a corresponding period in fiscal year 1966. However, since there has been a 33-percent increase in the value of total procurements during the same period, the value of the formally advertised portion actually increased by $153.3 million. It should be noted that although the formal advertising rate declined, the percentage of competition was actually higher. During the first 8 months of fiscal year 1967, our competitive rate was 92.8 percent compared to 92.6 percent for the same period in fiscal year 1966. In some commodity areas, the more attractive civilian demand during the past year has made it difficult to attract suppliers with sufficient productive capacity to meet defense needs, and the Agency has had to resort to "rated" orders to obtain supplies. Any improvement in the formal advertising rate is believed to be contingent on changes in the Southeast Asia situation and a softening of the civilian economy.[1]

The Southeast Asia situation has had significant impact on procurement and production activity. During the first 6 months of fiscal year 1967, 447,000 contracts, aggregating $3.6 billion, were awarded. This represents an increase of 65,000 awards and $1 billion over the comparable period of fiscal year 1966. It is anticipated that procurement volume for fiscal year 1967 will exceed $6.2 billion compared with actual fiscal year 1966 volume of $5.74 billion and fiscal year 1965 volume of $3.04 billion.

To obtain military supplies for Vietnam in the quantities reflected by this increased procurement volume in the face of heavy civilian demand, special measures had to be taken. Included among these measures were—

(*a*) Changing, with service concurrence, Government specifications to permit procurement of acceptable commercial products, wherever possible, to broaden the production base.

(*b*) Procuring substitutes on an interim basis to meet urgent requirements when specification changes were inappropriate.

(*c*) Increasing production of short supply items at Government-operated facilities.

(*d*) Furnishing industry advance information of anticipated quantitative and delivery requirements.

(*e*) Limiting accelerated delivery procurement to immediate operational support needs.

(*f*) Avoiding payment of premium prices for accelerated deliveries wherever possible by reevaluation of such requirements with the services.

(*g*) Giving increased management attention to using more realistic production leadtimes and scheduling deliveries in consonance with industry conditions.

(*h*) Securing assistance of the Business and Defense Services Administration (BDSA) of the Commerce Department in invoking mandatory production provisions of the Defense Production Act of 1950, as amended. A total of 581 rated orders were issued by DSA from mid-December 1965 to 30 January 1967, and as of 30 January, no rated orders were pending.

[1] For end fiscal year 1967 data see table "Procurement and Production," following.

PROCUREMENT AND PRODUCTION

	Fiscal year 1966	Fiscal year 1967
Small business:		
Awards (in billions)	$2.44	$2.59
Percent total awards	46.3	45.8
Competitive procurement:		
Awards (in billions)	$5.25	$5.62
Percent total awards	92.1	91.5
Labor surplus area:		
Awards [1] (in millions)	$709.1	$587.4
Percent total awards	15.8	12.3
Formal advertising:		
Awards (in billions)	$1.62	$1.68
Percent total awards	28.4	27.4

[1] Actions valued at $10,000 or more

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 the percentage of requisitioned items supplied from available stocks. The number of requisitions received in the period July–December 1966 rose to 10.38 million, 10 percent over the number received during the same period in 1965. Overall availability for the DSA system averaged 84.2 percent for the period July–December 1966 compared to 88.2 percent for the comparable period in 1965. This drop is attributed to the surge in demands from Vietnam, exhausting available supplies, and our inability to obtain replenishment from industry in time to meet required delivery dates. (For end fiscal year 1967 data see table "Supply Effectiveness" following.)

The second indicator of system effectiveness, on-time fill, measures supply system effectiveness by the percentage of items processed for shipment by the DSA supply system within the time frames specified in the DOD Uniform Materiel Movement Issue Priority System (UMMIPS). On-time fill during the period July–December 1966 averaged 73.7 percent compared to the 80.9 percent for the same period in 1965. This decrease in on-time fill was due in part to the large number of backorders released when materiel was received from producers plus the effect of heavy depot-level workload stemming from the increase in requisition volume, noted above.

SUPPLY EFFECTIVENESS

	Fiscal year 1965	Fiscal year 1966	Fiscal year 1967
Requisitions processed (in thousands)	15,357	19,360	19,696
Stock availability (percent)	91.4	87.8	86.5
Systemwide shipments (thousand line items)	15,081	18,774	19,339
On-time shipments (percent)	85.7	80.2	75.3
High-priority shipments [1] (percent)	81.6	78.2	73.6

[1] Priority issue groups I and II.

TECHNICAL AND LOGISTICS SERVICES AND PROGRAMS

Item Entry Control

The expanded defense item entry control technical review program is being implemented in accordance with the planned schedule. This expanded program has absorbed Project Shakedown and has assigned to all of the defense technical review activities (DTRAs) additional responsibilities for catalog purification and item reduction studies for all assigned Federal supply classes. As of December 31, 1966, 54 Federal supply classes, accounting for approximately 63 percent of all new item growth, have been brought under the program. Nine military department and four Defense Supply Agency field activities have been designated as DTRAs. Full implementation of 67 Federal supply classes, accounting for approximately 75 percent of all new item entry into the DOD supply system, is scheduled for completion by July 1, 1967.

Through December 31, 1966, DTRAs have reviewed 282,089 proposed new items of which 95,586, or 33.8 percent, were determined to be exact duplicates or possible duplicates of items already in the DOD supply system. An additional 25,414, or 9 percent, were returned for various errors in item identifications.

Item entry control embraces a composite of many separate management programs and projects aimed at reducing item proliferation during the complete life cycle of an equipment or weapon system. The development of an optimum IEC system must assure the required compatibility between projects being developed by separate functional managers, and provide the means for their assimilation and integration into an overall DOD IEC system. This system development is being pursued in close coordination with the military departments, Defense agencies, and staff elements within OSD, and is under continuous refinement and revision as individual elements of the overall system progress. In this connection, emphasis is being placed on acceleration of the DOD standardization program. Supply standardization policies and procedures governing item reduction studies are being revised to provide more comprehensive and effective DOD-wide supply standardization. Increased emphasis is also being directed to the attainment of optimum military standard coverage for FSG–53 (hardware) and FSG–59 (electronics) during the next 3-year period and coverage for other high growth Federal supply classes within 5 years.

DSA, at its Defense Logistics Services Center (DLSC), continues to provide a mechanical screen of manufacturers' part numbers. This service is made available to all DOD provisioning activities to ascertain whether an item has previously been assigned a Federal stock number.

Standardization and Cataloging

The Defense Supply Agency now has standardization management responsibility for approximately 2.4 million items or 62 percent of the 3.9 million DOD items in the Federal supply system.

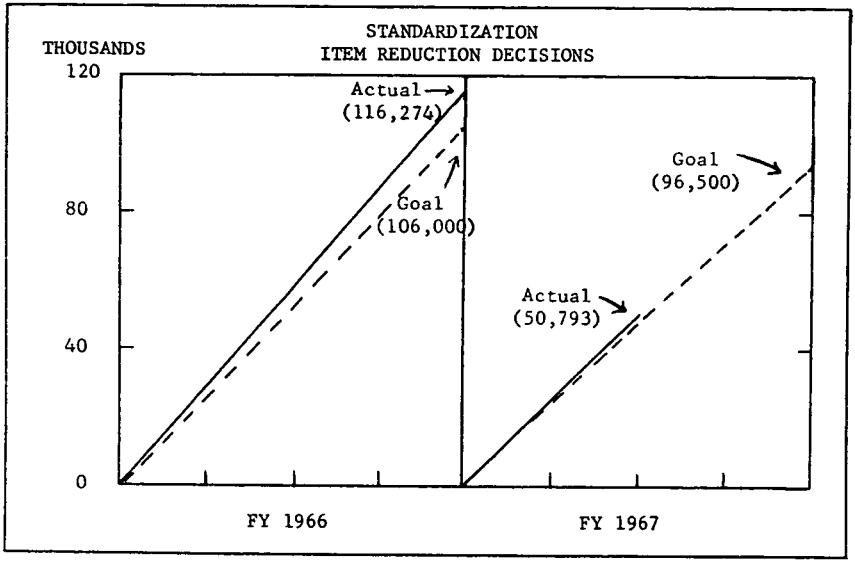
DSA is continuing to give major attention to the reduction in the number of items in assigned commodity classes. In fiscal year 1966, as a result of identification of duplicate or similar items and of standard-

ization actions, decisions were made and concurred in by the military departments to eliminate 116,274 items. (Fig. 9.) These decisions were based on a review of 283,445 items during the 12-month period. The goal for fiscal year 1967 is a total of 96,500 decisions, to be based on a review of approximately 328,000 items. At the end of the second quarter of fiscal year 1967, DSA had completed review and coordination of 118,587 items, and the military services had concurred in the elimination of 50,793 items from the supply system. This represented 36 percent of the fiscal year 1967 item review goal of 328,000 items and 53 percent of the reduction decision goal of 96,500 items. (For end fiscal year 1967 data see table "Standardization" following.)

STANDARDIZATION

	Fiscal year 1966	Fiscal year 1967	Percent of fiscal year 1967 goal
Items reviewed	283,445	290,703	88
Items eliminated	116,274	97,015	101

FIGURE 9



A net increase of 128,377 DOD items was recorded in the Federal catalog during calendar year 1966. This increase reflects a significant reversal of the reduction reported for calendar year 1965. In the first half of 1966, 199,631 items were added to the Defense catalog and 132,871 items deleted—a net increase of 66,760 items. This trend continued during the second half of the year. In the period July–December 1966, 175,019 items were added and 113,402 items deleted—an increase of 61,617 items. As of December 31, 1966, there were 3,907,703 DOD items in the Federal catalog, as compared to 3,779,326 on December 31, 1965. (For end fiscal year 1967 data see table "DOD Portion of Federal Catalog" following.)

DOD PORTION OF FEDERAL CATALOG

	Fiscal year 1965	Fiscal year 1966	Fiscal year 1967
Cataloged items (beginning fiscal year)	3,950,651	3,838,767	3,846,086
Net change	−111,884	+7,319	+117,602
Cataloged items (end fiscal year)	3,838,767	3,846,086	3,963,699

The net increase in catalog items can be attributed in part to the introduction of repair parts for new major end items, and fewer deletions due to retention of older equipments for possible use in Southeast Asia. Extended use of these older equipments in the unfavorable terrain of Southeast Asia has created repair parts demands not previously experienced.

Materiel Utilization

Efforts are continuing toward improvement and refinement of mechanized procedures for screening releasable assets of military service inventory control points against military service inventory control point requirements. Interservice and intraservice reutilization resulting from this process, conducted centrally at the Defense Logistics Service Center, and from direct interrogations between inventory control points, totaled $403 million for fiscal year 1966 ($231 million interservice reutilization and $172 million intraservice reutilization). (For end fiscal year 1967 data see table "Materiel Utilization" following.)

Utilization of military service declared excess, which is screened primarily through manual rather than mechanized procedures, amounted to $1.456 billion in fiscal year 1966. However, progress has been made in the establishment of mechanized procedures 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 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) was fully operational in fiscal year 1966. 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 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. In fiscal year 1966, $57.4 million in utilization was realized from this program. (See tables.)

MATERIEL UTILIZATION

[In millions]

	Fiscal year 1966	Fiscal year 1967
DOD reutilization of releasable assets	$403	$434
Interservice reutilization	(231)	(348)
Intraservice reutilization	(172)	(86)

WEAPON SYSTEMS MATERIEL UTILIZATION PROGRAM

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

The major objective of this DOD program is the achievement of maximum reutilization of materiel by the military services and other Federal agencies through: close working relationships and liaison between DSA and all echelons of the military, defense agencies, and other Federal agencies; the development of early planning intelligence regarding military systems to be phased out or otherwise discontinued; the development of new or alternate uses and applications of the materiel; the distribution of illustrated brochures; and other promotional efforts by DSA personnel.

DOD reutilization of phased out weapon systems assets through intraservice and interservice transfers has been substantially improved under the weapon systems utilization program. Total utilization during fiscal year 1966 from the publication of brochures on the missile phaseout program amounted to $127 million.

INDUSTRIAL PLANT EQUIPMENT (IPE)

As a follow-on action to a 1961 GAO review of the management of idle production equipment within the Department of Defense, OSD approved a joint study project, chaired by DSA, which resulted in the 1962 Report on the Management of Capital Plant Equipment. OSD approval of this report early in 1963 led directly to the establishment of the Defense Industrial Plant Equipment Center (DIPEC). DIPEC maintains a comprehensive record of service-owned, high-value items of plant equipment and provides a variety of reports to meet service needs such as equipment by type, who made it, and when it was made, its present location by military or contractor activity, and other details necessary to such functions as production planning. As of December 31, 1966, 365,729 units of equipment with an acquisition cost of $3.68 billion were recorded in the central inventory. The Center also receives reports on idle equipment which it may allocate to fill an immediate need in lieu of new procurement; it may direct the equipment to be held in storage against an anticipated need; or it may direct disposal if the equipment does not warrant retention. In fiscal year 1966, equipment with an acquisition cost of $185.8 million was allocated to meet defense needs. During the first half of fiscal year 1967, this effort amounted to $94.8 million, with the largest part going to defense contractors in support of high urgency Southeast Asia requirements. Substantial improvement has been made in IPE management since DIPEC was established and progress is being made toward accomplishment of the actions required by the 1966 GAO survey on the adequacy of controls over Government-owned property in possession of contractors. (See table following.)

INDUSTRIAL PLANT EQUIPMENT (IPE)

[Dollar amounts in thousands]

	Fiscal year 1966	Fiscal year 1967
Items of IPE in DIPEC inventory	347,125	394,140
Value of IPE in DIPEC inventory	$3,560,000	$4,030,000
Value of IPE reutilized for defense needs	185,800	192,700

SUBSIDIARY PROGRAMS

Subsidiary materiel utilization programs, operated in addition to 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. $3.2 million of utilization was realized from this effort in fiscal year 1966.

The identification of interchangeable and substitutable items to permit use of materiel for other than the purpose originally intended. An additional quantity of items worth $143.5 million were offered as a result of this procedure.

A program to mechanically screen releasable assets and requirements of conventional ammunition throughout the Department of Defense. The program became operational July 1, 1966, providing asset availability listings for review by requiring departments.

Retail interservice logistic support to promote greater exchange of supplies and services at the local level through development of interservice support agreements. Growth of the program is reflected in the reported dollar value of retail interservicing on a worldwide DOD basis which increased from $229 million in fiscal year 1965 to $335 million in fiscal year 1966. In the same period, support agreements increased some 200 to 3,199.

SUBSIDIARY MATERIEL UTILIZATION PROGRAMS

	Fiscal year 1966	Fiscal year 1967
Final asset screening	$3,200,000	$8,700,000

Materiel Disposal

DSA is responsible for the administration of the DOD disposal program worldwide. This responsibility includes the development of systems, techniques, and procedures for disposable personal property in accordance with OSD policy guidance, supervision of resource programs for DOD disposal activities, elimination of disposal holding activities when practical and economical, and operation of Defense surplus sales offices in Conus. The disposal program involves several subprograms, i.e., utilization of DOD excess, donation, sales, demilitarization, and scrap preparation. Under authority of the annual Department of Defense Appropriations Act, the costs incurred by all DOD elements engaged in the disposal of excess, surplus, and foreign excess personal property are reimbursed from the proceeds derived from the sale of surplus and foreign excess personal property. The remainder is transferred to the U.S. Treasury.

The dollar value of property processed for disposal during fiscal year 1966 totaled $6.035 billion, of which $2.345 billion was reutilized

within DOD, transferred to other Federal agencies and MAP, or donated to authorized recipients. Value of property sold, scrapped, abandoned or destroyed during fiscal year 1966 was $3.690 billion. Gross proceeds received from sales during fiscal year 1966 were $118.5 million. A return of 6.5 percent of acquisition value was realized for property sold, other than scrap. Disposal expenses for fiscal year 1966 were $80.2 million. Expenses include costs incurred in excess and surplus inventory accountability, utilization screening of DOD excess, handling of excess and surplus property at holding activities, preparation of sales descriptions and displays, demilitarization, reclamation, scrap preparation, lumber and timber operations, and support costs related thereto. (See table following.)

MATERIEL DISPOSAL

[Dollar amounts in millions]

	Fiscal year 1966	Fiscal year 1967
Property processed for disposal	$6,035.0	$5,745.0
Reutilized within Department of Defense, transferred to other Federal agencies or donated	$2,345.0	$2,168.0
Sold, scrapped, abandoned, or destroyed	$3,690.0	$3,577.0
Gross proceeds from sales	$118.5	$101.2
Percent return on sales (excluding scrap)	6.5	5.4
Disposal expenses	$80.2	$72.4

Efforts toward improvement of the management and operation of the DOD disposal program are continuing. Some of the major improvements completed or in process are as follows:

(*a*) When DSA was established, the 34 consolidated surplus sales offices (CSSO's) of the military departments and four regional sales offices became field elements of the Defense Logistics Services Center (DLSC). The CSSO's were redesignated as defense surplus sales offices (DSSO's). On January 29, 1965, the four DLSC regional sales offices were eliminated; and the number of DSSO's has been progressively reduced from the original 34 to 12. Annual recurring savings from these reduction actions are $2.7 million.

(*b*) DSA, in coordination with the military services, has been engaged in a program to eliminate holding activities of DOD wherever practical and economical. As of January 1, 1967, decisions were made to consolidate disposal functions at 79 holding activities. Sixty-five consolidations have been completed with a resultant savings of $2.6 million. Four planned consolidations were canceled due to announced base closure actions (three) and redetermination that consolidation was not practical (one). The remaining 10 consolidations are in process.

(*c*) A program to reduce costs incident to printing and distribution of sales catalogs. This has resulted in savings of $5.9 million through fiscal year 1966.

(*d*) Programs have been developed for conservation or sale of special materials; e.g., silver recovery, special processes for handling copper and copper-base alloy scrap, centralization of certain commodity sales such as jeeps and bearings, and segregation of high-temperature alloy scrap.

(*e*) DSA has developed a proposed program system which will provide meaningful and uniform operational data for managing

and controlling the disposal program. The proposed system prescribes development and use of time standards, valid workload data, a uniform cost accounting structure and a selective cost and performance reporting 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 and 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 "goldplating" in specifications for commodities managed by DSA continues to make progress. The fiscal year 1967 goal for cost reductions from value engineering analysis actions has been established at $12 million; and $16 million from fiscal year 1967 actions for the period fiscal years 1967–69. While additional opportunities are presented as new commodities are assigned, a plateau is being reached as more and more of the assigned commodities have been subjected to value analysis. However, value engineering analysis actions taken during the first half of fiscal year 1967 are expected to result in validated savings of $6.5 million in the fiscal years 1967–69 period. It is anticipated that actions in the second half of the fiscal year will result in additional savings of $9 million in fiscal years 1967–69 for a total of approximately $15.5 million for the 3-year period.

Defense Documentation

In November 1963 DSA assumed, from the Air Force, operational control of the Defense Documentation Center (DDC) which had replaced the Armed Services Technical Information Agency. Policy guidance for DDC is exercised by the Director of Technical Information, Office of the Director of Defense Research and Engineering. DDC provides classified and unclassified management information services, without charge, to Government organizations and contractors engaged in Government research and development programs.

DDC maintains and operates the research and technology work unit data bank and related banks of management information; acquires technical reports, announces them, and furnishes copies to authorized users; makes technical report searches for DDC users; maintains a centralized system for registration and certification for access to DOD scientific and technical information; maintains the DOD Thesaurus of Technical Terminology; provides primary distribution of technical reports obtained from selected foreign countries and the NATO advisory group for aerospace research and development; and provides referral service to additional DOD sources of specialized scientific and technical information.

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The DDC mission includes development of new and improved concepts, processes, techniques, services, products, and integrated systems for management information and technical documentation in support of the DOD scientific and technical information program.

As continuing additional requirements have been imposed for services to the research and development and logistics communities, DDC has developed from an R. & D. document supply activity to a major repository and retrieval activity for technical management information.

DOD/GSA Supply Relationships—Civil Agency Support

Under terms of the DOD/GSA agreement reached at the end of 1964, a joint DSA/Federal supply service Materiel Management Review Committee was formed in 1965 to determine appropriate supply management assignments to DSA and GSA of Federal supply class (FSC) groups, classes and items under DOD integrated management. Agency heads have approved initial management assignments of 99 FSC's to DSA and 52 to the General Services Administration. Transfer to GSA of items in these 52 "Primary Federal Supply Service Classes" is scheduled for July 1967. An additional FSC has been assigned to GSA but has not yet been scheduled for transfer.

The DOD/GSA agreement further provided for DSA to consider support of all civil agencies for the commodities of fuel, electronics, clothing and textiles, medical and subsistence supplies, provided conditions of economies and support effectiveness are met. A DSA/GSA committee has completed its evaluation of the feasibility and economy of DSA support of all Federal civil agencies for fuel, electronics, and clothing and textiles and determined that:

Support for fuels involving procurement, but little workload impact on inventory management and distribution, will produce cost savings of approximately $2.5 million annually and will not adversely affect military service support.

There is a high degree of commonality in electronics supplies used by civil agencies and DSA. DSA already supports approximately one-half of the civil agencies' annual $10 million electronics requirement. Savings from expansion of DSA support for all civil agency common item electronics requirements will approximate $0.6 million, in addition to the $0.6 million now being saved under current DSA support.

In the clothing and textiles area, there is substantially less commonality of civil agency and DSA items; therefore, savings are less significant and workload impact greater. In view of already heavy commitments, DSA has proposed, and the Secretary of Defense has approved, limiting expansion of civil agency support to those specific instances where clear savings can be made without degrading military support capability. The clothing and textile area will be reexamined from time to time to identify any support which DSA might provide to civil agencies on a case-by-case basis; but at this time there is no plan for DSA to assume overall support.

The Secretary of Defense has approved the DSA proposal to support civil agencies for fuel and electronics. Phase-in of fuel support over a 10-month period is scheduled to begin 6 months from the final Bureau of the Budget decision authorizing such support. The tentative scheduling for support of civil agencies for electronics provides for

phase-in over a 12-month period, beginning July 1, 1968, to assure civil agency support without adverse impact on DSA present heavy workload in the electronics area.

Studies of medical and nonperishable subsistence are in process. While final conclusions and recommendations have not been developed, the relatively heavy workload involved, without evidence of substantial economy, indicates that DSA support should be limited, similar to that approved for clothing and textiles, with provisions for future reconsideration.

Progress is being made in perishable subsistence support of Veterans' Administration and Department of Health, Education, and Welfare hospitals by the regional subsistence offices of DSA. Sales have totaled $654,000 for the period April–December 1966.

In conjunction with the Department of the Interior, consideration is being given to the extension of perishable subsistence support to the $2 million school program of the Bureau of Indian Affairs.

Support of the Post Office Department for electronics, general and industrial supplies is also under review. Annual sales of these commodities to the Post Office Department would approximate $2 million.

Under separate interagency arrangements currently in effect, DSA supports the Coast Guard with a full range of materiel; Veterans' Administration and Public Health Service with selected medical items; the National Aeronautics and Space Administration and the Federal Aviation Agency with electronics materiel; the Maritime Administration with fuel, and clothing and textiles; and the Office of Economic Opportunity with clothing and textiles and subsistence items.

Civil Defense Logistics

DSA is responsible for logistics support of the national civil defense program under the policy control and direction of the Office of Civil Defense, Office of the Secretary of the Army.

In providing civil defense logistics support, DSA operates a national distribution system which issues survival supplies for the stocking of public fallout shelters. During the past fiscal year, supplies for 7.5 million persons were issued. The total supplies issued since the program began in fiscal year 1962 are sufficient for 45.8 million persons in more than 81,000 shelter facilities.

DSA has begun evaluation of the condition of survival supplies in shelters by utilizing the Veterinary Services of the Army and Air Force to inspect supplies on a scientific sampling basis. Certain samples will also be subjected to laboratory analysis. A pilot inspection has been successfully conducted to test basic procedures and inspection techniques. Through a phased program, the condition and readiness of survival supplies at military installations, in Federal buildings, and in public fallout shelters everywhere will be evaluated.

Since the establishment of the DSA civil defense materiel distribution system, 54 percent of the warehouses initially participating in the storage and issue of survival supplies have been consolidated.

During fiscal year 1966 civil defense-owned engineering equipment, which is managed by DSA, was loaned to State governments to alleviate local community suffering and hardships from drought and flood damage. This included the loan of approximately 114 miles of pipe, 158 pumps and related items to 24 States for use in 91 communities.

CONTRACT ADMINISTRATION SERVICES

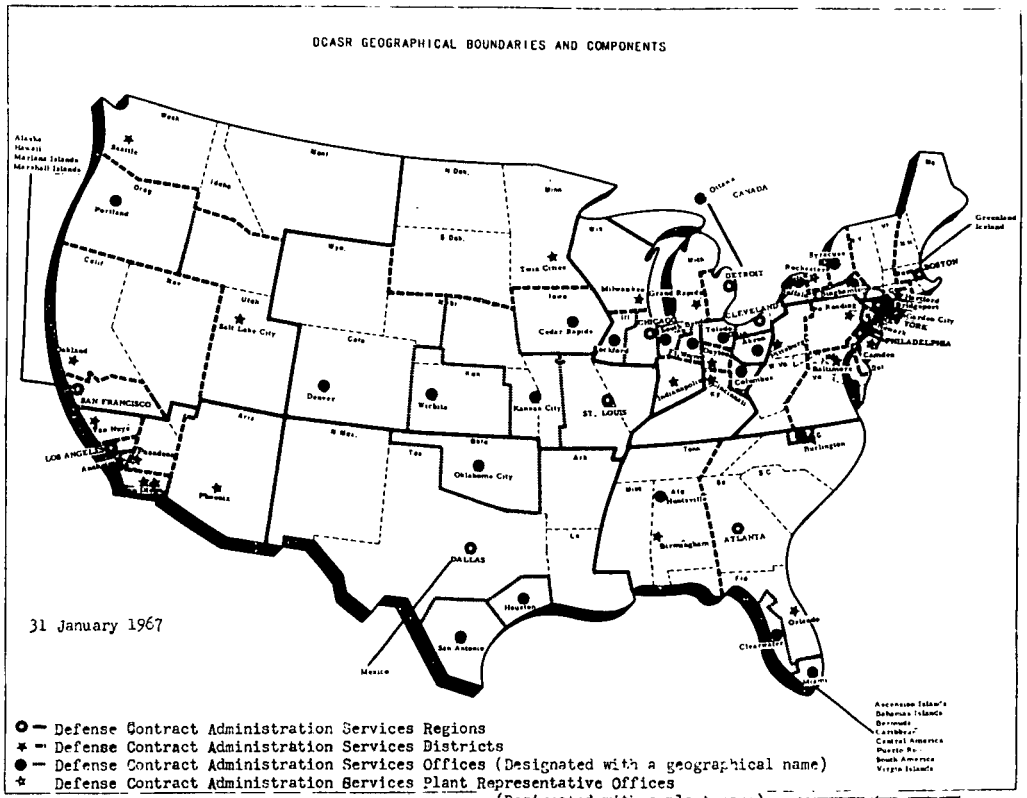
The Defense Contract Administration Services (DCAS) mission was assigned to DSA after extensive study and represents one of the most significant efforts of the Defense Department to improve logistics management. The consolidation does not embrace, or affect, the procurement function itself, but rather the administration of contracts in the field after they have been executed by the contracting offices of the military departments and DSA. A prime objective of the merger was to provide a "single face to industry."

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 among the military services under the Army Materiel Command, the Office of Naval Material, and the Air Force Systems Command; and further indicated the feasibility of consolidating the functions for centralized management. A pilot test region established at Philadelphia, Pennsylvania, in April 1964, demonstrated the feasibility and potential advantages of consolidating contract administration services functions on a nationwide basis. On the basis of the success 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 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 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 329 military and civilian personnel authorized. The current organizational structure of the headquarters element of DCAS is shown in figure (3). Provision was 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 geographical alinement of the Defense Contract Administration Services regions is depicted in figure 10, which also shows the districts and service offices within each region. The directors of the regions are identified in figure 5.

FIGURE 10


DCASR GEOGRAPHICAL BOUNDARIES AND COMPONENTS
31 January 1967
Defense Contract Administration Services Regions
Defense Contract Administration Services Districts
Defense Contract Administration Services Offices (Designated with a geographical name)
Defense Contract Administration Services Plant Representative Offices
(Designated with a plant name)
SAN FRANCISCO
LOS ANGELES
DENVER
DALLAS
ATLANTA
DETROIT
CLEVELAND
BOSTON
PHILADELPHIA
ST. LOUIS
CANADA
Mexico

Consolidation of contract administration services functions within DSA involved the merging of 165 military service and DSA contract management offices into approximately 100 offices. 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 the approximately 20,000 employees identified by the military services and DSA as performing contract administration services functions. During this 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, NASA, and other Federal agencies and certain foreign governments. These services include preaward surveys, review of contractor purchasing systems, quality assurance and inspection, property administration, production surveillance and reporting, transportation, payments to contractors, industrial security 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 of items and services to be purchased remains with the military service, DSA and NASA buying offices; DCAS performs those contract administration 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 DCAS; for example, contracts involving perishable subsistence items, basic research studies, military and civilian construction, repair, and overhaul of naval vessels. Military services are also responsible for administration of those contracts in specific plants assigned by DOD under the plant cognizance program.

The defense industrial security program is unique in the field of contract administration services in that its responsibility includes not only those facilities in which DCAS has contract administration responsibility, but also all facilities where the military departments have retained plant cognizance responsibility. In addition to having responsibility for security administration of all DoD classified contracts, the Defense industrial security program provides the same service for classified contracts awarded by eight other departments and agencies of the government; namely, the Departments of State, Commerce, and Treasury, the National Aeronautics and Space Administration, Federal Aviation Agency, General Services Administration, Small Business Administration, and the National Science Foundation.

In the consolidation of the Defense industrial security program, procedures for processing personnel security clearances were centralized from approximately 110 cognizant security offices into the Defense Industrial Security Clearance Office (DISCO). Centralization of the personnel clearance function has resulted in improved management efficiency and the ability to insure greater uniformity in clearance determinations. Moreover, the centralized operation lends itself to future adaptation to automatic data processing.

In consolidating CAS functions, it was anticipated that savings would accrue from three factors: (1) the merging of offices, (2) the

use of computers, and (3) increased standardization and uniformity of operation. Realization of savings was to be achieved by a time-phased reduction in personnel over a 5-year period. Utilizing pre-consolidation workload and manpower as a base, the objective was a reduction of approximately 10 percent in personnel by fiscal year 1968 to reflect a recurring reduction in personnel costs of $19 million by fiscal year 1969.

In December 1965, the first month of full DCAS nationwide operation, the level of workload had already increased 20 percent above the level prevailing when the savings estimates were made, when, for example, the number of primary and secondary contracts being administered was 138,000. By December 1966, the number was 219,000, an increase of 60 percent. A further increase to 220,000 is expected by June 30, 1967. During the same period the number of invoices completed had changed from an annual rate of 1.07 to 1.71 million, also an increase of 60 percent. By June 30, 1967, the annual rate is expected to reach 1.96 million. Still another example is the dollar value of material inspected and released for shipment, which rose from an annual rate of $13.729 billion in December 1965 to $16.672 billion in December 1966, a 20 percent increase. The projected annual rate as of June 30, 1967, is $17.726 billion. (See table following.)

CONTRACT ADMINISTRATION SERVICES WORKLOAD

[In thousands]

	Fiscal year 1965	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968 estimate
Contracts administered	114	195	272	276
Invoices processed	825	1,109	1,945	2,311
Contracts requiring production processing	84	112	198	229
Value of material inspected and released for shipment	----------	----------	$19,352,000	$21,781,000

These examples, together with other primary workload indicators, show an overall workload increase ranging from 37 to 63 percent during the past year. To accomplish this increased workload, manpower was increased by 20 percent. These increases are for the most part attributed to the impact of the SEA buildup, added NASA requirements, and the transfer to DCAS of the administration of some contracts previously assigned to the military departments under the DOD plant cognizance program.

The workload increase compared with the work force increase demonstrates a reduction in cost per work unit performed. Accordingly, the original estimate of anticipated savings appears to have been exceeded. However, a more precise computation of savings for comparison with the original estimate is not feasible because of the significant but immeasurable influence of several factors. These include changes that have occurred in the contract administration mission where the net effects on workload and resources are not clearly identifiable; the impact of SEA requirements which, on a postfacto basis, are not fully separable from the otherwise normal workload; and the effects of the learning curve on operation during the first year. These factors notwithstanding, current workload and resource data indicate that the full savings originally anticipated were being realized earlier than scheduled and will continue to recur through fiscal years 1967 and 1968.

Beginning with fiscal year 1967, DSA budgeted and funded for CAS functions. During fiscal year 1965, DCAS operations were financed through reimbursement to DSA from military appropriations. Fiscal year 1966 financing was accomplished through transfers of funds from the military departments. Support of NASA and other non-DOD agencies will continue to be financed through reimbursement.

Some of the areas of major effort during the first year of operations were as follows:

(*a*) *Quality assurance.*—The SEA build up created a significant workload in suppliers' plants, particularly in the ammunition, weapons, clothing, and medical commodities. Through extensive training and some recruitment, the challenge has been successfully met. To meet changing industrial and defense technologies, and other factors impinging upon readiness to perform, DSA CAS is pursuing a quality assurance skills acquisition program. DSA CAS is currently training approximately 1,000 quality assurance personnel who are performing on NASA contracts. In addition, quality assurance personnel are attending service schools, non-Government schools, and colleges to become better equipped to accomplish the assigned mission.

(*b*) *Plant safety.*—Included in the initial CAS functional assignment from the military departments was responsibility for monitoring safety in contractors' facilities pertaining to nonhazardous materials and processes involved in Government contracts. Early in 1966 DCAS was assigned, for contracts administered, the additional responsibility for maintaining surveillance of flight safety and safety matters on hazardous and dangerous materials and processes. Since assignment of the function, a DSA representative has chaired a DOD committee to develop ASPR guidance on hazardous and otherwise dangerous material safety, uniform contract safety clauses, and a Department of Defense manual prescribing standards to be followed by manufacturers of hazardous and dangerous materials.

(*c*) *Delinquent contracts.*—Due to the urgency of the Southeast Asia situation, special management attention had to be given to the problem of reducing the number of contracts in a delinquent delivery status. Increased leadtimes for materials and overloaded plant conditions contributed to a rising trend in contract delinquencies. Top management personnel of selected delinquent contractors were visited by DCASR personnel to emphasize the importance of timely deliveries and to assist the contractors in attempting to reduce their delinquencies.

(*d*) *Defense materials and priorities assistance.*—Special emphasis was placed on accomplishment of the objectives of the Defense materials and priorities assistance program, which necessitated the reorienting, training, and indoctrination of Government employees and Defense contractors. DCAS participated with the Business Defense Services Administration, Department of Commerce, in nationwide briefings attended by approximately 25,000 Defense contractor representatives in 30 U.S. cities. Additionally, vigorous in-house training was conducted and a continuing program was developed for providing technical assistance to both Government and contractor personnel.

(*e*) *Industrial security.*—Immediately following consolidation of the industrial security function, action was taken to identify cleared facilities which had not been engaged in classified procurement for 18 or more months. Administrative termination of these "dormant"

facilities resulted in a reduction of cleared facilities from approximately 22,000 to approximately 15,000. This has contributed to the efficiency of the program in that resources can be expended at facilities actually engaged in classified procurement.

(*f*) *Small business.*—A vigorous small business and economic utilization program was pursued; 1,378 small business/labor surplus area subcontracting programs have been established in prime contractor plants and are being revised quarterly by CAS field force of 48 small business/labor surplus area specialists located in 11 regions and in 15 of the 26 district offices.

(*g*) *Management of property.*—Significant improvements have been made in the management of property. New programs provide for more thorough analyses and qualitative evaluations, better identifications of conditions, and sounder bases for conclusions and actions.

(1) Contractor property control systems: Provided for greater depth and scope of reviews and evaluations of each system periodically, established minimum frequency of surveillance visits, and provided a statistical sampling technique with guidance for the sizes of samples and the limits of acceptability.

(2) Contractor use of industrial plant equipment: Fixed initial responsibility for performance of usage analysis by the best qualified DCAS specialist available during production; established firm requirements for timely reviews; provided improved criteria for determining when equipment may be considered idle by equating with procuring activity plans, programs, and intentions, respecting original authorization for acquisition and use; and specified a reporting procedure to support decisionmaking and necessary action.

(3) Centralized management of functions, skills, and reports: Identified other specific functions within the overall management of government property for performance by quality assurance, industrial specialist, transportation, and safety personnel in such areas as condition, maintenance, shipping, and loss or damage, with reports to the property administrator making the total story on the quality of the contractor's management, and establishing bases for compliance actions.

(4) Revised job standards for property administrators: Undertook a study which disclosed the need to revise antiquated and obsolete notions of property administration. These standards are now being rewritten to more closely approximate a manager of assets in the light of prevailing industrial and economic conditions and designed to attract higher caliber personnel by creating a career progression as a recruiting incentive, all to the end of upgrading the quality of performance.

(5) Training: Conducted seminars in the 11 DCASR's, bringing to property administrators and their supervisors current doctrine, such as emphasis on proper utilization of equipment by contractors and timely and accurate preparation of records and reporting.

(6) Regulatory coverage: Participated in distinguishing reponsibilities of the contractor and the Government; eliminating nonessential reporting; standardizing required reports as management tools and for other governmental purposes; developing contract provisions requiring maintenance of utilization records;

and furnishing new guidance in disposition of inventory and prompt plant clearance, preparation of inventory schedules, reporting for screening, and responsibilities of the plant clearance officer.

(7) Reconciliation of industrial plant equipment records: Recognized the need for purification of the system from an economic and practical viewpoint and arranged for a 2-year program of reconciliation of the records of the national inventory of industrial plant equipment with the property in possession of contractors by an orderly, no-additional cost operation during the contractor's normal inventory taking.

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 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 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. Consolidation of the Medical, Subsistence, and Clothing and Textile Supply Centers into the Defense Personnel Support Center resulted in a reduction of 483 civilian and 38 military spaces, with a net saving during fiscal year 1966 of approximately $4.2 million exclusive of one-time costs. By the end of fiscal year 1966 total savings from reduced cost of operations had reached $58.3 million.

SUMMARY

In the 5 years since its establishment, it has become apparent that DSA has not, and will not, solve all military supply and logistics services problems. Some of these are bound up in the complex relationships of military strategy and national economics and the rapid obsolescence of military materiel caused by the forward sweep of technology. DSA has in this 5-year period, however, demonstrated that it can support the military services effectively and efficiently in the major military commitment in Vietnam. In so doing, the Agency has proven the soundness of the concept of integrated management of common supplies and logistics services in Defense and that it can be made to work in time of war, mobilization, or peace.

APPENDIX 3

U.S. GENERAL ACCOUNTING OFFICE INDEX OF SELECTED REPORTS ISSUED TO THE CONGRESS DURING THE PERIOD MAR. 8, 1967, THROUGH OCT. 12, 1967

Index No.	Report file No.	Date	Title of report	Department
1	B-158712	Mar. 8, 1967	Potential Savings Obtainable Through Increased Use of the Government's Interagency Motor Pool System, Department of Defense.	Defense.
2	B-133386	Mar. 17, 1967	Review of Costs of Bidding and Related Technical Efforts Charged to Government Contracts, Department of Defense and National Aeronautics and Space Administration.	Defense and NASA.
3	B-160581	Mar. 28, 1967	Management of Hi-Valu Aeronautical Parts by Pacific Air Forces Bases, Department of the Air Force.	Air Force.
4	B-160632	Apr. 10, 1967	Review of Availability of Selected Stocks of the U.S. Army in Europe for Requirements of Other Commands, Department of the Army.	Army.
5	B-160781	Apr. 17, 1967	Savings Available to the Government through revision of the method of supplying Commercial Rental Cars—General Services Administration.	GSA.
6	B-157445	Apr. 24, 1967	Procurement of Critically Needed Missile Fuel Under Adverse Conditions from a Sole-Source Supplier, Department of the Air Force.	Air Force.
7	B-157373	Apr. 25, 1967	Review of the Management of Aircraft Repair Parts Reserved for Maintenance Activities at Depots in the Continental United States, Department of the Army.	Army.
8	B-160417	Apr. 28, 1967	Review of the Acquisition and Installation of Computers by the U.S. Army, Pacific, Department of the Army.	Do.
9	B-160900	----do------	Savings Available Through the Use of Formal Advertising in Contracting for Automotive Tires and Tubes, General Services Administration.	GSA.
10	B-114836	----do------	Review of the Pricing Methods Used by the Various States in the Purchase of Prescribed Drugs Under Federally Aided Public Assistance Programs, Welfare Administration, Department of Health, Education, and Welfare.	HEW.
11	B-161319	May 8, 1967	Examination Into the Transfer of Handtool and Paint Stocks From the Department of Defense to the GSA.	Defense and GSA.
12	B-161027	May 25, 1967	Review of Inspection Controls Over Concrete Placements in Building Construction Projects—Public Buildings Service, GSA.	GSA.
13	B-161027	-----do-----	Review of Subsurface Exploration for and Design and Construction of Foundations of Public Buildings—Public Buildings Service, GSA.	GSA.
14	B-156010	May 31, 1967	Savings Possible by Consolidating Mamagement of Acquired Residential Properties, Department of Housing and Urban Development and Veterans' Administration.	VA and HUD.
15	B-152600	June 5, 1967	Need for Improvements in Supply and Maintenance Support for F-4 Aircraft, Department of the Navy.	Navy.
16	B-133394	June 9, 1967	Potential Savings Available Through Use of Civil Service Rather Than Contractor-Furnished Employees for Certain Support Services, National Aeronautics and Space Administration.	NASA.
17	B-39995	June 19, 1957	Need for Compliance With the Truth-in-Negotiations Act of 1962 in Award of Construction Contracts, Department of Defense.	Defense.
18	B-152598	July 18, 1967	New Procedures Adopted To Improve Management of Contractor-Operated Messing and Merchandising Services at Kwajalein Missile Test Site, Department of Defense.	Do.
19	B-118779	July 27, 1967	Potential Savings in Financing Operation of Government-Owned Vessels Supporting Military Activities in Southeast Asia, Maritime Administration, Department of Commerce.	Commerce.
20	B-161415	July 31, 1967	Review of Policies and Procedures for Rebuilding Used Motor Vehicle Tires by Selected Civil Agencies.	Selected civil agencies.
21	B-146772	July 31, 1967	Transfer of Excess Materials Between the Army and Marine Corps Expedited by Improved Procedures.	Navy.

U.S. GENERAL ACCOUNTING OFFICE INDEX OF SELECTED REPORTS ISSUED TO THE CONGRESS DURING THE PERIOD MAR 8, 1967, THROUGH OCT. 12, 1967—Continued}

Index No.	Report file No.	Date	Title of report	Department
22	B-118634	Aug. 3, 1967	Need for Improved Reviews of Quantity Estimates Prepared by Architect-Engineers for Solicitation of Construction Bids, Corps of Engineers (Civil Functions), Department of the Army.	Army.
23	B-161330	Aug. 7, 1967	Need for Improving Policies and Procedures for Estimating Costs, Evaluating Bids, and Awarding Contracts for Dredging, Corps of Engineers (Civil Functions), Department of the Army.	Do.
24	B-139011	Aug. 30, 1967	Savings From More Economical Use of Communication Facilities Between Alaska and the U.S. Mainland, Department of the Air Force, Alaska Communication System.	Air Force.
25	B-156313	Aug. 31, 1967	Procurement of Nuclear Submarine Propulsion Equipment Under Public Law 87-653, Department of the Navy.	Navy.
26	B-114824	Sept. 21, 1967	Savings Available if the Commodity Credit Corporation Recovers Interest Costs on Repaid Price-Support Loans and on Storage Facility and Equipment Loans, Commodity Credit Corporation, Department of Agriculture.	Agriculture.
27	B-161992	Sept. 22, 1967	Opportunities for Savings Through Use of Spare Government-Owned Communications Circuits in Europe, Department of Defense.	Defense.
28	B-133118	Sept. 29, 1967	Review of Inventory Accounting Systems for Aeronautical Equipment, Department of the Navy.	Navy.
29	B-162106	----do------	Need for Procedures to Preclude More Than Just Compensation in Acquiring Oil Interest, Corps of Engineers (Civil Functions), Department of the Army.	Army.
30	B-161340	Oct. 12, 1967	Opportunity for Savings by Adopting Manufacturers' Recommended Preventive Maintenance Programs for Interagency Motor Pool Vehicles—General Services Administration.	GSA.

APPENDIX 4

DIGESTS OF SELECTED U.S. GENERAL ACCOUNTING OFFICE REPORTS ISSUED TO THE CONGRESS DURING THE PERIOD MARCH 8, 1967, THROUGH OCTOBER 12, 1967

[Index No. 1—B-158712, March 8, 1967]

POTENTIAL SAVINGS OBTAINABLE THROUGH INCREASED USE OF THE GOVERNMENT'S INTERAGENCY MOTOR POOL SYSTEM, DEPARTMENT OF DEFENSE

During our review at six military installations in the Washington, D.C., area, we found that employees who required automobiles in connection with travel while on temporary duty assignments customarily rented automobiles from commercial firms even though vehicles were generally available from the Government's interagency motor pool system at a 10- to 50-percent reduction in cost and at little inconvenience to the traveler.

The use of the interagency motor pool system, whenever feasible, is a stated policy of the Department of Defense. We found, however, that although the military services have issued instructions which call attention to the existence of the interagency motor pool and provide pool locations, addresses, and telephone numbers, the regulations did not specifically require personnel to use the motor pool system. Consequently, we found that travelers needing vehicles generally did not attempt to obtain them from the motor pool system, but, instead, rented cars from commercial car rental firms.

From our review, we estimated that the annual cost of car rentals at the six military activities included in our review amounted to approximately $214,000. Assuming these activities to be typical, it appeared that substantial savings could be achieved each year by the Department of Defense if greater use was made of the existing services of the interagency motor pool system.

The Director, Transportation and Warehousing Policy, Office of the Assistant Secretary of Defense (Installations and Logistics) advised us in a letter dated September 28, 1966, that the Department of Defense concurred in our findings and conclusions. He stated that the military services have been requested to review and modify pertinent directives or regulations as necessary to ensure that the requirement for the use of interagency motor pool facilities is explicitly stated.

In addition, we have been advised by the Administrator, General Services Administration that agreement has been reached with the Department of Defense whereby the General Services Administration will (1) increase the size of the motor pool fleet if necessary at locations designated by the Department of Defense where vehicle requirements of department personnel are relatively stable, and (2) assist in the development of internal regulations and publicity to insure the effective implementation of such regulations by personnel authorizing and performing travel.

[Index No. 2—B-133386, Mar. 17, 1967]

REVIEW OF COSTS OF BIDDING AND RELATED TECHNICAL EFFORTS CHARGED TO GOVERNMENT CONTRACTS, DEPARTMENT OF DEFENSE AND NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

The General Accounting Office made a review of the costs of bidding and related technical efforts charged to Department of Defense and National Aeronautics and Space Administration contracts.

We found a need for improved control over the costs of contractors' bidding and other related technical efforts absorbed by the Government. Our findings were based on our review at Lockheed Missiles & Space Co., Division of Lockheed Aircraft Corp., Sunnyvale, Calif. However, auditors of the Departments of the Army and Air Force have noted similar problems during their audits of numerous other Government contractors.

In our opinion, the need for improved control resulted principally because the armed services procurement regulation, which provides the basis for limiting charges to contracts for contractors' bidding costs and other technical effort costs, was not sufficiently clear and was subject to varying interpretations. We, as well as agency auditors, had noted that, where the procurement regulations do not clearly define the types of costs allowable under Government contracts or do not clearly establish the extent of allowability, the interpretations made by contractors most often prevail.

This situation is best illustrated where contractors, such as Lockheed Missiles & Space Co., are engaged simultaneously in the preparation of bids and proposals and the conduct of independent research and development. These two activities involve similar technical efforts. For the larger contractors, including Lockheed Missiles & Space Co., agreements are negotiated in advance covering the extent of the contractors' independent research and development programs that will be absorbed by the Government but advance agreements generally are not made limiting the amount of bid and proposal expenses to be absorbed by Government contracts.

Thus, technical effort designated by the contractor as pertaining to its independent research and development program is subject to reduced reimbursement by the Government, whereas similar effort designated as bid and proposal expense may be accepted without limitation.

Our review indicated that at least half of the $3.8 million of bidding and related costs claimed by Lockheed Missiles & Space Co. for 1962 either were similar to independent research and development costs or were not, in our opinion, clearly necessary to support the contractor's bids and proposals. The items in question were costs incurred (1) after the Government indicated that it was not interested in a proposal, (2) before the time a request for proposal was received, (3) after a bid or proposal had been presented to the potential customer, and (4) to develop capability to respond to future anticipated requests for proposals.

The Lockheed Aircraft Corp., in commenting on our draft report, disagreed with our position with respect to these items.

The Department of Defense and other Government agencies, including the National Aeronautics and Space Administration, have

recognized the problem of determining allowability of bidding and related costs when such determination is based on a subjective review of the reasonableness of the contractor's classification of the technical effort for which he is claiming reimbursement. For the past several years, the Department of Defense had been in the process of amending the procurement regulations to deal with all types of contractor's independent technical efforts as a package and to provide certain limitations on the charging of such costs to Government contracts.

The Department of Defense informed us that a study would be made to develop an appropriate remedy for effective management of bid and proposal costs charged to Government contracts. Both the Department of Defense and the National Aeronautics and Space Administration stated that it would not be feasible to issue interim guidance, as we had proposed, with respect to allowability of bid and proposal costs.

We recognize that the many facets of the bid and proposal problem deserve intensive consideration before revised procedures are established. However, we are concerned that, in the meantime, contracting and auditing officials will continue to be faced with the need to interpret the procurement regulations in the areas covered by this report. In our opinion, the planned study should be expedited.

We therefore recommended that the Secretary of Defense give the proposed study of bidding and related costs a high priority and that he establish goals to insure the earliest possible completion of required revisions to the procurement regulations.

[Index No. 3.—B-160581, March 28, 1967]

Management of Hi-Valu Aeronautical Parts by Pacific Air Forces Bases, Department of the Air Force

The General Accounting Office has made a review of the management by Pacific Air Forces bases of certain high-cost aeronautical parts included in the Air Force hi-valu program, a program which provides close control over significant items through selective management techniques.

We found that the five Pacific Air Forces bases covered by our review had accumulated hi-valu aeronautical parts and components valued at about $16 million, which were excess to the bases' requirements. Additional unneeded hi-valu parts valued at about $19.9 million were on order from depots in the United States. For a selected number of the excess items on hand, we estimated that transportation costs of about $381,000 were incurred to ship the unneeded materiel to Pacific bases. Also, much of this unneeded materiel was shipped by air transportation at a time when there was a shortage of such transportation to handle high-priority cargo shipments to the Pacific.

The excess parts and components were accumulated or ordered because base supply personnel did not effectively implement or follow established Department of the Air Force supply-management procedures. We found that these personnel (1) circumvented the controls that had been established to prevent ordering unneeded parts, (2) did not follow prescribed Air Force supply procedures that had been designed to identify unneeded orders which should be canceled, (3)

did not identify all interchangeable items on hand in base stocks, and (4) in some instances, did not adequately consider the need for establishment or continuance of special stock levels. Also, base supply personnel did not report excess assets on hand to inventory managers and thus precluded the effective redistribution of such assets to bases which might have had a need for them.

We brought our findings to the attention of the Department of Defense and the Department of the Air Force on October 6, 1966. The Deputy for Supply and Maintenance, Office of the Assistant Secretary of the Air Force (Installations and Logistics), in commenting on our draft report, stated that the Air Force, in general, agreed with our findings and recommendations. He pointed out, however, that, at the time of our review, the five bases we visited were supporting forward bases in Southeast Asia where operations were rapidly expanding and that difficulties experienced as a result of this rapid expansion, coupled with eagerness of supply-management personnel to support the war effort, undoubtedly contributed to the temporary overstockage of hi-valu items.

The Deputy for Supply and Maintenance stated that, as a result of our review, the five bases have, as of October 15, 1966, taken action to cancel unneeded hi-valu items on order valued at about $8 million and to redistribute unneeded hi-valu items on hand valued at over $5 million. He said that, in accordance with our recommendation that increased surveillance over base activities be exercised by Headquarters, Pacific Air Forces, a new supply improvement program had been initiated for the purpose of ensuring that base supply problems were brought to the attention of the appropriate level of command and that projects had been established to review major areas of supply operations.

We believe that the actions taken by Headquarters, Pacific Air Forces, if effectively pursued on a continuing basis, should help prevent recurrence of the deficiencies.

[Index No. 4—B-160632, Apr. 10, 1967]

REVIEW OF AVAILABILITY OF SELECTED STOCKS OF THE UNITED STATES ARMY IN EUROPE FOR REQUIREMENTS OF OTHER COMMANDS, DEPARTMENT OF THE ARMY

The General Accounting Office has made a review of the availability of selected stocks in Europe to meet the requirements of other commands within the Department of the Army.

Repair parts and electronic components which exceeded requirements in Europe were not redistributed to meet urgent needs in other areas because of weaknesses in the Army's inventory reporting procedures and practices. Our limited review identified combat vehicle repair parts and electronic components, valued at about $3.2 million, that could have been used to satisfy urgent requirements in the United States and in the Pacific area. The availability of these items, however, had not been reported to the appropriate national inventory control points in the United States, and, in the absence of such information, procurements and repair programs were initiated to meet known requirements.

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After these items were called to the attention of management officials, assets valued at about $2.1 million were transferred to other commands, programs for repairs costing about $100,000 were canceled, and procurements valued at about $180,000 were deferred. The remaining assets, valued at about $1.1 million, were scheduled for redistribution subsequent to the completion of our review.

We found that the Army Tank-Automotive Center did not consider the stocks in Europe available for redistribution because (1) contrary to Army regulations, the various commands in Europe had not reported certain excess stocks to the Center, (2) those commands had not included the inventory of the 7th Army in computations to determine the inventory quantities and excesses to be reported to the Center, and (3) the Center had not required the overseas commands to submit depot asset reports for high-dollar-value items and secondary end-items during the fiscal year 1965.

The Army Electronics Command could not consider certain excess radio components in Europe available for redistribution to satisfy urgent requirements for these items in the continental United States because the various commands in Europe had not reviewed and evaluated their requirements for these components and therefore did not report the excess stocks to the electronics command.

The Department of the Army concurred in our findings but did not concur that certain inventories, referred to as permissive overstockage inventories, should be reported to inventory control points in the United States. Permissive overstockage inventories exceed operating and reserve needs but can be retained by the overseas commands for contingencies. We believe, however, that all existing items considered to be in short supply by the inventory control point, which exceed current operating and reserve requirements of the overseas command should be routinely reported to such inventory control points. Thus, the inventory control point would have current and complete data on extra stockage of items and would be in a position to consider such items in filling urgent requirements of other commands.

We recommended to the Secretary of Defense that the Army's existing system for reporting stock status be revised to include a requirement for reporting to national inventory control points of all stocks of items considered to be in short supply by such inventory control points, which exceed operating and reserve requirements of the overseas commands, including those stocks in the permissive overstockage inventories. Although our review was related to procedures and management controls for selected items being procured by the Army Tank-Automotive Center and the Army Electronics Command, the same procedures and management controls generally apply on an Army-wide basis. Therefore, our observations may be equally applicable to other items in the Army supply system.

[Index No. 5—B–160781, Apr. 17, 1967]

Savings Available to the Government Through Revision of the Method of Supplying Commercial Rental Cars—General Services Administration

The Government incurs an estimated $1.9 million in costs each year for short-term rental of cars under informal arrangements made

by Government agencies and their contractors with commercial rental firms. Similar cars are rented by the Government under contracts entered into by the General Services Administration to supplement the cars in its motor pools.

Our review showed that rental rates under the General Services Administration contracts are substantially lower than the rental rates obtained under informal arrangements. It appears that more favorable rates are obtained under the General Services Administration contracts primarily because such contracts are usually awarded through formal advertising and provide for a larger volume of potential rental business. We estimate that a savings of as much as $350,000 annually could be realized if cars being rented under informal arrangements were rented, by the using agencies and contractors, directly from the commercial firms at General Services Administration contract rates.

The Deputy Administrator of General Services, in commenting on our draft report, stated that the General Services Administration concurred with our proposals to—

1. Reexamine, in consultation with major using agencies, its present role in the rental of commercial cars for Government use, with a view to making a better response to agency needs.
2. Increase the relative share of such rentals made under its contracts.

The Deputy Administrator advised us also that, although the General Services Administration had some reservation with respect to our proposal that rentals be made directly from commercial firms, this matter would be included in a full-scale in-depth study that would be made of ways and means to achieve greater economy and efficiency in supplying rental cars to Government agencies.

He advised us also that the General Services Administration is in agreement with our proposal that it expand its present contracting for car rentals to cover all areas where such action would result in savings or benefits to the Government.

[Index No. 6—B–157445, April 24, 1967]

PROCUREMENT OF CRITICALLY NEEDED MISSILE FUEL UNDER ADVERSE CONDITIONS FROM A SOLE-SOURCE SUPPLIER, DEPARTMENT OF THE AIR FORCE

We made a review of contracts for the procurement of critically needed missile fuel under adverse conditions from a sole-source supplier—Olin Mathieson Chemical Corp.

The Air Force acquired a $15.6 million production plant that is completely surrounded by Olin property on which the Government has certain easement rights for access roads, utilities, and disposal facilities. Although this location of the fuel production plant resulted in economies in initial construction costs, it also strengthened the contractor's position as the sole-source supplier.

Because certain supporting facilities for the plant were integrated with those of the contractor, the Air Force recognized that it would be impractical for any contractor other than Olin to operate the plant. Moreover, should it become appropriate for the Government

to dispose of this plant; under the terms of the deed, all easement rights and privileges except the easement covering the access road to a public highway would then terminate. This would adversely affect the value of the property to anyone other than Olin and,under the terms of the agreement, in the event of disposition of the property Olin has the option to purchase the property at the highest price offered by any other prospective buyer.

The contractor requested a fee of $720,000 for the production process "know-how" and experience which it, in effect, was giving to the Air Force in constructing the plant. The Air Force did not permit this fee under the facility construction contract but included it in the price for the production contract.

Olin would not accept a cost-plus-a-fixed-fee contract for the production of fuel, but stated that it would accept a fixed-price redeterminable contract subject to certain conditions, the principal condition being the explicit provisions for a 20-percent profit on selling price. The Air Force would not agree to the inclusion of such a provision in the contract. In our opinion, the form of contract proposed would not have been acceptable from a legal standpoint.

A fixed-price production contract was negotiated. However, we found that certain of the contractor's costs were estimated primarily on its production experience at another Olin plant where only limited quantities of the fuel were produced. Other costs were estimated on the basis of anticipated performance at the new Government plant even though Olin had no prior experience with the new production processes or the equipment to be used. Thus, in our opinion, there was no sound basis at the time for establishing a fixed price and the Air Force had no assurance that the price proposed was reasonable.

Officials of the Air Force agreed to this arrangement because they considered it imperative to establish promptly a source for volume production of this fuel and because they believed Olin to be the only contractor capable of satisfying the requirements in the time available. In the performance of this production contract which eventually totaled $28 million during 1961, 1962, and 1963, Olin realized a profit of $9.2 million, or the equivalent of about 49 percent on the total costs of $19 million. This profit does not include an additional profit of $1.8 million which, we estimate, the contractor realized in the price of raw materials supplied by its own chemical plant.

In our opinion, the lower costs incurred and the resulting substantial increase in profit beyond the rate estimated stemmed, in part, from (1) the uncertainty as to the costs that would be incurred and (2) the contractor's refusal to accept a form of contract more appropriate to the circumstances.

Olin's contribution to the timely success of the missile program must be acknowleded. The contractor performed creditably and, in so doing, successfully met the Air Force's required delivery schedule even though no missile fuel plant of this size had ever been build and this fuel had never been produced in such large quantities before.

In view of the important considerations of national security and urgency that were involved in negotiating the facility and production contracts covered by this report, it appears that the Air Force could not have taken an alternative action and met its critical requirements.

[Index No. 7—B-157373, Apr. 25, 1967]

REVIEW OF THE MANAGEMENT OF AIRCRAFT REPAIR PARTS RESERVED FOR MAINTENANCE ACTIVITIES AT DEPOTS IN THE CONTINENTAL UNITED STATES, DEPARTMENT OF THE ARMY

Our review at Department of the Army depots in the continental United States showed that more effective management of inventories maintained for aircraft overhaul could result in savings through the reduction of investment in inventories and the prevention of premature or unnecessary procurements. At four maintenance activities, we found that those activities were not complying with then current Army regulations relating to the establishment of stock levels for direct exchange and mission essential items. As a result, the value of inventories was about $1.5 million in excess of the value of quantities authorized and additional procurement of identical parts had been made in the amount of $447,000.

Utilizing the criteria outlined in Army regulations, we reviewed the computation of stock levels for items maintained for the direct exchange programs and the justification for retention of stocks designated as mission essential and found that, of total inventories valued at over $3 million, $1.5 million worth were excess. In general, the excess inventories had been accumulated because (1) officials of the maintenance activities were not aware of the provisions of Army regulations, (2) shortages of personnel precluded computations of stock levels as prescribed by the regulations, and (3) justifications for retention of mission essential stocks were not periodically reviewed.

In commenting on our report in a letter dated July 21, 1966, the Acting Assistant Secretary of the Army (Installations and Logistics) agreed with our proposal that local controls be provided to ensure that direct exchange stock levels are established on the basis of anticipated issues, based on past experience and experienced repair times, and that mission essential stock is held to a minimum as required by Army regulations.

The Army did not agree that significant savings in the procurement of repair parts could have been realized, because the involved excess parts were subsequently returned to the supply system and were used to satisfy other requirements. We believe, however, that the premature procurement of parts in excess of prescribed stock levels is not an economical practice. In this instance, the excess repair parts were used; but premature buying results in unnecessary storage, handling, and preservation costs. In addition, there is always the possibility that parts purchased prematurely will not be used because technological changes occur frequently in military equipment and parts become obsolete.

[Index No. 8—B-160417, Apr. 28, 1967]

REVIEW OF THE ACQUISITION AND INSTALLATION OF COMPUTERS BY THE U.S. ARMY, PACIFIC, DEPARTMENT OF THE ARMY

The General Accounting Office has made a review of the acquisition and use of computers in supply operation by the U.S. Army, Pacific, a subject of special interest to the Congress.

The situation may be summarized as follows:

During 1965 and 1966, the U.S. Army, Pacific, replaced data processing equipment used in supply and related transactions at important command depots with large-scale computer systems. Benefits expected to be derived from these computers could not be fully realized, we concluded, because improvements and corrections of supply management problems had not been completed prior to their installation.

Because of many continuing problems, a large percentage of U.S. Army, Pacific, supply transactions cannot be processed routinely by the computers. Transactions must be manually researched, edited, and reprocessed as in the past. The volume of manual handling of supply documents by the Army slows the processing and limits significantly the advantages of a computer system.

These difficulties are due primarily to longstanding problems disclosed in numerous previous reports by this Office. In general, we reported that—

1. Inventory procedures were not adequate to insure accuracy of inventory and warehouse location records.
2. Management practices led to excesses of some supply items and critical shortages of others.

On April 14, 1966, we brought the findings contained in this report to the attention of the Secretary of Defense. We proposed that implementation of the plan to install large-scale computers at command depots be delayed until an effective program had been instituted to correct problems inherent in the supply system.

The Assistant Secretary of the Army (Installations and Logistics), commenting on our draft report, stated on July 7, 1966, that the Army concurred in the findings generally but disagreed with our recommendation. He said that a standard supply system, supported by computers, was essential to correct the problems identified.

The Assistant Secretary has stated also that the Army's objective is to achieve an efficient and automated supply system in the Pacific and that, since the equipment has been installed, withdrawal would be retrogressive, costly, and disruptive of supply operations during a critical period. He advised that the results presently achieved at subordinate command depots indicate that substantial improvement has been made.

On completion of planned improvements, the Assistant Secretary added, inventory control activities and installations in the four Pacific commands will be reassessed and necessary additional improvements initiated.

We agree that computer equipment is essential for effective management of large inventories and great numbers of supply transactions; however, we do not believe that the full benefits of this costly equipment can be realized until the underlying system and data are improved.

Current information shows that Pacific theater supply operations under the new automated system are characterized by problems similar to those discussed in this report: Out-of-stock positions have substantially increased; stock balances and related records are inaccurate; requisition processing is delayed; and numerous errors in customer requisitions continue.

In view of the problems that would accompany withdrawal of the computers, we did not recommend that course of action. We recommended that the Secretary of Defense bring our report to the attention of all military agencies to illustrate the need for correcting basic weaknesses in operating systems if the most effective utilization of automatic data processing equipment is to be realized.

[Index No. 9—B-160900, Apr. 28, 1967]

SAVINGS AVAILABLE THROUGH THE USE OF FORMAL ADVERTISING IN CONTRACTING FOR AUTOMOTIVE TIRES AND TUBES—GENERAL SERVICES ADMINISTRATION

Schedule contracts for automobile tire and tube items are let by GSA on a multiple-award basis; that is, contracts are generally awarded to more than one supplier for the same or comparable item. In establishing the schedule contracts, GSA first obtains price offers for each tire and tube item from suppliers. The requests for price offers provide that the items will be ordered by Federal agencies from time to time in such quantities as needed.

After the receipt of the price offers, GSA compares the prices on an item-by-item basis and generally accepts the lowest price offered. The suppliers which have submitted higher priced offers are then afforded an opportunity to meet the lowest price accepted by GSA for those items for which they had originally submitted offers. If the suppliers agree to meet the lowest price, they are then included on the schedule. Thereafter, agencies may procure their requirements for an item at the same cost from any supplier of that item listed in the schedule.

Under the above method of establishing contract prices for automotive tires and tubes, there is no real incentive for a supplier to initially submit the lowest price at which he is willing to sell because making the lowest offer will not assure him of a certain amount of sales or a favorable position over other suppliers. When GSA gives the suppliers a second opportunity to submit price offers, a supplier is asked only to match the lowest price offer in order to participate under the schedule. Hence, the second solicitation of offers results only in additional suppliers and not in more favorable prices to the Government.

Our review has shown that the use of the negotiated contracting for the Government's tire and tube requirements is not necessary since the essential elements for advertised contracts exist—Federal specifications have been established, items meeting such specifications are widely sold on the commercial market, and there are a sufficient number of supplies to permit effective competition for the bulk of the Government's requirements.

We compared the prices obtained by four State and two city governments through formally advertised contracts with the prices obtained by GSA through the negotiated method of contracting. On the basis of the price comparisons we estimated that the Government may realize annual savings in excess of $1 million through use of formal advertising.

We suggested to the General Services Administration that it give consideration to adopting the formal advertising method of contracting for the bulk of the Government's tire and tube requirements.

The Administrator of General Services, in commenting on the matters discussed in this report, has advised that the administration plans to procure through formal advertising 87 high-volume tire and tube items to be stocked and to give continuing attention to the use of formal advertising where that method is determined to be feasible. We believe that these proposed actions constitute essential agreement with our suggestions.

[Index No. 10—B-114836, Apr. 28, 1967]

REVIEW OF THE PRICING METHODS USED BY THE VARIOUS STATES IN THE PURCHASE OF PRESCRIBED DRUGS UNDER FEDERALLY AIDED PUBLIC ASSISTANCE PROGRAMS, WELFARE ADMINISTRATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

On the basis of our review, we concluded that, if the Department of Health, Education, and Welfare would provide the States with appropriate guidance and requirements pertaining to the establishment or revision of the pricing methods for drugs purchased for use by welfare recipients, the drug programs in many States would be significantly improved with resulting economies to both the States and the Federal Government.

Although prescription drug programs under which payments are made directly to vendors have been in existence in many States for several years, the Department has not provided the States with guidance in the establishment or revision of pricing methods for welfare prescriptions. In fiscal year 1966 these programs involved expenditures of about $144 million of which the Federal share was estimated at about $81 million.

We believe that this lack of guidance has been a significant factor contributing to a diversity of welfare prescription drug pricing methods in use and to the use in many States of pricing methods which do not result in equitable prescription drug pricing. Also, many of the pricing methods are not conducive to economical prescription drug procurement because they include features which provide an incentive to pharmacies to dispense higher cost drug products where suitable lower cost products meeting the prescription requirements are available.

We proposed that the Secretary of Health, Education, and Welfare establish a policy governing methods of pricing welfare prescription drugs, which would prohibit the use of methods based on cost plus a percentage of cost or methods otherwise providing an incentive for the dispensing of higher cost products where suitable lower cost products meeting the prescription requirements are available. We proposed also that the Department's policy encourage the use of methods based on the cost of the product dispensed plus a fixed professional fee.

Concerning these proposals, the Department stated that it was in general agreement that it should develop a policy for pricing pharmaceutical products obtained under prescription, which would prohibit a cost-plus-a-percentage-of-cost basis of reimbursement but which, in contrast to our view that the use of a cost-plus-a-fixed-

professional-fee method should be encouraged, would incorporate encouragement to the States to move toward a cost-plus-a-flexible-professional-fee basis. A cost-plus-a-flexible-fee pricing method provides a fee, increasing with the cost of the product, for each of two or more defined ranges of drug cost—for example, a 50-cent fee for a drug which cost the pharmacy less than $1, a 75-cent fee for a drug which cost from $1 to $2, and so on.

The Department acknowledged that, under the flexible-fee pricing method, pharmacies would still have some incentive to stock and dispense higher cost products but expressed the view that such incentive would be less than that under a cost-plus-a-percentage-of-cost method. The Department also described certain considerations which it believed warranted the encouragement of a flexible-fee rather than a fixed-fee pricing method.

The Department stated further that, because of the need to establish certain related controls in consonance with the policy statement to be developed and because of the need to further define and explore certain questions concerning the proper composition of a professional fee, it believed that the development of any policy should be deferred for a reasonable period of time.

We believe that the Department's principal reason for proposing to encourage the use of a flexible-fee pricing method is the effect of the fixed fee on low-cost prescription items. However, we believe that, because the fixed-fee method will remove an incentive to dispense higher cost products, it will tend to reduce the overall cost of drugs to the program.

We therefore recommended in a report issued to the Congress on April 28, 1967, that the Secretary of Health, Education, and Welfare take action as early as practicable to establish a policy governing methods of pricing welfare prescription drugs under federally aided public assistance programs, which would be acceptable for the purposes of Federal financial participation. We recommended also that such a policy prohibit not only the use of methods of welfare prescription drug pricing based on cost plus a percentage of cost but also the use of any methods which provide an incentive to dispense higher cost products where suitable lower cost products meeting the prescription requirements are available. We recommended further that the policy urge the use of methods based on the cost of the product dispensed plus a fixed professional fee.

By letter dated August 16, 1967, the Assistant Secretary, Comptroller, Department of Health, Education, and Welfare furnished us with a copy of the Department's statement to the chairman of the House Committee on Government Operations pertaining to this matter. The Department expressed the view that sufficient information does not exist to determine the full effects of a cost-plus-fixed-fee method or a cost-plus-a-flexible-fee method and proposed the establishment of a policy which will allow the States the option to select either method. The policy would include a requirement for the Department to periodically evaluate and make adjustments as appropriate regardless of the method employed.

[Index No. 11—B-161319, May 8, 1967]

EXAMINATION INTO THE TRANSFER OF HANDTOOL AND PAINT STOCKS FROM THE DEPARTMENT OF DEFENSE TO THE GENERAL SERVICES ADMINISTRATION

An important step toward the development of a national supply system was taken with the transfer of about $65 million worth of handtool and paint stocks from the Department of Defense (DOD) to the General Services Administration (GSA). The transfer was substantially completed in 1966.

The General Accounting Office reviewed handtool and paint inventories at the Department's supply depots after management responsibility had been assumed by GSA and found that there were significant quantities of GSA-owned stocks on hand which were not recorded on the administration's inventory records. Consequently, these stocks were "lost" to the supply system.

After we brought this situation to the attention of Department and administration officials, complete physical inventories were taken at the Department's depots and about $4 million worth of stocks were found which were not recorded, but which should have been recorded, on the Administration's inventory records. During the period when the stocks were "lost," the Administration purchased about $1.1 million worth of stocks that were identical to the unrecorded stocks.

In our opinion, the transfer difficulties would have been largely avoided if—

1. DOD inventory records had been accurate when the stocks were transferred.
2. Effective controls had been maintained over GSA-owned stocks in DOD depots after the transfers.
3. GSA and DOD had cooperated more closely in solving their mutual problems.

In January 1967, we proposed to the Secretary of Defense and the Administrator of General Services that certain steps be taken in future stock transfers to eliminate these difficulties. We proposed to the Secretary of Defense and the Administrator of General Services that detailed physical inventories be taken of all stocks to be transferred, inventory records be reconciled to the physical counts, and warehouse stock locator records be updated. We proposed also that prior to the transfer of management responsibility, a joint committee be made responsible for providing operating procedures to carry out the transfers, acting as liaison and coordinators, and settling promptly any problems relating to inventory shortages during the transfers.

The Department and the Administration have indicated agreement with our proposals.

[Index No. 12—B-161027, May 25, 1967]

REVIEW OF INSPECTION CONTROLS OVER CONCRETE PLACEMENTS IN BUILDING CONSTRUCTION PROJECTS—PUBLIC BUILDINGS SERVICES ADMINISTRATION

During the period June 1965 to February 1966, we reviewed inspection controls over concrete placements for three projects con-

sisting of four buildings being constructed in Washington. Contracts for the three projects totaled about $75.7 million including about $20.3 million for concrete placements at the sites.

The review disclosed that inspection procedures of the General Services Administration did not insure compliance with contract specifications in regard to water content of concrete delivered to one of the construction sites. Yet, the water content of concrete has been shown by authorities cited in our report to be one of the most critical factors in obtaining quality concrete. Our report recognizes that, although the concrete placed met strength requirements, the quality of concrete included but was not limited to characteristics of strength. The review at this site disclosed also discrepancies in the use of curing compound and in the preformance of concrete testing.

Inspectors at the other two building construction sites appeared to be exercising reasonable inspection practices to help insure that the delivery and placement of concrete in the basement slab and foundation footings met contract specifications.

We informed the Administrator of General Services that, on the basis of our review, we believed that the quality of on-site inspection varied between construction sites. We advised him of our belief that the inspection weaknesses discussed in this report could have been avoided had the agency's regional headquarters officials exercised greater supervision over inspectors at the site. We presented certain policy and procedure matters which we believed would have applicability to agency construction in general.

The Deputy Administrator agreed that vigorous and continual on-site inspection is the primary means of control to help insure that concrete in public buildings complies with prescribed design for all of its qualities. He observed, however, that ordinary observance and the use of the tests provided for in the specifications normally are adequate.

The Deputy Administrator concurred in our porposals that frequent, systematic reviews and evaluations of on-site construction inspection should be made and recorded standards for on-site construction inspectors should be improved. He advised that a project had been started to improve recording standards and that greater emphasis was being placed on evaluation of on-site construction inspection by the regional and central office inspection and engineer groups.

The Deputy Administrator also concurred in our proposal that laboratories engaged in testing concrete should be directly responsible to the Government rather than to the contractor. He advised that the requirements were being changed to provide for this.

[Index No. 13—B–161027, May 25, 1967]

REVIEW OF SUBSURFACE EXPLORATION FOR AND DESIGN AND CONSTRUCTION OF FOUNDATIONS OF PUBLIC BUILDINGS—PUBLIC BUILDINGS SERVICE, GENERAL SERVICES ADMINISTRATION

In a review of contracts awarded under provisions of the Public Buildings Act of 1959 in amounts in excess of $2 million each for buildings under construction on June 30, 1963, we found that, in 15 out of 28 buildings, the Government had encountered construction difficulties

because of foundation design problems and unanticipated soils conditions.

Settlements of contractors' claims in these cases ranged from a low of $2,500 to a high of $4,100,000. The foundation problem which resulted in settlement of a contractor's claim for $4.1 million resulted in additional unexpected costs when its resolution eventually required the purchase of adjoining lands at a cost of about $4 million.

In reviewing the present capability in soils and foundation matters within the Public Buildings Service, we found that its staff of professional engineers did not include specialists in soil mechanics and foundation engineering. We believe that, had such staff specialists been available, certain of the soils and foundation difficulties experienced by the Service could have been avoided and the costly effects of others minimized.

We proposed to the Administrator of General Services that soil mechanics and foundation engineering capability be developed within the Public Buildings Service. The Administrator advised by letter of January 18, 1967, that the Administration's in-house capability would be expanded and certain other measures would be taken, to minimize soils and foundation problems in the construction of public buildings.

[Index No. 14—B-156010, May 31, 1967]

SAVINGS POSSIBLE BY CONSOLIDATING MANAGEMENT OF ACQUIRED RESIDENTIAL PROPERTIES, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND VETERANS' ADMINISTRATION

In a report to the Congress in May 1967, we noted the possible benefits of consolidating within one agency the management and disposition of all single-family residential properties acquired as a result of default of loans under home financing programs of the Federal Housing Administration (FHA), Department of Housing and Urban Development (HUD), and the Veterans' Administration (VA).

We expressed the belief that the property management functions are essentially the same in both agencies and that consolidation of these functions was feasible and would provide a basis for lower costs through a reduction in the overall size of the staffs performing these functions separately. We stated further that consolidation would provide opportunities for additional benefits, such as savings through volume contracting for broker services, and for simpler and more uniform procedures and terms in dealings with brokers and potential buyers.

Officials of HUD, VA, and the Bureau of the Budget (BOB) commented on our proposal. Although the VA believed that it was not desirable to separate its home financing functions from its associated property management functions, the other two agencies were of the opinion that a study was warranted.

Subsequently, we were advised by the Assistant Secretary for Administration, HUD, that a management consulting firm would be engaged by BOB to make a study to determine what, if any, organizational and and other actions should be taken. We were informed that the consulting firm has subsequently completed its study and is in the process of preparing a report on their study.

[Index No. 15—B-152600, June 5, 1967]

NEED FOR IMPROVEMENTS IN SUPPLY AND MAINTENANCE SUPPORT FOR F–4 AIRCRAFT, DEPARTMENT OF THE NAVY

The General Accounting Office estimated, on the basis of review work performed in 1965, that the Department of the Navy could have maintained the equivalent of 23 additional F–4 aircraft in serviceable condition during the fiscal year ended June 30, 1964, if certain improvements had been effected in supply and maintenance support. We so advised the Navy.

During 1966 we made a limited followup review of these matters and found that many of the same management problems affecting the readiness position of F–4 aircraft continued to exist, although aircraft availability had increased.

We identified the following problems in the management of supplies by the Navy's Aviation Supply Office, which led to shortages of spare parts and components for F–4 aircraft.

1. Loss of control over inventory of certain parts.
2. Failure to promptly purchase needed parts.
3. Lack of prompt repositioning of stocks to areas where needed.
4. Lack of timely repair of unserviceable components.

We identified also some administrative problems in scheduling F–4 aircraft for repair and rework.

We brought these matters to the attention of the Department of Defense by letter dated July 13, 1966, proposing that the Navy establish a weapons system management team for each type of first-line aircraft for as long as the aircraft is so classified.

The Assistant Secretary of the Navy (Financial Management), in his reply dated December 7, 1966, stated that the Navy agreed there should be a weapons system management team as long as would be necessary to cope with major difficulties in research, design, development, production, and logistics support peculiar to the system.

It was stated, however, that such a team for every first-line aircraft would require a substantial organization of technical, maintenance, and supply personnel. The Navy stated also that the establishment of a weapons system management team would not, in itself, insure improvement of the conditions which our review noted. The Navy advised that, to insure improvement, the aircraft supply support structure had been reorganized and several new management disciplines had been instituted.

We believe that these actions will contribute to improved maintenance and supply support for all weapons systems and, therefore, should improve the readiness posture of the F–4 aircraft. We plan to evaluate the implementation and adequacy of the Navy's actions in our continuing reviews of its supply and maintenance activities.

[Index No. 16—B-133394, June 9, 1967]

POTENTIAL SAVINGS AVAILABLE THROUGH USE OF CIVIL SERVICE RATHER THAN CONTRACTOR-FURNISHED EMPLOYEES FOR CERTAIN SUPPORT SERVICES, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

In a report to the Congress, issued in June 1967, we stated that our review of the relative costs of using civil seryice personnel or contractor-furnished personnel to perform engineering and related technical support services at the National Aeronautics and Space Administration's Goddard and Marshall Space Flight Centers showed that estimated annual savings of as much as $5.3 million could be achieved with respect to nine contracts we reviewed, on which annual support service costs of about $31 million were incurred, if these services were to be performed by civil service employees.

We pointed out that the indicated savings were attributable, for the most part, to the elimination of many contractor supervisory and administrative personnel, which would result from a conversion to civil service staffing and the elimination of the fees paid to the contractors.

We expressed the view that the Space Administration's policies relating to the use of support service contracts were not sufficiently clear as to the consideration which should have been accorded to relative costs in determining whether contractor-furnished or civil service personnel should be used. In this regard, we were advised that the Space Administration, while believing that contracting for the services involved had been in the best interests of the Government, recognized the need for more specific guidance on cost considerations than had been provided and that such guidance would be part of any redefinition of policy resulting from a current review of agency experience in the use of support service contracts.

Because the action to fully correct the situation discussed in our report would require a significant change in the Space Administration's policy relating to the use of support service contracts and because of the potential effect that a significant change may have on its civil service personnel requirements, we stated that the Congress may wish to consider the policy aspects of this matter in further detail with agency officials.

In addition, we pointed out that the Congress may also wish to explore with the Space Administration the impact that cost considerations should have in determining whether to use contractor or civil service personnel in those cases where either contractor or civil service personnel could equally carry out the operation.

[Index No. 17—B-39995, June 19, 1967]

NEED FOR COMPLIANCE WITH THE TRUTH-IN-NEGOTIATIONS ACT OF 1962 IN AWARD OF CONSTRUCTION CONTRACTS, DEPARTMENT OF DEFENSE

The General Accounting Office has made an examination into the practices of the construction agencies of the Department of Defense in the negotiation of military construction contracts and modifications

over $100,000 awarded during the period November 1964 through June 1966 under the requirements of Public Law 87–653, the Truth-in-Negotiations Act of 1962, and the implementing Armed Services Procurement Regulation.

We found a need for the construction agencies—the Army Corps of Engineers and the Naval Facilities Engineering Command—to improve compliance with the cost or pricing data requirements of Public Law 87–653 and the implementing Armed Services Procurement Regulation in negotiating construction contracts and modifications.

We found generally that, in the negotiation of prices of construction contracts and modifications, (1) sufficient cost or pricing data supporting the contractors' proposals, as required by the law, were not obtained, (2) cost analyses of contractors' proposals to determine that the prices were fair and reasonable, as required by the regulation, were not made, and (3) related prescribed procedures for utilizing advisory audits were not followed.

Instead, the construction agencies placed primary reliance on comparisons of the contractors' proposals with their own cost estimates as a means of evaluating the reasonableness of prices.

A primary reason for the construction agencies' not complying with Public Law 87–653 and the Armed Services Procurement Regulation appeared to be their belief that the law (and regulation) was not applicable to construction contracts since contractors' proposals were evaluated on the basis of comparisons with Government estimates.

Comparing a proposal with an estimate serves a useful purpose, but such comparison is not an acceptable substitute for obtaining and analyzing current and complete cost or pricing data of the—contractor as required by law and regulation.

We brought these findings to the attention of the Secretary of Defense and proposed that he emphasize to the Departments of the Army and Navy the need for improvement of the construction agencies' compliance with the requirements of Public Law 87–653 in the negotiation of construction contracts and modifications.

The Deputy Assistant Secretary of Defense (Procurement) in letters dated February 1 and March 9, 1967, agreed in substance with our proposals.

[Index No. 18—B–152598, July 18, 1967]

New Procedures Adopted To Improve Management of Contractor-Operated Messing and Merchandising Services at Kwajalein Missile Test Site, Department of Defense

The General Accounting Office has reviewed records relating to contractor-operated messing and merchandising activities at the Army's missile test site at Kwajalein in the Marshall Islands. The review disclosed a loss of about $1.6 million during a 2-year period ended in February 1966, chiefly because prices charged to customers were too low.

The contractor operated, in addition to the messing facilities, a commissary, retail store, laundry, barber shop, beauty shop, snack bar, and liquor store and clubs at Kwajalein. Under the contract

terms, costs to the contractor—Global Associates of Oakland, Calif.—in operating these facilities were to be reimbursed by the Government. The Government would subsequently recover its cost through revenues derived from charges to consumers.

The Department of Defense concurred with our findings and advised us that the Army agreed that the contractor should take steps to insure that losses in messing and merchandising would be recovered by revised pricing; that the contractor should establish in its accounting records a reserve for losses on disposition of obsolete, damaged, or spoiled merchandise; and that the Army should review the contractor's buying and storage records to reduce future losses on merchandise.

In addition, the Department of Defense stated that our findings would be furnished to the military departments calling attention to the need for reviewing messing and merchandising at other similarly remote locations.

We believe that the corrective actions taken or proposed by the Department of Defense and the Department of the Army should, if properly implemented, help to insure that costs incurred in this and similar contractor operations of messing and merchandising activities will be recovered in charges to customers.

[Index No. 19—B-118779, July 27, 1967]

POTENTIAL SAVINGS IN FINANCING OPERATION OF GOVERNMENT-OWNED VESSELS SUPPORTING MILITARY ACTIVITIES IN SOUTHEAST ASIA, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE

Our review of the policies and procedures followed by the Maritime Administration, Department of Commerce, relating to the advancing of funds to general agents for the operation of Government-owned vessels used in support of military operations in Southeast Asia, indicated that annual savings in interest cost of about $239,000 could be realized if the Maritime Administration would time its cash advances to meet the general agents anticipated current requirements rather than to have the general agents continue to maintain prescribed cash balances.

The Maritime Administration generally followed the practice of advancing funds to its general agents on the basis of their maintaining a cash balance not in excess of $100,000 for each vessel assigned, subject to a maximum of $500,000 per agent. It is established Government policy to avoid premature advances of funds and thereby preclude unnecessary borrowings and the related interest cost. Treasury Department Circular 1075 provides that cash advances should be timed in accordance with the actual cash requirements of the recipient in carrying out the purposes of the program.

In a letter dated February 8, 1967, we proposed that Maritime modify its procedures in a manner that would result in submission and approval of general agents' requests for advances on the basis of anticipated current operating requirements in order to avoid the premature advancing of Government funds and to help prevent unnecessary interest costs. The Acting Maritime Administrator informed us by letter dated March 6, 1967, that in keeping with our proposal and the announced policy of the Treasury Department, general agents

were being instructed that funds would be made available only on the basis of current cash needs.

In our opinion, the new procedures initiated by Maritime to make funds available to the general agents only on the basis of adequately supported current needs after agency review and approval, if properly implemented, should achieve the objective of Treasury Department Circular 1075 and result in significant savings in Government interest costs.

[Index No. 20—B-161415, July 31, 1967]

Review of Policies and Procedures for Rebuilding Used Motor Vehicle Tires by Selected Civil Agencies

In July 1967, we reported to the Congress on our findings on the policies and practices for rebuilding used motor vehicle tires by the Soil Conservation Service, Department of Agriculture; the National Park Service, Department of the Interior; the Post Office Department; and the General Services Administration. We estimated that savings of about $500,000 would have been realized by these four agencies during fiscal year 1965 through more extensive rebuilding of used tires.

We found that the tire-rebuilding policies and practices of the four agencies varied among the agencies and among installations within certain of these agencies and that, with the exception of the Post Office Department, these inconsistencies existed because of the lack of specific tire removal and rebuilding criteria and of conclusive determinations as to the reliability of rebuilt tires. GSA is responsible for prescribing policies and procedures, in respect of rebuilt tires, for implementation by the executive agencies.

Information obtained from tire manufacturers, tire rebuilders, users of rebuilt tires, and various organizations representing the tire industry indicated that, when tires are rebuilt according to recommended criteria, they are safe, serviceable, and more economical than new tires. Our review disclosed, however, that no adequate tests or studies had been made and that available evidence was not sufficiently decisive to permit a conclusive judgment as to the reliability or rebuilt tires under all driving conditions.

We believe that, if rebuilt motor vehicle tires are considered unsafe under certain specified conditions, they should not be used under such conditions by any agency but that, to the extent that they are safe, they should be used by all agencies to achieve maximum savings.

We proposed that GSA keep in close touch with the program of the National Traffic Safety Agency for tire research, testing, and development so that it may be in a position to promulgate standards for the use of rebuilt tires on Government vehicles on the basis of the standards established for the driving public, pursuant to the requirements of the National Traffic and Motor Vehicle Safety Act of 1966 (Public Law 89–562). We proposed also that GSA provide specific guidance for the removal and processing of used tires to prevent excessive wear and damage that would make them unsuitable for rebuilding.

GSA agreed with our proposal to keep in close touch with the National Traffic Safety Agency's program for tire research, testing, and development and advised us of its own plans for testing rebuilt tires and for issuing revised specifications for new tires, which will preclude carcass damage from excess tread wear.

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We believe that the actions taken and proposed by GSA are adequate, pending developments from the tire research, testing, and development program of the National Traffic Safety Agency.

The Post Office Department, whose practice is to rebuild all tires that have sound casings, agreed with our proposals. The Soil Conservation Service and the National Park Service, however, indicated that they would continue to discourage the use of rebuilt tires.

[Index No. 21—B-146772, July 31, 1967]

Transfer of Excess Materials Between the Army and Marine Corps Expedited by Improved Procedures

The General Accounting Office has made a review of Army and Marine Corps procedures for the transfer of excess material.

We found a need for improvement in the procedures of the Army and the Marine Corps, relating to the exchange and use of information on stocks of excess material available for redistribution.

Our review showed that, during 1964 and 1965, the Marine Corps had on hand significant quantities of excess tank-automotive repair parts and other material which could have been used by the Army for high-priority requirements, such as those in Vietnam. Because there were no procedures for the regular exchange of information on such excesses, notification by the Marine Corps that it had $9 million worth of excess material available for transfer received no review by the Army, and notification by the Army of its critical need for certain items received no review by the Marine Corps.

When we brought these matters to the attention of Marine Corps and Army officials, the Marine Corps transferred about $1.9 million worth of excess material to the Army for use in meeting urgent requirements.

Commenting on our findings and proposals, the Deputy Assistant Secretary of Defense (Supply and Services) informed us that closer logistical coordination had been established between the Army and Marine Corps through a realinement of responsibilities within the Marine Corps supply system and that audit coverage of the supply system would be increased. Also, he advised us that the Marine Corps was now operating under new guidelines which had resulted in large quantities of excess material being transferred to the Department of the Army. In future audit work, we will inquire into the effectiveness and adequacy of the corrective actions taken.

[Index No. 22—B-118634, Aug. 3, 1967]

Need for Improved Reviews of Quantity Estimates Prepared by Architect-Engineers for Solicitation of Construction Bids, Corps of Engineers (Civil Functions), Department of the Army

In August 1967, we pointed out to the Congress that although the importance of accuracy in estimating quantities is stressed by the Corps of Engineers (Civil Functions), Department of the Army, in

their regulations, the Chief of Engineers had not, at the time of our review, established corpswide procedures for the review of work performed by architect-engineers. Consequently, we found that the contract price of $15.4 million for the construction of the Summersville dam, dikes, and spillway was substantially increased primarily because the quantity estimate prepared by an architect-engineer firm was inaccurate and did not show the full scope and magnitude of the work to be performed.

As a result, the Corps increased the contract price by $8.2 million through negotiation, rather than through competitive bidding, and thereby lost the benefits normally attained through formal advertising. We estimate that about $5.3 million of this increase in costs could have been subjected to competitive bidding. This portion of the increase was directly associated with increased work which could have been foreseen prior to contract award. An adequate review of the quantity estimate, in our opinion, would have disclosed (1) a substantial underestimate of the quantity of materials to be excavated for the dam foundation, a substantial overestimate of the available rock in designated sources, and (3) the need to locate sources of rock.

In addition to the loss of the benefit of full and free competition from procurement through formal advertising, costs of about $348,500 were incurred which could have been avoided. These costs consisted of about $276,000 for equipment which was idle because it could not be used for some of the additional work and about $72,500 for additional administrative expenses.

In order to minimize the necessity for negotiated contract modifications, we proposed that the Chief of Engineers issue guidelines requiring the districts to review the work of architect engineers. We further proposed that a statement of the nature and extent of the review be made a part of the official files. The Department of the Army concurred in our report, in general and advised us that the Chief of Engineers was preparing instructions to the field offices in accordance with our proposals. These instructions were issued on February 17, 1967, and, if effectively implemented, they should reduce the necessity for negotiated contract modifications.

[Index No. 23—B–161330, Aug. 7, 1967]

NEED FOR IMPROVING POLICIES AND PROCEDURES FOR ESTIMATING COSTS, EVALUATING BIDS, AND AWARDING CONTRACTS FOR DREDGING, CORPS OF ENGINEERS (CIVIL FUNCTIONS), DEPARTMENT OF THE ARMY

In August 1967, we reported to the Congress that the Corps of Engineers needed to improve its policies and procedures for estimating contract costs, evaluating contract bids, and awarding contracts for dredging.

Our review indicated that some corps dredging was not accomplished as economically as possible and, in our opinion, the corps' practices in awarding contracts for dredging did not comply with the law and have resulted in some contracts being awarded at prices in excess of statutory limitations.

The law under which the corps awards contracts for dredging stipulates that appropriated funds shall not be used to pay for any work done by contract if the contract price is more than 25 percent in excess of the estimated cost of the Government's doing the work with its own equipment and crews (in-house). Our review disclosed that the corps generally does not prepare in-house estimates, but rather awards contracts for dredging to the contractor whose bid price is low and is not more than 25 percent in excess of the corps' estimate of fair and reasonable cost to a contractor, exclusive of profit.

We examined dredging costs incurred under 32 contracts for one large dredging project and compared these with our estimates of the costs that the corps would have incurred if it had done the same work in-house. We believe that 11 of the contracts were awarded at prices which were about $2.1 million in excess of the statutory limitation. We believe also that these contract prices were about $4.4 million in excess of the costs that would have been incurred if the work had been done by the corps itself.

We recommended that the Secretary of the Army direct the Chief of Engineers to revise the corps' regulations to require that the corps award future dredging contracts in compliance with the law.

The Department of the Army has disagreed with our findings and stated that present policies and practices of the corps are in accordance with the policies and intentions of both the Congress and the administration, that civil works projects are being conducted in a manner most economical and advantageous to the Government, and that the longstanding practical interpretation and application by the corps of the law should not now be overturned.

We brought our finding to the attention of the Congress in the event that it wished to express its views regarding present policies followed by the corps in awarding contracts for dredging. If the Congress should determine that the corps' present policies and procedures applicable to its dredging operations are to be continued, we suggest that consideration be given to revising or repealing section 624 of title 33, United States Code.

[Index No. 24—B-139011, Aug. 30, 1967]

Savings From More Economical Use of Communication Facilities Between Alaska and the U.S. Mainland, Department of the Air Force, Alaska Communication System

The General Accounting Office has made a review of the use of submarine cable and microwave communication facilities leased by the Alaska Communication System—a unit of the U.S. Air Force—to provide public and private telephone service between Alaska and the 48 States on the mainland.

Our review indicated that, as early as January 1961, the Alaska Communication System was aware that a microwave facility, which served Alaska, was more economical to use than the cable facility. Savings could have been attained by using the cable facility in a different manner and, at the same time, by making greater use of the microwave facility.

It was not until mid-1965, after we discussed this matter with Alaska Communication System officials, that the necessary actions were taken to attain these savings.

Our review indicated that savings of about $3.9 million could have been realized had the Alaska Communication System taken action in a more timely manner after it first became aware that the microwave was less expensive than the cable.

We attempted to determine from officials of the Department of the Air Force why the longstanding question on the use of communication facilities serving Alaska was not resolved more promptly. They were unable to provide us with any record to show why any decisive action had not been taken to resolve this question prior to our review.

We brought our findings to the attention of the Secretary of Defense in a draft report. We proposed that examinations be made into the management of the Alaska Communication System with a view to making changes needed to insure that, if similar situations should arise, they be brought to the attention of appropriate officials for timely action.

On March 28, 1967, the Department of the Air Force, commenting for the Secretary of Defense, stated that it generally concurred with the facts stated in our report.

The Air Force said that it plans to convert the Alaska Communication System operation to industrial funding. Also the Air Force will monitor the cable contract at the highest possible level to insure the most satisfactory combination of price and service for both the Government and the Alaskan public.

Since the Alaska Communication System operation has not yet been converted to industrial funding, action should be taken now to strengthen management controls so that situations similar to that discussed in our report are promptly brought to the attention of appropriate management officials and resolved. With regard to the cable contract, we are in full accord that continued monitoring of the contract is essential and in the best interest of the Government.

[Index No. 25—B–156313, Aug. 31, 1967]

Procurement of Nuclear Submarine Propulsion Equipment Under Public Law 87–653, Department of the Navy

The General Accounting Office has examined into the pricing of propulsion equipment for use in a nuclear submarine, which is being purchased under a fixed-price subcontract from General Electric Co. Our findings clearly show the additional costs which the Government can incur when significant cost or pricing data is not disclosed during contract price negotiations. They emphasize the need for full disclosure of all data pertinent to price negotiations, as required by Public Law 87–653.

A significant portion of the cost data which General Electric furnished to the Navy and certified as being accurate, complete, and current was based on the cost of processing certain castings in its own plant. We noted, however, that, prior to the date the negotiations were concluded, the Medium Steam Turbine, Generator, and Gear Department of General Electric had requested and received from suppliers price quotations for fully processed castings. These quotations were not disclosed to the Navy during price negotiations, even though the amounts quoted were substantially less than the

amounts which the contractor had included for fully processed castings in its price proposals.

Thus, in our opinion, the Government did not have an opportunity to negotiate a reduction, which we estimate would have been about $564,000. This amount represents about half of that portion of the negotiated price related to the castings. Shortly after price negotiations were concluded, the contractor purchased fully processed castings from the suppliers at essentially the same prices as those quoted to it earlier.

We brought this matter to the attention of the Secretary of Defense and proposed that he consider having the contracting officer take appropriate action under the defective pricing clause included in the subcontract.

The Navy, replying on behalf of the Secretary of Defense, stated that General Electric's estimates for castings had been questioned at great length during price negotiations and that the company apparently had in its possession quotations which bore directly on the reasonableness of these estimates but were not revealed. In view of this fact, the Navy agreed that the quotations from suppliers for processed castings were significant pricing data which should have been submitted to the Navy for consideration in price negotiations. The Navy stated that action would be taken for recovery of an appropriate amount.

The Department of Defense has initiated a study of our reports in order to improve its administration of the cost or pricing data requirements of Public Law 87–653 and has developed a program for scheduling postaward audits by the Defense Contract Audit Agency.

We plan to work closely with the Department in determining what action should be taken to properly implement the law and to prevent recurrence of this and other cases disclosed by postaward reviews.

[Index No. 26—B–114824, Sept. 21, 1967]

Savings Available if the Commodity Credit Corporation Recovers Interest Costs on Repaid Price-Support Loans and on Storage Facility and Equipment Loans, Commodity Credit Corporation, Department of Agriculture

In a report submitted to the Congress in September 1967, we expressed the belief that the Commodity Credit Corporation (CCC) should revise its policies regarding the rates of interest to be charged producers on repayments of price-support loans and on storage facility and equipment loans to provide for recovery of CCC's cost of financing the loans.

The price-support loan is one of the methods used by the CCC to support the prices of agricultural commodities produced in the United States. Price-support loans are nonrecourse. Under this type of loan, producers are not obligated to make good any decline in the market price of the commodities put up as collateral. If market prices rise above the price-support loan level plus interest, producers generally repay their loans, with interest, and market their commodities.

If market prices fail to rise above the loan level, producers generally deliver the commodity to CCC and discharge their obligation. No interest is charged on the loans that are not repaid.

Under the farm storage facility loan program, CCC makes loans to eligible producers to finance the purchase of drying equipment for the conditioning of farm-stored commodities, and to finance the purchase or construction of farm storage facilities. The loans are made in amounts of up to 85 percent of the net cost of the facilities, and are repayable in not more than four equal annual installments over a period of 5 years or less.

At December 31, 1966, the total amount outstanding on storage facility and equipment loans was about $32.5 million. As of March 31, 1967, price-support loans totaling $1.3 billion had been made on 1966 crops.

On the basis of our review of these loan programs, we estimated that the Corporation could incur interest costs on repaid price-support loans for the 1966 crops amounting to about $7.6 million more than it will collect from producers. We also estimated that CCC could incur interest costs on storage facility and equipment loans during 1966 amounting to about $154,000 more than it will recover from the producers. Such losses will result from the Corporation's policy of charging producers interest on loans at a rate less than that which the Corporation paid to obtain the loan funds from the U. S. Treasury and from private lending institutions.

When the Corporation charges producers interest at a rate substantially less than its cost of financing the loans, the Corporation is, in effect, granting the producers a subsidy in addition to price support.

In commenting on our findings, the President, CCC, advised us that the Department of Agriculture had studied the matter and concluded that the Corporation's present policy was the best, considering the objectives of the price-support program and the farm storage facility loan program. He stated, however, that the Department would again study the matter of interest rates before the new crops were harvested.

We recommended that the CCC Board of Directors revise the Corporation's policy on interest rates to require producers to pay interest on future price-support loans which are repaid and on future storage facility and equipment loans at a rate not less than that which the Corporation must pay to finance the loans.

[Index No. 27—B-161992, Sept. 22, 1967]

Opportunities for Savings Through Use of Spare Government-owned Communications Circuits in Europe, Department of Defense

We examined into the use made of 228 communications circuits leased from commercial carriers in and between Germany and the United Kingdom. In our opinion, the traffic carried by 64 of these leased circuits could have been routed over spare, and available, U.S. Government-owned circuits at substantial savings.

We found that the failure of the Department to so route this traffic had resulted from its policy of ascertaining the availability of Government-owned circuits only before a commercial circuit was to be leased. No reviews were made thereafter to periodically assess the availability of Government-owned circuits. The potential for these savings may have been revealed had periodic reviews been made.

In commenting on our findings, the Deputy Assistant Secretary of Defense (Supply and Services) agreed that the Department's controls over the use of communications circuits in Europe had not been adequate and that leasing costs might have been reduced if the identified circuits had been canceled and the traffic otherwise routed.

We have been advised that a program has been initiated for annual reviews of communications systems in Europe. Such reviews are to be performed in all overseas areas where leased and Government-owned circuits coexist.

We believe that the corrective actions planned by the Department of Defense will, if properly implemented, improve its management of communications in Europe. We plan, as part of our continuing review of Department of Defense activities, to follow the actions taken.

Ten of the 64 circuits were canceled following discussion of our finding with Department officials. The Department did not consider it prudent to cancel the remaining 54 circuits until the circuit requirements of its planned worldwide Automatic Voice Network became known.

Since the first Automatic Voice Network switching centers are scheduled for activation no earlier than November 1968, significant savings can be realized by canceling, where possible, those leased circuits whose traffic can now be accommodated on the Government-owned circuits. We recommended that the Department of Defense study the remaining 54 circuits to determine which circuits can be canceled rather than reserved for future possible use in the Automatic Voice Network.

[Index No. 28—B–133118, Sept. 29, 1967]

Review of Inventory Accounting Systems for Aeronautical Equipment, Department of the Navy

The General Accounting Office has reviewed the Navy's inventory accounting systems for approximately $2.2 billion worth of aeronautical spare parts and equipment. We found that the systems did not provide management with the information necessary for efficient and economical operations and management of its resources. The Navy is implementing an immediate and comprehensive plan for effecting necessary improvements in the inventory accounting systems.

Generally, the causes of the conditions which we found were—

The failure of operating personnel to follow written instructions and procedures.

The lack of necessary internal controls in the systems.

The lack of effective identification and reporting to top management of those matters requiring attention.

The Navy concurred, in general, with the results of our review and acknowledged the need for improvement in the accuracy of inventory data. The Navy stated that the General Accounting Office would be kept fully informed of its progress in making improvements.

We believe that the Navy's plans, if properly carried out, should benefit the accuracy, timeliness, and completeness of inventory data and, consequently, its usefulness to management.

[Index No. 29—B-162106, Sept. 29, 1967]

NEED FOR PROCEDURES TO PRECLUDE MORE THAN JUST COMPENSATION IN ACQUIRING OIL INTERESTS, CORPS OF ENGINEERS (CIVIL FUNCTIONS), DEPARTMENT OF THE ARMY

In September 1967, we reported to the Congress that the Corps of Engineers (Civil Functions), Department of the Army, in acquiring land for two reservoir projects near Carlyle, Ill., and Tulsa, Okla., made payments of about $28 million to the land and mineral owners. About $7.2 million of that amount represented the estimated cost to the Government for acquiring the mineral interests.

Agreements entered into by the Corps provided for payment to the owners for the full amount of the estimated oil reserves. Subsequent to appraisal of the estimated oil reserves, the owners were permitted under the agreements to extract oil having a fair market in-ground value of about $1.6 million, without an appropriate adjustment in the cost to the Government for acquiring the mineral interests.

We suggested to the Secretary of the Army that the Corps' policies and procedures be revised to prevent the owners of mineral interests from receiving more than just compensation. We were advised that the Corps would prepare and modify instructions which would be designed to preclude owners from receiving windfall benefits.

[Index No. 30—B-161340, Oct. 12, 1967]

OPPORTUNITY FOR SAVINGS BY ADOPTING MANUFACTURERS' RECOMMENDED PREVENTIVE MAINTENANCE PROGRAMS FOR INTERAGENCY MOTOR POOL VEHICLES—GENERAL SERVICES ADMINISTRATION

Our review showed that savings could be obtained by adopting specific programs of preventive maintenance developed by automobile manufacturers for their vehicles as a means of achieving the best performance, long life, and trouble-free operations in place of the uniform General Services Administration requirements which provide generally for more frequent preventive maintenance.

Our review covered the costs of certain usual preventive maintenance jobs at three interagency motor pools in one of the 10 General Services Administration regions. We estimate that the General Services Administration could have saved about $26,600 during the year ended June 30, 1966, in the cost of preventive maintenance in this region by adopting the manufacturers' programs for 1963 through 1965 models of vehicles.

We estimate that, if these potential savings were typical of the savings that may have been available in the agency's other nine regions, about $250,000 could have been saved by the Government during the year ended June 30, 1966.

An opportunity for savings by adopting the manufacturers' recommended preventive maintenance programs may be available to other agencies of the Government.

We brought our findings to the attention of the General Services Administration and proposed that it adopt the manufacturers' recommended programs. In a letter dated August 30, 1966, the Deputy Administrator advised us that his agency had been working with manufacturers to revise the current guide for preventive maintenance.

A revised guide was issued in April 1967. However, because it retains uniform service intervals for some preventive maintenance items, it must provide for overmaintenance of some vehicle makes and models in order to provide adequate maintenance for all vehicle makes and models. Also, there has been—and we believe that there will continue to be—a considerable lag in time before General Services Administration adopts the manufacturers' program revisions made possible by technological improvements.

Further, the revised guide is applicable only to 1966 and later models of vehicles. We estimate that, if the manufacturers' recommended programs for 1963 through 1965 vehicle models are adopted promptly, savings of about $350,000 can still be realized on these vehicles while they remain in inventory.

We therefore recommended that the Administrator of General Services implement our proposals as specified in detail in our report.

APPENDIX 5

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., August 30, 1967.

CIRCULAR NO. A–II, REVISED—TRANSMITTAL MEMORANDUM NO. 1

To: The heads of executive departments and establishments.
Subject: Policies for acquiring commercial or industrial products and services for Government use.

Transmitted herewith is a revision of Bureau of the Budget Circular A–76 dated March 3, 1966. It is issued to clarify some provisions of the earlier circular and to lessen the burden of work by the agencies in implementing its provisions. A brief summary of the changes is attached.

There is no change in the Government's general policy of relying upon the private enterprise system to supply its needs, except where it is in the national interest for the Government to provide directly the products and services its uses.

We intend to keep the provisions of the circular under continuing review. We anticipate that further changes will be desirable in light of experience gained from implementing the circular's provisions, including the required reviews of existing Government commercial or industrial activities to be completed by June 30, 1968. We intend to give special attention to the adequacy of the guidelines contained in the circular for such matters as comparative cost analyses; the circumstances under which cost differentials in favor of private enterprise are appropriate; and the use of contracts involving support services that require minimal capital investment.

We welcome your suggestions.

PHILLIP S. HUGHES,
Acting Director.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., August 30, 1967.

CIRCULAR NO. A–76—REVISED

To: The heads of executive departments and establishments.
Subject: Policies for acquiring commercial or industrial products and services for Government use.

1. *Purpose*

This circular replaces Bureau of the Budget Circular A–76 issued March 3, 1966. It is issued to clarify some provisions of the earlier circular and to lessen the burden of work by the agencies in implementing its provisions. The basic policies to be applied by executive

agencies in determining whether commercial and industrial products and services used by the Government are to be provided by private suppliers or by the Government itself are the same as those contained in Circular A–76 dated March 3, 1966.

2. *Policy*

The guidelines in this circular are in furtherance of the Government's general policy of relying on the private enterprise system to supply its needs.

In some instances, however, it is in the national interest for the Government to provide directly the products and services it uses. These circumstances are set forth in paragraph 5 of this circular.

No executive agency will initiate a "new start" or continue the operation of an existing "Government commercial or industrial activity" except as specifically required by law or as provided in this circular.

3. *Definitions*

For purposes of this circular:

a. A "new start" is a newly established Government commercial or industrial activity involving additional capital investment of $25,000 or more or additional annual costs of production of $50,000 or more. A reactivation, expansion, modernization, or replacement of an activity involving additional capital investment of $50,000 or more or additional annual costs of production of $100,000 or more are, for purposes of this circular, also regarded as "new starts." Consolidation of two or more activities without increasing the overall total amount of products or services provided is not a "new start."

b. A "Government commercial or industrial activity" is one which is operated and managed by an executive agency and which provides for the Government's own use a product or service that is obtainable from a private source. The term does not include a Government-owned contractor-operated activity.

c. A "private commercial source" is a private business concern which provides a commercial or industrial product or service required by agencies and which is located in the United States, its territories and possessions, the District of Columbia, or the Commonwealth of Puerto Rico.

4. *Scope*

This circular is applicable to commercial and industrial products and services used by executive agencies, except that it:

(a) Will not be used as authority to enter into contracts if such authority does not otherwise exist nor will it be used to justify departure from any law or regulation, including regulations of the Civil Service Commission or other appropriate authority, nor will it be used for the purpose of avoiding established salary or personnel limitations.

(b) Does not alter the existing requirement that executive agencies will perform for themselves those basic functions of management which they must perform in order to retain essential control over the conduct of their programs. These functions include selection and direction of Government employees, assignment of organizational responsibilities, planning of programs, establishment of performance goals and priorities, and evaluation of performance.

(c) Does not apply to managerial advisory services such as those normally provided by an office of general counsel, a management and

organization staff, or a systems analysis unit. Advisory assistance in areas such as these may be provided either by Government staff organizations or from private sources as deemed appropriate by executive agencies.

(d) Does not apply to products or services which are provided to the public. (But an executive agency which provides a product or service to the public should apply the provisions of this circular with respect to any commercial or industrial products or services which it uses.)

(e) Does not apply to products or services obtained from other Federal agencies which are authorized or required by law to furnish them.

(f) Should not be applied when its application would be inconsistent with the terms of any treaty or international agreement.

5. *Circumstances under which the Government may provide a commercial or industrial product or service for its own use*

A Government commercial or industrial activity may be authorized only under one or more of the following conditions:

(a) Procurement of a product or service from a commercial source would disrupt or materially delay an agency's program. The fact that a commercial or industrial activity is classified or is related to an agency's basic program is not an adequate reason for starting or continuing a Government activity, but a Government agency may provide a product or service for its own use if a review conducted and documented as provided in paragraph 7 establishes that reliance upon a commercial source will disrupt or materially delay the successful accomplishment of its program.

(b) It is necessary for the Government to conduct a commercial or industrial activity for purposes of combat support or for individual and unit retraining of military personnel or to maintain or strengthen mobilization readiness.

(c) A satisfactory commercial source is not available and cannot be developed in time to provide a product or service when it is needed. Agencies' efforts to find satisfactory commercial sources should be supplemented as appropriate by obtaining assistance from the General Services and Small Business Administrations or the Business and Defense Services Administration. Urgency of a requirement is not an adequate reason for starting or continuing a Government commercial or industrial activity unless there is evidence that commercial sources are not able and the Government is able to provide a product or service when needed.

(d) The product or service is available from another Federal agency. Excess property available from other Federal agencies should be used in preference to new procurement as provided by the Federal Property and Administrative Services Act of 1949, and related regulations.

Property which has not been reported excess also may be provided by other Federal agencies and unused plant and production capacity of other agencies may be utilized. In such instances, the agency supplying a product or service to another agency is responsible for compliance with this circular. The fact that a product or service is being provided to another agency does not by itself justify a Government commercial or industrial activity.

(e) Procurement of the product or service from a commercial source will result in higher cost to the Government. A Government

commercial activity may be authorized if a comparative cost analysis prepared as provided in this circular indicates that the Government can provide or is providing a product or service at a cost lower than if the product or service were obtained from commercial sources.

However, disadvantages of starting or continuing Government activities must be carefully weighed. Government ownership and operation of facilities usually involve removal or withholding of property from tax rolls, reduction of revenues from income and other taxes, and diversion of management attention from the Government's primary program objectives. Losses also may occur due to such factors as obsolescence of plant and equipment and unanticipated reductions in the Government's requirements for a product or service. Government commercial activities should not be started or continued for reasons involving comparative costs unless savings are sufficient to justify the assumption of these and similar risks and uncertainties.

6. Cost comparisons

A decision to rely upon a Government activity for reasons involving relative costs must be supported by a comparative cost analysis which will disclose as accurately as possible the difference between the cost which the Government is incurring or will incur under each alternative.

Commercial sources should be relied upon without incurring the delay and expense of conducting cost comparison studies for products or services estimated to cost the Government less than $50,000 per year. However, if there is reason to believe that inadequate competition or other factors are causing commercial prices to be unreasonable, a cost comparison study will be directed by the agency head or by his designee even if it is estimated that the Government will spend less than $50,000 per year for the product or service. A Government activity should not be authorized on the basis of such a comparison study, however, unless reasonable efforts to obtain satisfactory prices from existing commercial sources or to develop other commercial sources are unsuccessful.

Cost comparison studies also should be made before deciding to rely upon a commercial source when terms of contracts will cause the Government to finance directly or indirectly more than $50,000 for cost of facilities and equipment to be constructed to Government specifications. Cost comparison studies should also be made in other cases if there is reason to believe that savings can be realized by the Government providing for its own needs. Such studies wi l not be made, however, if in-house provision of the product or service, or commercia procurement thereof, is clearly jus.ified in accordance with other provisions of this circular.

The determination as to whether to purchase or to lease equipment or to construct buildings or acquire their use under lease-construction arrangements involves a determination of the difference in costs under the alternatives, and the principles set forth in this circular should be applied to the extent relevant in making such determinations.

(a.) Costs of obtaining products or services from commercial sources should include amounts paid directly to suppliers, transportation charges, and expenses of preparing bid invitations, evaluating bids, and negotiating, awarding, and managing contracts. Costs of materials furnished by the Government to contractors, appropriate charges for Government-owned equipment and facilities used by contractors and

costs due to incentive or premium provisions in contracts also should be included. If discontinuance of a Government commercial or industrial activity will cause a facility being retained by the Government for mobilization or other reasons to be placed in a standby status, the costs of preparing and maintaining the facility as standby also should be included. Similarly, if such a discontinuance is expected to result in premature retirement of Government employees which will cause a significant increase in retirement costs to the Government, such increased cost should be added to the cost of procurement from commercial sources. Costs of obtaining products or services from commercial sources should be documented and organized for comparison with costs of obtaining the product or service from a Government activity.

(b.) For purposes of economy and simplicity in making cost comparison studies, generally agreed costs that would tend to be the same under either alternative need not be measured and included (for example, bid and award costs and operating costs under lease-purchase alternatives).

(c) Costs of obtaining products or services from Government activities should include all costs which would be incurred if a product or service were provided by the Government and which would not be incurred if the product or service were obtained from a commercial source. The objectives should be to compute, as realistically as possible, the incremental or additional cost that would be incurred by the Government under the alternatives under consideration. In making such determinations it is important that recognition be given to the full amount of additional or incremental direct and indirect cost to be incurred in providing the products or services required. Under this general principle, the following costs should be included, considering the circumstances of each case:

(1) *Personal services and benefits.*—Include costs of all elements of compensation and allowances for both military and civilian personnel, including the full cost to the Government of retirement systems, calculated on a normal cost basis, social security taxes where applicable, employees' insurance, health, and medical plans (including services available from Government military or civilian medical facilities), living allowances, uniforms, leave, termination and separation allowances, travel and moving expenses, and claims paid through the Bureau of Employees' Compensation.

(2) *Materials, supplies, and utilities services.*—Include costs of supplies and materials used in providing a product or service and costs of transportation, storage, handling, custody, and protection of property, and costs of electric power, gas, water, and communications services.

(3) *Maintenance and repair.*—Include costs of maintaining and repairing structures and equipment which are used in providing a product or service.

(4) *Damage or loss of property.*—Include costs of uninsured losses due to fire or other hazard, costs of insurance premiums, and costs of settling loss and damage claims.

(5) *Federal taxes.*—Include income and other Federal tax revenues (except social security taxes) received from corporations or other business entities (but not from individual stockholders) if a product or service is obtained through commercial channels. Estimates of corporate incomes for these purposes should be based upon the earnings

experience of the industry, if available, but if such data are not available, "The Quarterly Financial Report of Manufacturing Corporations," published by the Federal Trade Commission and the Securities and Exchange Commission, may be consulted. Assistance of the appropriate Government regulatory agencies may be obtained in estimating taxes for regulated industries.

(6) *Depreciation.*—Compute depreciation as a cost for any new or additional facilities or equipment which will be required if a Government activity is started or continued. Depreciation will not be allocated for facilities and equipment acquired by the Government before the cost comparison study is started. However, if reliance upon a commercial source will cause Government-owned equipment or facilities to become available for other Federal use or for disposal as surplus, the cost comparison analysis should include as a cost of the Government activity, an appropriate amount based upon the estimated current market value of such equipment or facilities. The Internal Revenue Service publication, "Depreciation Guidelines and Rules," may be used in computing depreciation. However, rates contained in this publication are maximums to be used only for reference purposes and only when more specific depreciation data are not available. Accelerated depreciation rates permitted in some instances by the Internal Revenue Service will not be used. In computing the depreciation cost of new or additional facilities or equipment to be acquired if a Government activity is started or continued and in determining comparative costs under lease-purchase alternatives, appropriate recognition should be given to estimated residual or salvage values of the facilities or equipment.

(7) *Interest.*—Compute interest for any new or additional capital to be invested based upon the average rate of yield for long-term Treasury bonds as shown in the current monthly Treasury Bulletin. The method of computation should provide for reduction in the capital investment to which interest is applied over the useful life of the asset on a straight line basis.

(8) *Indirect costs.*—Include any additional indirect costs incurred resulting from a Government activity for such activities as management and supervision, budgeting, accounting, personnel, legal, and other applicable services.

7. *Administering the policy*

(a) *Inventory.*—Each agency will compile and maintain an inventory of its commercial or industrial activities having an annual output of products or services costing $50,000 or more or a capital investment of $25,000 or more. In addition to such general descriptive information as may be appropriate, the inventory should include for each activity the amount of the Government's capital investment, the amount paid annually for the products or services involved, and the basis upon which the activity is being continued under the provisions of this circular. The general descriptive information needed for identifying each activity should have been included in the inventory by June 30, 1966. Other information needed to complete the inventory should be added as reviews required in paragraphs 7 (b) and (c) are completed.

(b) *"New starts."*—

(1) A "new start" should not be initiated until possibilities of obtaining the product or service from commercial sources have been

explored and not until it is approved by the agency head or by an Assistant Secretary or official of equivalent rank, on the basis of factual justification for establishing the activity under the provisions of this circular.

(2) If statutory authority and funds for construction are required before a "new start" can be initiated, the actions to be taken under this circular should be completed before the agency's budget request is submitted to the Bureau of the Budget. Instructions concerning data to be submitted in support of such budget requests will be included in annual revisions of Bureau of the Budget Circular No. A–11.

(3) A "new start" should not be proposed for reasons involving comparative costs unless savings are sufficient to outweight uncertainties and risks of unanticipated losses involved in Government activities.

The amount of savings required as justification for a "new start" will vary depending on individual circumstances. Substantial savings should be required as justification if a large new or additional capital investment is involved or if there are possibilities of early obsolescence or uncertainties regarding maintenance and production costs, prices and future Government requirements. Justification may be based on smaller anticipated savings if little or no capital investment is involved, if chances for obsolescence are minimal, and if reliable information is available concerning production costs, commercial prices and Government requirements. While no precise standard is prescribed in view of these varying circumstances a "new start" ordinarily should not be approved unless costs of a Government activity will be at least 10 percent less than costs of obtaining the product or service from commercial sources. It is emphasized that 10 percent is not intended to be a fixed figure.

A decision to reject a proposed "new start" for comparative cost reasons should be reconsidered if actual bids or proposals indicate that commercial prices will be higher than were estimated in the cost comparison study.

(4) When a "new start" begins to operate it should be included in an agency's inventory of commercial and industrial activities.

c. *Existing Government activities.*—

(1) A systematic review of existing commercial or industrial activities (including previously approved "new starts" which have been in operation for at least 18 months) should be maintained in each agency under the direction of the agency head or the person designated by him as provided in paragraph 8. The agency head or his designee may exempt designated activities if he decides that such reviews are not warranted in specific instances, Activities not so exempted should be reviewed at least once before June 30, 1968. More frequent reviews of selected activities should be scheduled as deemed advisable. Activities remaining in the inventory after June 30, 1968, should be scheduled for at least one additional followup review during each 3-year period but this requirement may be waived by the agency head or his designee if he concludes that such further review is not warranted.

(2) Reviews should be organized in such a manner as to ascertain whether continued operation of Government commercial activities is in accordance with the provisions of this circular. Reviews should include information concerning availability from commercial sources

of products or services involved and feasibility of using commercial sources in lieu of existing Government activities.

(3) An activity should be continued for reasons of comparative costs only if a comparative cost analysis indicates that savings resulting from continuation of the activity are at least sufficient to outweigh the disadvantages of Government commercial and industrial activities. No specific standard or guideline is prescribed for deciding whether savings are sufficient to justify continuation of an existing Government commercial activity and each activity should be evaluated on the basis of the applicable circumstances.

(4) A report of each review should be prepared. A decision to continue an activity should be approved by an assistant secretary or official of equivalent rank and the basis for the decision should appear in the inventory record for the activity. Activities not so approved should be discontinued. Reasonable adjustments in the timing of such actions may be made, however, in order to alleviate economic dislocations and personal hardships to affected career personnel.

8. *Implementation*

Each agency is responsible for making the proyisions of this circular effective by issuing appropriate implementing instructions and by providing adequate management support and procedures for review and followup to assure that the instructions are placed in effect. A copy of the implementing instructions issued by each agency will be furnished to the Bureau of the Budget.

If overall responsibility for these actions is delegated by the agency head, it should be assigned to a senior official reporting directly to the agency head.

If legislation is needed in order to carry out the purposes of this circular, agencies should prepare necessary legislative proposals for review in accordance with Bureau of the Budget Circular No. A–19.

9. *Effective date*

This circular is effective on October 2, 1967.

PHILLIP S. HUGHES,
Acting Director.

SUMMARY OF CHANGES IN BUREAU OF THE BUDGET CIRCULAR NO. A–76 AS REVISED AUGUST 1967

PARAGRAPH 3—DEFINITIONS

3.a. The definition for a "new start" has been split as between (a) a newly established Government commercial or industrial activity and (b) a reactivation, expansion, modernization, or replacement of an activity. These separate definitions have been provided so that different dollar limitations on capital investment and annual cost of production may be applied. There is no change in the dollar limitations applicable to newly established Government commercial or industrial activities. But the dollar limitations have been doubled for the category of "new starts" that are a reactivation, expansion, modernization, or replacement of an activity. The change is necessary in order to avoid applying the "new start" procedures to routine adjustments for handling existing workload. For example, the replacement of a single machine tool at a shipyard may easily add capital

cost of more than $25,000, or the addition of only 10 employees at relatively low grades would add more than $50,000 per year to production cost. This type of change occurs several times a year at a large facility and, under the terms of the earlier Circular A–76, each such change would have to be treated as a "new start" with a detailed cost study and a special approval.

3.b. The definition of a Government commercial or industrial activity has been clarified. The earlier circular, by definition, excluded a Government-owned, contractor-operated activity but the wording was not entirely clear. The change made clarifies the fact that a Government-owned, contractor-operated activity is not to be regarded as a Government commercial or industrial activity for purposes of the circular.

Paragraph 4—Scope

4.c. The words "professional staff" that were contained in the earlier circular have been eliminated. Paragraph 4.c. is intended to exempt various kinds of staff advisory services which are so intimately related to the processes of top management and control of Government programs that the general provisions of A–76 favoring reliance upon commercial sources should not be applicable. The term "professional staff" was so broad that it could be interpreted to apply to a large variety of services which are commercially available and which are not necessarily related intimately to top management and control of Government programs. The change will clarify the meaning of this subparagraph.

Paragraph 6—Cost Comparisons

A change is made in the third unnumbered paragraph to make clear that if there is reason to believe savings can be realized by the Government providing for its own needs, cost comparison studies should be made before deciding to rely upon a commercial source. However, the changed wording also makes it clear that cost studies will not be required if in-house provision of the product or service, or commercial procurement thereof, is clearly justified in accordance with other provisions of the circular.

A new numbered paragraph has been added to provide guidelines for applying provisions of the circular to purchase versus lease of equipment, and to construction of buildings versus acquisition under lease-construction arrangements. The paragraph requires a determination of the difference in costs under the alternatives, and application of the principles set forth in the circular in making judgments in these areas.

6.a. A sentence has been added providing that if discontinuance of a Government commercial or industrial activity will result in premature retirement of Government employees, and will cause a significant increase in retirement costs to the Government, such increased costs should be added to the cost of procurement from commercial sources.

6.b. This is a new subparagraph. It provides that costs which would tend to be the same for both Government and industry need not be measured and included in comparative cost analyses (for example, bid and award costs and operating costs under lease-purchase

alternatives). The change is made in the interest of economy and simplicity in making cost comparisons.

6.c. (Paragraph 6.b. in the earlier circular). A sentence has been added to clarify the fact that the incremental method of costing is to be employed and to emphasize the importance of a realistic recognition of all such additional or incremental costs.

6.c.(1). (Paragraph 6.b.(1) in the earlier circular). Some additional wording has been added to clarify, in connection with personal services and benefits, that the full cost to the Government of retirement systems should be included.

6.c.(6). (Paragraph 6.b.(6) in the earlier circular). A sentence has been added to make clear that appropriate recognition should be given to estimated residual or salvage value of facilities or equipment in computing depreciation.

6.c.(7). (Paragraph 6.b.(7) in the earlier circular.) This paragraph has been rewritten to provide that the computation of interest for any new or additional capital to be invested will be based upon the average rate of yield for long-term Treasury bonds as shown in the current monthly Treasury Bulletin. Also, the method of computation suggested would provide for reduction in the capital investment to which interest is applied as the asset is depreciated. The purpose of the change is to clarify the rate and source of interest to be charged and to provide guidance as to the principal to which it is to be applied. The suggested rate is a readily available measure of the current cost of money to the Government and the provision for reducing the balance to which interest is applied is considered reasonable because the interest cost should not go on indefinitely.

6.c.(8). (Paragraph 6.b.(8) in the earlier circular.) A change in wording has been made to clarify that Government costs should include any additional indirect costs incurred for such activities as management and supervision, budgeting, accounting, personnel, legal, and other applicable services.

Paragraph 7—Administering the Policy

7.b.(3). In the past there has been some misunderstanding about the cost differential in favor of private enterprise due to uncertainties relating to Government production costs, equipment obsolescence, and other factors, including the amount of capital investment involved. A sentence has been added to clarify the fact that the 10-percent cost differential in favor of private enterprise, mentioned in this subparagraph, is not intended to be a fixed figure. The differential may be more or less than 10 percent, depending upon the circumstances in each individual case.

Paragraph 8—Implementation

A sentence has been added requiring agencies to furnish the Bureau of the Budget with a copy of their implementing instructions.

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