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REPORT TO THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

Selected Significant Audit Findings In The Department Of Defense B-106190

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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MARCH 8, 1971

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-106190

Dear Mr. Chairman:

We are pleased to submit our annual report of selected significant audit findings relating to activities of the Department of Defense. A similar report relating to the civil departments and agencies of the Government was submitted separately.

In this report we have included items which we believe should be of interest and use to the Committee during the appropriations hearings for fiscal year 1972. These findings and recommendations have previously been brought to the attention of responsible departmental officials by means of audit reports. Some matters commented on in this report are those on which the Department has indicated that corrective action either has been or will be taken. The items have been included, however, in view of their significance and of the fact that we have not had an opportunity to evaluate the adequacy of corrective actions taken.

We shall be pleased to furnish any additional information that you may desire.

We are sending copies of this report to the Department of Defense and to the military departments so that they may be in a position to answer any inquiries that may be made during the appropriations hearings with respect to these findings and recommendations.

Sincerely yours,

Comptroller General
of the United States

The Honorable George H. Mahon
Chairman, Committee on Appropriations
House of Representatives

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Contents

PROCUREMENT PRACTICES AND CONTRACT ADMINISTRATION

NEED FOR IMPROVEMENT IN THE CAREER PROGRAM FOR PROCUREMENT PERSONNEL

Department of Defense

Department of Defense procurement of weapons, support equipment, and other goods and services totals tens of billions of dollars annually and involves hundreds of thousands of procurement transactions. The procurement transactions are subject to numerous statutes, policies, regulations, and directives and require procurement personnel with a great deal of special knowledge, skill, and dedication. We made a study of the effectiveness of the Department's program for recruiting, training, and motivating people to pursue careers in the procurement field. Our report on the study was issued to the Congress in August 1970. The development of the current career program for procurement personnel was prompted by the Secretary of Defense in 1965. Because of resistance from some of the services, however, the program was not fully implemented.

Our study showed that, to revitalize the program, a major effort needed to be directed toward (1) updating the program to meet the needs of procurement as envisioned for the 1970's and beyond, (2) recognizing the conflicting career objectives of civilians and of military officers in procurement, (3) raising the status of the procurement field, (4) attracting young, high-caliber people, (5) providing more data to assist the Defense Procurement Career Management Board in its decisions, (6) improving the selection of personnel for procurement managerial positions, and (7) giving more intensive management attention to the program--the responsibility for which is split between two part-time boards.

We recommended that the Secretary of Defense, to meet future needs of procurement, initiate action to update the current career program and resolve other issues raised in our report. To ensure a complete and objective evaluation of the program, it may be desirable to use experts from the Department of Defense, other Government agencies, industry,

and educational institutions. The evaluation should be directed to:

--Creating one organization to manage the program on a full-time basis.

--Establishing prerequisite education requirements for use at the trainee level.

--Studying the feasibility of a separate recruiting program for young trainees.

--Formulating a program to reduce the turnover of young people.

--Performing an in-depth analysis of the broadened procurement function to determine the optimum organization structure and staffing requirements and to lay out career patterns and training required to meet the staffing requirements.

--Establishing a career appraisal and counseling program.

--Considering establishment of a Department of Defense procurement academy for developing management personnel and for direction of procurement training, regardless of where the training is conducted.

--Establishing a management information system to provide information for making decisions in recruiting, training, and overall management of the career program.

--Formulating a separate funding program or taking other steps to prevent disproportionate cuts in training funds during overall fund cutbacks.

--Appraising the effectiveness of the Central Automated Inventory and Referral System.

--Determining the requirements to raise the status and enhance the image of the procurement career field.

--Establishing uniform standards for selection of personnel for the procurement function.

--Ensuring that the career program provide full and satisfying career opportunities for personnel entering the procurement field.

--Working with the Civil Service Commission on all proposed corrective actions under its purview.

We did not request formal comments from the Department of Defense. Informal comments were obtained and were considered in our report. We were subsequently advised that the Department of Defense would undertake an intensive effort to improve its procurement career development program for both military and civilian personnel. (B-164682, August 13, 1970.)

NEED FOR CLARIFICATION OF CATALOG OR MARKET PRICE WITHIN THE MEANING OF PUBLIC LAW 87-653

Department of Defense

We examined negotiated contracts in amounts over $100,000 to ascertain whether determinations--that negotiated prices were based on catalog prices of commercial items sold in substantial quantities to the general public--and related policies of Department of Defense (DOD) officials seemed to adequately carry out the objectives of Public Law 87-653.

In accordance with the law, procurement officials normally rely on the competitive forces of market rather than on cost or pricing data in determining whether proposed prices are fair and reasonable. We estimated that contract awards based on contractors' catalog prices probably had exceeded $1 billion annually.

In a report, issued to the Congress in December 1969, on our review of 68 such contracts, we stated that contracting officers had obtained a copy of the contractor's catalog or price list for each of the contracts prior to award at the catalog price. However,

--for 45 of the 68 contracts, the contracting officers had no record of having obtained factual information from contractors showing the quantity of commercial sales during a specific recent period and

--for 23 of the 68 contracts, the contracting officers had obtained contractors' sales data but had verified the data for only nine of the contracts.

DOD policies and criteria did not provide specific guidance with respect to the amount of commercial sales that should be considered substantial. This had led to acceptance of diverse and/or seemingly minor amounts of commercial sales as substantial. In this connection, the Renegotiation Act establishes, for standard commercial items, a specific percentage of commercial sales for determining

whether the items are subject to the Renegotiation Board's profit review.

Some of the largest individual commercial sales were in substantially smaller quantities than those purchased under individual DOD contracts. Under these circumstances, there was no assurance that the prices paid by the Government for the quantities purchased would have been paid by commercial buyers of comparable quantities.

DOD has improved its guidance with respect to types of data to be obtained from contractors prior to the award of catalog- or market-priced contracts. It has not provided any new guidance, however, with respect to how the data are to be used.

We recommended that DOD:

--Provide more definite criteria for determining what constitutes substantial sales to the general public. In this connection, consideration should be given to establishing criteria similar to those for standard commercial items in the Renegotiation Act.

--Revise the Armed Services Procurement Regulation to require evidence, as a condition for acceptance of a catalog price, of recent individual commercial sales in quantities approximately similar to the proposed quantities for purchase by the Government.

--Consider requiring contracting officers to (1) obtain a certification from the contractor that the sales data being submitted are complete and accurate, (2) include a provision in each proposal and any resulting contract which would permit Government representatives to examine the contractor's pertinent books and records in order to verify the information submitted in support of the proposal, and (3) verify sales data obtained from the contractors.

DOD stated that it was undertaking a more thorough study of the adequacy of its catalog-pricing policies and practices. With respect to our recommendations, DOD stated that it did not consider (1) the establishment of a specific

percentage of commercial sales to be an appropriate ground rule for catalog-price determination and (2) the criteria in the Renegotiation Act for standard commercial items to be analogous to the bases for substantial sales to the general public at catalog prices. The Department of Defense, however, is considering a change to its procurement regulation which, if adopted, would substantially implement our recommendations. (B-39995, December 3, 1969.)

OPPORTUNITY FOR IMPROVING CONTRACT PRICING AND ADMINISTRATION THROUGH USE OF "SHOULD COST" CONCEPTS

Department of Defense
(and other departments and agencies)

The Joint Economic Committee, through its Subcommittee on Economy in Government, asked us to study the feasibility of applying "should cost" analyses in our audits and reviews of Government procurement. The Committee defined the "should cost" approach as an attempt to determine the amount that a weapons system or product ought to cost given attainable efficiency and economy of operation. Our report on the study was issued to the Congress in May 1970.

We found in our study that:

--It is feasible for us, in auditing and reviewing contractor performance, to utilize "should cost" analyses.

--The greatest opportunity for the Government to benefit from the application of "should cost" appears to be through its use, on a selective basis, in preaward evaluations of contractors' price proposals.

--In addition to preaward reviews, Government agencies should consider performing "should cost" reviews selectively during the performance of the contract--on a postaward basis.

--The extent and depth of the application of "should cost" concepts should be flexible and should be based upon information developed in the initial stages of the review. The subsequent detailed review efforts, however, should be of sufficient depth to provide full documentation of inefficiencies and their impact on contract costs.

--The success of any "should cost" work would depend to a large extent on (1) the skill of a Government team in pinpointing areas for cost improvement by a contractor, (2) genuine cooperation between the

Government and the contractor in providing adequate exchange of information between "should cost" review teams and contractor personnel, and (3) a willingness by contractors to make changes based on the team's efforts when they appear to be constructive and practical.

(B-159896, May 20, 1970.)

NEED FOR BETTER CRITERIA FOR AND CLOSER SURVEILLANCE OF WAIVERS OF PREAWARD AUDITS OF CONTRACTORS' NONCOMPETITIVE PRICE PROPOSALS

Department of Defense

Department of Defense regulations provide that, prior to negotiation or modification of a contract resulting from a proposal in excess of $100,000 when the price would be based on cost or pricing data submitted by the contractor, the contracting officer request the Defense Contract Audit Agency to audit the contractor's price proposal. This requirement may be waived by the contracting officer whenever it is clear that information already available is adequate for the proposed procurement.

We examined 344 noncompetitive fixed-price procurement actions, amounting to about $500 million, awarded in 1967 by six procurement centers. Our report on the examination was issued to the Congress in August 1970.

Contracting officers had waived the preaward audits for 130 of the actions, amounting to about $51.7 million. Of the 130 waivers of preaward audits

--31 appeared to be justified on the basis of available information and

--99 did not appear to be justified because (1) available information either was not for comparable quantities, was not current, or had not been verified or (2) the contractors' cost or pricing data were verified by price analysts and technical specialists who generally did not have the specialized audit training and experience acquired by the Audit Agency's auditors. Of the 99 waivers, 34 were justified, in part, by contracting officials on the basis that time was insufficient for an audit. Defense regulations do not provide for waiver of audits on this basis.

We reported to the Defense Contract Audit Agency the procurement actions in which waivers of audit did not appear to be justified, and the Agency undertook postaward audits

of these procurements. We recommended that the Department of Defense:

--Provide guidance to contracting officers on the type of procurement information considered adequate to justify waivers of audit.

--Require contracting officials to improve the documentation of waivers of audit.

--Strengthen internal audit surveillance of the propriety of waivers of audit.

--Establish procedures for reporting waivers of audit so that the Defense Contract Audit Agency may consider postaward audits of these procurements.

--Provide guidance as to what actions should be taken when there is insufficient time to perform a preaward audit.

The Department of Defense agreed that waivers of audit should be better documented and that internal surveillance of such waivers should be increased. With respect to our other recommendations, the Department stated its belief that existing instructions provided the guidance we recommended. We pointed out that our findings indicated that there was a need for improvement in the existing instructions and suggested that our recommendations be reconsidered. (B-39995, August 3, 1970.)

PROBLEMS IN GAINING CONTRACTORS' ACCEPTANCE OF RECOMMENDATIONS FOR IMPROVING THEIR PROCUREMENT SYSTEMS

Department of Defense

The Armed Services Procurement Regulation provides for the review of contractors' procurement systems. The reviews are performed by the Defense Contract Administration Services for the Department of Defense and the National Aeronautics and Space Administration. Subcontracting practices are an important part of the procurement systems--about $20 billion of the $40 billion spent annually under Department of Defense prime contracts goes to subcontractors--and improvement in the practices could result in large savings to the Government.

In a report issued to the Congress in August 1970, we stated that the review program was sound in concept but that its implementation was not fully effective. There was a need to motivate contractors, whose procurement systems were found to be unacceptable, to make needed improvements. We found instances where contractors had refused to take action on weaknesses reported to them, contending that their procurement systems were good enough. The negative attitude of the contractors did not appear to have diminished their ability to obtain Government prime contracts.

We also found a need for:

--Definitive standards for the approval or disapproval of contractors' procurement systems.

--Greater discretion in scheduling detailed annual reviews of systems of contractors whose systems had been found to be satisfactory in the past.

The Department of Defense and the National Aeronautics and Space Administration agreed, in general, with our specific proposals to improve the program for review of contractors' procurement systems. The Department of Defense, however, did not believe that there was a need to motivate contractors to accept recommendations of the Government because, in actual practice, most of the contractors accepted them.

We pointed out that it was inequitable for the nonresponsive contractors to continue to receive the same consideration as that given contractors who had made efforts to devise acceptable procurement systems from which the Government and the contractor benefit. We recommended that the Secretary of Defense consider imposing penalties, such as reductions in allowable profits, on contractors whose procurement systems had been disapproved and who had made no effort to make the changes necessary to improve the systems. (B-169434, August 18, 1970.)

OPPORTUNITY FOR IMPROVING PRICING OF CONTRACTS FOR SHIP OVERHAULS

Department of the Navy

In a report issued to the Congress in March 1970, we pointed out that, although about 90 percent of the value of initial award packages for ship overhauls was awarded by the Navy under advertised contracts, the circumstances under which the awards were made were not conducive to keen price competition because:

--The Navy's policy of having ships overhauled at or near home ports reduced the number of prospective bidders.

--The number of shipyards that could do certain types of overhauls was limited to the few that had capabilities for handling all sizes of vessels.

--The specialization by contractors within the ship repair market narrowed the choice of firms.

When such competitive constraints prevail, advertised procurement methods should be used only when there are other assurances that prices are fair and reasonable. The Navy tried to get this assurance by making its own estimates and comparing them with bids submitted, but the Navy apparently lacked confidence in the reliability of its own estimating system and placed little reliance on the results of the comparisons.

As a rule, substantial additional work was added to the initial award package after a contract had been awarded. The price for the additional work was generally negotiated on a sole-source basis because the ship was immobilized in the contractor's yard and it was impractical to solicit competition. This placed the Government in a disadvantageous bargaining position. The Government's disadvantage was further increased because:

--Prices for the additional work were frequently negotiated after the work had been completed without knowledge by the Navy of the costs incurred.

--The Navy had no way of knowing, with respect to changes affecting the work called for in the initial award package, what adjustment should be made in the initial award price.

--Considering the short period of contract performance (generally 90 days), the Navy's procedures did not seem adequate to handle the tremendous volume of changes on a timely basis.

We proposed to the Secretary of the Navy that:

--Invitations for bids require contractors to submit itemized bids and that this information, together with Navy estimates, be used to develop histories that would provide a basis for identifying and resolving significant differences between bid prices and Navy estimates.

--Firm determinations be made concerning the adequacy of competition obtained and the reasonableness of the bid prices and that, when the bid prices are significantly higher than the Navy's estimates and the differences cannot be justified, the bids be rejected and an attempt made to negotiate prices.

--The many low-dollar change orders be negotiated by Navy representatives stationed at contractors' shipyards at the time the work is authorized.

--The Navy, should it become necessary to negotiate after the work is completed, use as a basis for negotiation the same cost information that is available to the contractor.

The Navy agreed substantially with these proposals and stated that corrective action either had been taken or was planned. The Navy stated further that future contracts would include a clause requiring contractors to furnish

itemized costs after completion of the work and that such cost information would be used to establish a data bank for evaluating bids on future overhauls. (B-133170, March 19, 1970.)

NEED TO ENSURE THAT ONE-TIME COSTS ARE EXCLUDED IN NEGOTIATION OF FOLLOW-ON CONTRACTS

Department of the Army

The Army negotiated daily rental rates for barges which included the contractor's costs for towing the barges from the Philippines to Vietnam and returning them when no longer needed. The towing costs for a number of the barges already in service in Vietnam had been provided for and recovered in rates negotiated under prior contracts. In a report issued to the Congress in May 1970, we stated that the Army could have saved about $664,000, had the towing costs been eliminated from the rental rates and provided for in the contracts as a separate item to be paid once for each barge delivered to Vietnam.

These contracts were subject to the requirements of Public Law 87-653, the Truth-in-Negotiations Act, which provided, among other things, that contractors submit cost or pricing data and certify that such data are accurate, current, and complete, prior to the award of negotiated noncompetitive contracts over $100,000. The contracts also included a clause permitting the Government to recover any significant increase in the price that resulted from the submission of inaccurate, incomplete, or noncurrent cost or pricing data.

In response to our findings, the contractor took the position that the contracts were negotiated on the basis of adequate price competition without reliance on the cost or pricing data. We did not agree that there had been adequate price competition.

We recommended that the Secretary of Defense:

--Consider whether the Government is legally entitled to price adjustments under the terms of the contracts.

--Review the rental rates negotiated on a noncompetitive basis under other contracts for supplying barges, tugs, and other vessels in Vietnam; ascertain whether

towing costs that had already been provided under previous contracts were included in the rental rates; and, if so, determine whether the Government is legally entitled to price adjustments.

--Negotiate towing costs, in future contracts, as a separate item to be provided once for each piece of equipment in continuous service.

The Army stated that it would review the contracts and that the solicitations for 1971 contracts would require the proposals to show transportation (towing) costs as a separate item. (B-167714, May 6, 1970.)

NEED FOR CONTRACTING OFFICERS TO REPORT TO HIGHER AUTHORITY CONTRACTORS' RELUCTANCE TO NEGOTIATE PRICE ON A REASONABLE BASIS

Department of the Army

In 1966 the Army procured, at a contract price of $3.5 million, eight rock-crushing plants for use in Southeast Asia road construction activities. The procurement was noncompetitive and subject to the requirements of Public Law 87-653, the Truth-in-Negotiations Act, for submission of certified cost or pricing data. We reviewed the reasonableness of the price negotiated in relation to available cost information. Our report on the review was issued to the Congress in January 1970.

At the time of negotiations, cost information available to the Army indicated that the price proposed by the contractor was about $528,000 too high. The contractor would not agree, however, to any discussion of the cost elements supporting its proposed price and no reduction was negotiated. The Army contracting officer was aware that the price was higher than indicated by available cost or pricing data and, under procurement regulations, was required to refer the matter to higher authorities in the Army before agreeing to the contract price. This, he did not do. It appeared that the Government's right to a price adjustment under Public Law 87-653 had been impaired since the price was not negotiated on the basis of cost information submitted by the contractor.

The contractor stated to us that it believed the contract price was fair and reasonable and that it had negotiated fully and completely with the Army.

Although the price exceeded the cost of performance by about 35 percent, the contractor sought to avoid a determination of excessive profits by the Renegotiation Board on the grounds that rock-crushing plants qualified for an exemption in the Renegotiation Act with respect to sales of new durable productive equipment. The Renegotiation Board denied the exemption. The contractor, however, can appeal the matter to the Tax Court.

We recommended that the Secretary of Defense emphasize to procurement officials the need for reporting to top officials, as required by Defense regulations, proposed procurement when the prices are considered to be unreasonably high and when the contractor refuses to negotiate. Had the regulations been followed, top Army officials would have been alerted to consider whether other actions were desirable before the price was agreed upon.

The Army stated that the requirement for contracting officers to report to higher authority situations where contractors refused to negotiate was not applicable because the contracting officer did not anticipate, at the time a letter contract was awarded, the problems which arose 3 months later during the price negotiations. Subsequently, however, Department of Defense officials stated that this requirement would be applicable whenever a final price was negotiated. (B-165006, January 9, 1970.)

NEED FOR SELECTION OF TYPE OF CONTRACT MOST APPROPRIATE TO THE CIRCUMSTANCES OF THE PROCUREMENT

Department of the Navy

Early in 1965, because of the Vietnam conflict, an urgent demand for general-purpose bombs developed. During calendar years 1965-67, the Navy awarded contracts for the production of 4.5 million 250- and 500-pound bomb bodies. Firm fixed-price negotiated contracts amounting to about $472 million were awarded to six contractors. The contracts were subject to Public Law 87-653, the Truth-in-Negotiations Act, which provided that contractors be required to submit cost or pricing data and to certify that such data are accurate, complete, and current.

We examined into the prices negotiated in 34 procurements totaling about $343 million. Our examination was directed to evaluating the reasonableness of significant estimates, accepted by the Navy, in relation to cost data available to the contractors at the time of each negotiation. Our report on the examination was issued to the Congress in December 1969.

The prices could have been reduced by millions of dollars if the Navy had:

--Required the contractors to submit or identify in writing accurate, complete, and current cost or pricing data in support of cost estimates included in the price of proposals.

--Made adequate reviews and evaluations of the factual data available to the contractors in support of the estimates.

More specifically, we found that:

--Prices negotiated for 33 procurements totaling $309 million were higher by about $13.9 million than indicated by cost or pricing data available to the contractors prior to each of the negotiations.

--Prices negotiated for 12 procurements totaling $172 million included cost estimates of about $46 million for which sound and realistic cost or pricing data were not available.

--Navy contracting officials had not requested preaward audits for eight of the 34 procurements. Where the Navy requested such audits, it imposed time restrictions which limited the scope of the audits in several instances.

Since the time limitation and the absence of realistic cost data precluded adequate documentation of the contractors' proposals and adequate performance of agency audits, we believed that the Navy should not have used firm fixed-price-type contracts. More flexible types of contracts would have been more appropriate.

We proposed to the Department of Defense (DOD) that it consider our findings, as well as any additional information available, to determine the extent of the Government's legal entitlement to price adjustments with respect to these procurements. The Navy agreed and stated that actions had been started to make the determinations we had proposed.

The Navy did not believe that it could recover the amounts included in firm fixed prices for unsupported cost estimates which had been accepted by both parties to accommodate the risks of production. The Navy stated that, at the time of awards, there had been an emphasis by DOD officials on the use of firm fixed-price contracts to the maximum extent and that there had been an overzealous application of this high-level policy pronouncement by contracting officials. DOD has since recognized this overreaction and has issued instructions concerning the misuse of firm fixed-price contracts.

DOD's procurement management review group had reviewed the practices of its offices responsible for ammunition procurement and had noted procurement practices that needed improvement similar to those we noted. Also the Defense Contract Audit Agency had performed postaward audits of 20 ammunition contracts and had reported prices higher, in some instances, than those warranted by the cost or pricing data available at the time of negotiation. (B-118710, December 11, 1969.)

NEED FOR CLOSER SURVEILLANCE OF GOVERNMENT-OWNED MATERIALS IN PLANTS OF OVERSEAS CONTRACTORS

Department of Defense

The Department of Defense provides overseas contractors with materials as part of its contractual agreements. The military services are responsible for reviewing the efficiency of the contractors' systems for control of the materials so provided. We reviewed management of such material by the military services at five plants of overseas contractors. Our report on the review was issued to the Congress in June 1970.

The contractors were not following the contractual provisions relating to acquiring and retaining Government materials. More specifically, they were not (1) periodically reviewing material requirement levels, (2) properly computing use of materials, (3) giving full consideration to all available stock on hand or due to arrive, (4) canceling outstanding orders found to be in excess of needs, or (5) properly determining reserve levels of materials. Many of the deficiencies could have been prevented, or corrected earlier, by better surveillance of the contractors' performance by Government personnel.

Inadequate administration of Government property by the contractors and the military services resulted in unnecessary investment in inventories, increased transportation costs, and possible unnecessary procurement or shortage of materials at some locations. As a result of our tests and subsequent reviews by the contractors, about $3.8 million worth of Government material was declared excess and made available for redistribution. In addition, contractors had requested cancellation of orders for about $1.4 million worth of Government material.

We suggested that the Secretary of Defense consider enlarging the property administration staffs and providing the staffs needed training and consider measures for achieving greater cooperation by contractors in more effective management of materials furnished by the Government. We recommended that the Secretary take appropriate action to

monitor the implementation of planned actions by the military services to ensure that satisfactory progress was being made to improve the quality of property management.

The Department of Defense agreed and indicated a firm intention, on its part and on the part of the military departments, to ensure that the deficiencies referred to in our report are overcome. (B-140389, June 17, 1970.)

PROBLEMS IN EVALUATING CLAIMS OF COMMUNICATIONS CARRIERS FOR TERMINATION OF SERVICES

Department of Defense

We reviewed the settlement of claims for termination of services, involving the use of specially constructed communications facilities and equipment, because we learned that the Defense Communications Agency (DCA) could not evaluate effectively the acceptability of amounts charged for such terminations by American Telephone and Telegraph (AT&T) and its associated companies. Our report on the review was issued to the Congress in December 1969.

Rates and charges for interstate communications services are established in tariffs filed with the Federal Communications Commission (FCC) by communications carriers. When such services involve the use of specially constructed facilities or equipment--as was the case in the settlement of claims that we reviewed--the tariffs specify that the user must pay for the service for a specified number of years, generally no more than 10 years. If the user discontinues the service before the specified period has expired, he must pay a termination charge. The maximum amount of the termination charge is specified in the tariff and is based upon cost estimates prepared by the carrier. FCC believes that termination settlements should be based upon the unrecovered portion of actual cost as long as the appropriate portion of the maximum termination liability is not exceeded. FCC, however, did not require the carrier to submit actual cost data.

Although many other carriers provided cost data to DCA or permitted access to their records, AT&T and its associated companies did not determine or provide the actual costs applicable to the terminated portion of specially constructed facilities and equipment. DCA therefore had no way of evaluating the acceptability of termination charges proposed by AT&T and its associated companies, except by applying broad-gauge comparisons of construction costs or by comparing charges of one carrier with those of another carrier.

In two cases in which special circumstances existed and cost data were made available by one of AT&T's associated companies, the actual costs of the interstate portions were less than the estimates--by 24 percent in one case and 40 percent in the other. We therefore concluded that obtaining actual cost data in such cases could result in smaller and more reasonable termination settlements with resultant savings to the Government.

We suggested that the Secretary of Defense ask FCC to revise its regulations to require that carriers seeking settlements for termination of defense contracts for communications services provide DCA with the actual costs of the specially constructed facilities and equipment applicable to the contracts being terminated. We further suggested that the Secretary ask FCC to provide the necessary audit effort to ensure that cost data submitted are accurate.

Prior to the issuance of our report, the Department of Defense (DOD) and AT&T held a series of meetings to devise mutually acceptable corrective procedures. These meetings produced an agreement with respect to specially constructed facilities under which DOD (1) can elect to have termination charges for specially constructed facilities based on actual costs, (2) will be provided supporting cost data, and (3) will be allowed access to records. FCC representatives indicated informally that procedures proposed by DOD and AT&T to implement the agreement would be acceptable. AT&T notified DOD that a revised tariff incorporating these procedures would be filed with FCC to become effective about November 15, 1969. Similar action with regard to terminations involving special equipment was initiated but corrective procedures had not been agreed upon at the time of issuance of our report.

On the basis of the progress made to date, we are hopeful that DOD and AT&T can reach a mutually satisfactory solution to this problem that will be acceptable to FCC. If a satisfactory solution is not reached, however, we believe that DOD should follow our suggestion, stated above, that it ask FCC to revise its regulations. (B-167611, December 9, 1969.)

RESEARCH AND DEVELOPMENT

PROBLEMS IN ALLOCATING CONTRACTORS' INDEPENDENT RESEARCH AND DEVELOPMENT COSTS TO GOVERNMENT CONTRACTS

Department of Defense
(and other departments and agencies)

Independent research and development (IR&D) is that part of a contractor's total research and development program which is not conducted under a direct contract or grant but which is undertaken at the discretion of the contractor. In certain cases a general agreement is negotiated with the Government establishing a dollar ceiling on the cost of IR&D which the Government will accept. Under policies of the Department of Defense (DOD) and of the National Aeronautics and Space Administration (NASA), the IR&D need not be related to current or prospective Government procurement. Under the policy of the Atomic Energy Commission (AEC), the IR&D cost is allowed only to the extent that it benefits the contract work. During 1968 major Government contractors spent about $1.39 billion for IR&D, bid and proposal, and other technical effort. The Government paid more than half of this amount--almost entirely under DOD and NASA contracts.

We made a review at nine plant locations of seven contractors and at several Government agencies. In our report on the review, issued to the Congress in February 1970, we identified a number of significant problem areas in the Government's participation in IR&D programs. Many of the problems had been recognized for years but had not been resolved. We submitted a draft of our findings to the various agencies and contractors for review and comment and suggested that:

--An interagency study be made to establish a Government-wide policy on participation in contractors' IR&D costs.

--Consideration be given to establishing a more systematic method of disseminating to Government

personnel information on proposed projects contained in contractors' IR&D programs to avoid unnecessary duplication of effort.

--A study be made to determine whether the Government should receive royalty-free license rights to inventions arising from IR&D.

--Uniform procedures be devised by DOD for administering IR&D costs.

The agencies concurred, in general, but opposition was expressed by the Council of Defense and Space Industry Associations.

While our draft report was still in process, legislation was enacted placing a limitation in the fiscal year 1970 Defense Procurement Authorization Act on the amount of IR&D, bid and proposal, and other technical effort costs to be allowed under negotiated Government contracts. In developing the extent and language of this limitation, both the Senate and House Committees on Armed Services stated that they planned to hold hearings on the subject of IR&D and related costs.

In our report to the Congress, therefore, we made the following suggestions for consideration in the hearings.

--Because no clear distinction can be made between IR&D and other independent technical efforts, any agreed ceilings on IR&D can be avoided through description of an IR&D project under a different terminology. Therefore, all independent technical efforts of contractors should be considered as a single entity.

--Unlike AEC and NASA, DOD has separate appropriations for procurement and for research and development activities, and DOD's share of contractors' IR&D costs, in general, is absorbed by the procurement appropriation without identification as IR&D. If the Congress authorizes continuation of the present practice of allowing the inclusion of IR&D as an acceptable cost element in negotiated contracts, DOD

should be directed to break out and identify separately in its appropriation requests the amount estimated as required for this purpose.

--The policies followed by DOD and NASA on acceptability of IR&D costs differ from those of AEC, which allows such costs as an element of overhead only to the extent that they provide a direct or indirect benefit to the contract work. A policy should be established by the Congress stating the extent to which, and under what circumstances, Government agencies should participate in the contractors' independent technical efforts.

We also identified several issues and alternatives which warranted consideration in determining the Government-wide policy, as follows:

--Whether the present practice of allowing IR&D as an acceptable overhead cost in negotiated contracts should be replaced by a system of

1. extending the use of direct research and development contracts to include those IR&D projects which the agency wishes to support fully or on a cost-sharing basis and thereby provide greater assurance that the desired work will be performed and that the Government will be entitled to information and royalty-free rights to any inventions arising therefrom and

2. authorizing an allowance for a stipulated percentage of the remainder of the contractor's total IR&D effort (irrespective of the source of the funding), either as a profit factor or through acceptance as a recognized overhead cost, as an incentive to contractors to continue technical efforts beyond those directly contracted with the Government.

--Whether allowances to contractors for IR&D should be limited to projects that have a direct and apparent relationship to a specific function of an agency.

--Whether financial support should be provided to companies with similar capabilities, which do not hold Government contracts, as a means of supporting and strengthening industrial technology, if IR&D allowances by DOD and NASA are continued on the present basis and are not related directly to current or prospective Government procurement.

These suggestions were considered in hearings held in February and March 1970 before the Senate and House Committees on Armed Services.

Subsequently, the Congress included restrictions on the payments to contractors for IR&D and bid and proposal costs (section 203 of the DOD Military Procurement Authorization Act of 1971, Public Law 91-441). The major provisions in the section are:

1. Payments of IR&D and bid and proposal costs will not be made unless the work involved has, in the opinion of the Secretary of Defense, a potential relationship to a military function or operation.

2. The Secretary of Defense must negotiate advance agreements establishing a dollar ceiling on the costs that may be paid to each company which in the previous year received payments for IR&D and bid and proposal costs of more than $2 million.

3. If negotiations are held and no advance agreement is reached with a company, payments to that company will not be made except in an amount substantially less than the amount that the company would have otherwise been entitled to receive.

4. The Secretary of Defense is to annually report to the Congress the names of the companies and the results of negotiations, the latest Defense Contract Audit Agency statistics on the payments made to major contractors, the manner of compliance with section 203, and any major policy changes proposed in the administration by DOD of its contractors' IR&D and bid and proposal programs.

5. The limitation on IR&D and related costs previously included in the 1970 Defense Procurement Authorization Act was repealed.

(B-164912, February 16, 1970.)

NEED FOR CONSISTENT GOVERNMENT POLICY FOR COST SHARING BY INSTITUTIONS IN FEDERALLY FINANCED RESEARCH

Department of Defense
(and other departments and agencies)

Appropriation acts for fiscal year 1970 covering the major research agencies variously (1) make no provision for cost sharing, (2) require cost sharing on grants only, or (3) require cost sharing on both grants and contracts except for research specifically solicited by the Government.

The Public Works for Water, Pollution Control, and Power Development and Atomic Energy Commission Appropriation Act, 1970 (Public Law 91-144, approved December 11, 1969), and the Department of Defense Appropriation Act, 1970 (Public Law 91-171, approved December 29, 1969), do not include any provisions in respect of cost sharing in research by the agencies covered in these acts.

The Departments of Labor, and Health, Education, and Welfare, and Related Agencies Appropriation Act, 1970 (Public Law 91-204 approved March 5, 1970), contains the following provision in section 203, relative to cost sharing.

> "None of the funds provided herein shall be used to pay any recipient of a grant for the conduct of a research project an amount equal to as much as the entire cost of such project."

Section 408 of the Independent Offices and Department of Housing and Urban Development Appropriation Act, 1970 (Public Law 91-126, approved November 26, 1969), which includes the appropriations for National Aeronautics and Space Administration and National Science Foundation, provides that:

> "None of the funds provided in this Act may be used for payment, through grants or contracts, to recipients that do not share in the cost of conducting research resulting from proposals for projects not specifically solicited by the Government; Provided, That the extent of cost sharing by the

recipient shall reflect the mutuality of interest of the grantee or contractor and the Government in the research."

In September 1970 we reported to the Congress the results of our study of the management of federally financed research by the University of Michigan. The report points out that the three different statutory policies governing cost sharing in federally financed research are in direct conflict with the concept of consistent policy of cost sharing which we believe is both feasible and desirable for Federal research agencies and which was advocated in Senate Report 91-521 on the bill that became Public Law 91-126.

The existence of different statutory standards for cost sharing lays the groundwork for controversy with agency regulations which may go beyond these standards. The impact of these different standards will be felt most by those organizations that do research for several agencies whose appropriations are included in two or more of the related appropriation acts for 1970. Such organizations include, particularly, educational institutions--such as the University of Michigan--which conduct research under grants and contracts for most, if not all, the major Federal research agencies. In addition, the implementation of three different policies and related agency regulations will undoubtedly add to the administrative burden of the educational institutions, as well as to other organizations similarly situated.

We recommended that the Congress consider legislation to prescribe a consistent Government policy for cost sharing in federally financed research for all Federal agencies. The Bureau of the Budget (now Office of Management and Budget) specifically endorsed this recommendation; none of the research agencies covered in our study opposed it. (B-117219, September 25, 1970.)

STUDY NEEDED FOR UNIFORM SYSTEM OF ADVANCING FUNDS TO UNIVERSITIES FOR GOVERNMENT'S SHARE OF COST OF RESEARCH

Department of Defense
(and other departments and agencies)

Our report of September 1970 also discussed the funding of research projects.

Federal agencies use two general methods of advancing funds to the University of Michigan for costs incurred on research projects--advance payments and reimbursement of costs. To provide advance payments, civil agencies that finance a substantial volume of research use letters of credit, whereas defense agencies use special bank accounts in local banks or periodic predetermined payments. For other types of contracts, costs are reimbursed to the University after they have been paid. The University uses its own funds to finance such contracts, pending reimbursement by the individual agencies.

The method by which the University receives payment for research supported by Federal agencies appears to be primarily dependent upon the type of contractual instrument used and the particular agency involved.

The University maintains a separate fund to account for all Federal funds received and all withdrawals made for Federal projects. A monthly reconciliation of this fund for the 6 months ended December 31, 1968, showed that, on the average, the University used about $3.6 million of its own funds monthly to cover costs incurred under federally financed research projects.

University officials stated that, as the University was allowed neither a fee on contracts and grants nor recovery of interest lost on University funds used to finance Government cost-type contracts, the agencies should provide the University with sufficient advance payments to cover all costs on research projects.

We concluded that, since the University does not receive a fee, profit, or interest, the use of its own funds to finance Federal research is, in effect, additional cost sharing.

We recommended that the Director, Bureau of the Budget (now the Office of Management and Budget), in collaboration with other concerned Federal agencies, study the feasibility of adopting a uniform system of providing universities with sufficient advance funds for programs financed by all agencies. Such a system should be designed with an aim toward reducing the administrative burdens of the universities and the agencies in handling payments.

Except for the Atomic Energy Commission, which did not express its views, all the agencies covered in our study concurred in the objective of this recommendation. The Bureau of the Budget advised us that it was giving specific attention to policies and procedures for providing advance funds in a new circular, then in draft form, on certain aspects of the administration of research projects. The Bureau of the Budget also noted that this matter would be considered in the interagency study of standardizing administrative requirements of grant-in-aid programs under the President's Federal Assistance Review program. (B-117219, September 25, 1970.)

NEED FOR LONGER TOURS OF DUTY FOR MANAGERS OF MAJOR RESEARCH AND DEVELOPMENT PROJECTS

Department of the Army

The Army Materiel Command is responsible for the integrated research, development, and production management of the Army's materiel needs. The cost of these activities is over $8 billion annually. About half of this work--involving the most critical or costly programs--is managed by military officers, called project managers. Because of congressional interest in the tenure of military management officials, we reviewed the project managers' tours of duty. Our report on the review was issued to the Congress in August 1970.

The Army was not effectively implementing existing policy and regulations requiring that project managers serve a tour of duty of at least 3 years (the time considered essential for such critical positions). Most of the project managers had served less than 2 years. Most had been reassigned, and some had retired, before completing a 3-year tour of duty. Overlapping tours of duty--which provide continuity of leadership and expertise and reduce the need for acting project managers--were almost nonexistent.

Although project managers may be either military officers or civilians of comparable grade, the Army had not given sufficient consideration to the use of civilian personnel in filling these positions. All project managers have been military officers subject to high turnover through reassignment or retirement.

The Army agreed in general with our findings and proposals for extending the tenure of project managers. The Army:

--Revised regulations to stabilize the tour of duty of project managers for an "indefinite" period.

--Revised criteria for selection of project managers, including exclusion of officers facing mandatory retirement within the expected tour of duty.

--Arranged for estimating requirements for project managers 18 months in advance to provide for an adequate overlap of project managers on a continuing program.

The Army believed it preferable to fill project manager positions with military officers on the basis that they possessed the breadth of experience in the military art to give them an understanding of the problems faced by the Army in the field. We pointed out that this expertise could be provided by military personnel not necessarily assigned as project managers. The Army, in its revision of regulations to stabilize the tour of duty for an "indefinite" period, did not clarify the term "indefinite" and, in its provision for an adequate overlap of project managers on a continuing program, did not establish a minimum period of overlap. Therefore, we suggested that the Secretary of Defense:

--Modify the criteria for selection of project managers to ensure appropriate consideration of civilians.

--Clarify the term "indefinite" in the stabilization policy.

--Establish a minimum period of overlap.

We found on the basis of limited tests that conditions similar to those in the Army also existed in the Navy and the Air Force, and we discussed them with officials of the Department of Defense and of the Navy, and the Air Force. We suggested that the Secretary of Defense ensure that appropriate action be taken to correct similar deficiencies in the Navy and the Air Force.

We suggested also that the Congress might wish to urge the Department of Defense to use civilians in these positions to a greater extent to avoid the problems encountered in the use of military personnel.

On November 24, 1970, the Director of Defense Research and Engineering, on behalf of the Secretary of Defense, replied to our report to the Congress. He stated that (1)

the Department of Defense is in agreement with our belief that program managers are extremely important in the weapon system acquisition process and that emphasis must be placed on the selection, continuity, and tenure of these persons and (2) the Department of Defense agreed with our findings and recommendations. (B-167412, August 31, 1970.)

HIGH TURNOVER OF KEY MILITARY PERSONNEL IN THE SAFEGUARD ANTIBALLISTIC MISSILE (ABM) PROGRAM

Department of the Army

In July 1969 we issued to the Joint Committee on Atomic Energy a report on the policies and practices of the Army related to rotation of key military personnel assigned to the development of the SAFEGUARD ABM program. The report indicated that the Army's concern over officer career development might preclude continuity of knowledgeable military personnel in weapon system acquisition programs.

Our subsequent efforts were directed to the extent of and reasons for departures from the program and to the results of the Army's study of a personnel stabilization policy which would be tailored to the future and peculiar needs of SAFEGUARD organizations. Our report was issued to the Committee in May 1970.

We found that, during the 9-month period ended June 30, 1969, only 12 of 135 military persons, who were designated for departure from key positions, had completed the prescribed tours of duty--3 years for field grade officer positions and 4 years for warrant officer and enlisted personnel positions. Of the remaining 123 persons, 74 were reassigned to non-SAFEGUARD positions and 49 were separated from military service for reasons of retirement, resignation, or expiration of service terms.

We were not able to conclude whether the Army could have avoided or significantly minimized the high personnel turnover. We expressed the opinion that a contributing factor was the lack of specific guidance in the Army's stabilization policy. This condition might, in our opinion, preclude continuity of effort until an ABM system has become operational. (B-164250, May 7, 1970.)

SAVINGS AVAILABLE THROUGH CURTAILMENT OF THE DEEP SUBMERGENCE RESCUE VEHICLE PROGRAM

Department of the Navy

The deep submergence rescue vehicle (DSRV) is a 35-ton submersible designed for rescue of personnel from a disabled submarine. When needed, the DSRV would be transported by aircraft to a seaport near the disaster and carried to the site by a supporting ship or submarine. The Navy had purchased two DSRVs and was planning to purchase four additional DSRVs. We examined into the cost of, and the estimated effectiveness to be derived from, the four additional DSRVs the Navy planned to buy.

As stated in our report issued to the Congress in February 1970, we found that the program had significant cost overruns and delays in development. In 1964 when the program was first recommended, the Navy estimated that a rescue system including 12 DSRVs could be developed in 4 years at a cost of about $36.5 million, including the cost of operation for 1 year. The Chief of Naval Operations reduced the recommended number of DSRVs from 12 to six. By 1969, however, the Navy estimated that a rescue system including only six DSRVs would require 10 years to develop (1964 to 1974) and would cost about $463 million. At the time of our review, $125 million had already been allocated to the program, $31 million had been requested for fiscal year 1970, and $307 million was estimated to be needed in fiscal years 1971 to 1974.

We noted that the Navy originally had envisioned cost reductions, when the DSRV system became operational, through the phasing out of an existing rescue system. The Navy does not now plan to phase out the existing system and the anticipated cost reductions will not be realized.

Navy officials estimated that about $200 million, of the $307 million estimated to be needed for the program in fiscal years 1971 to 1974, would be applied to the four additional DSRVs. Annual operating cost, after fiscal year 1974, for the four DSRVs was estimated at over $17 million.

Our findings indicated that submarine disasters where rescue might be possible would be rare--there have been only two such disasters since 1928. Since two DSRVs apparently would provide sufficient rescue capability for any one disaster, the four additional DSRVs would only provide backup capability. In most cases the backup probably could be provided by other systems currently in use or being developed by the Navy.

We proposed that the Secretary of Defense evaluate the cost of purchasing and operating the four additional DSRVs in the light of their estimated usefulness. We suggested that a prompt decision would be valuable since a determination that the additional DSRVs were not needed would halt further expenditures. In reply we were advised that the Chief of Naval Operations had directed, on April 29, 1969, that a study be undertaken on a priority basis and that construction of the four additional DSRVs not be undertaken until and unless their usefulness had been shown to justify the cost.

The Navy began its study in December 1969--8 months after it had been directed to do so. Because of the delay, we recommended that the Secretary of Defense take steps to ensure that the Navy promptly conducted a meaningful study to provide a suitable comparison of the probable usefulness of the four additional DSRVs in relation to their cost. On April 22, 1970, the Navy advised us that its policy was that no additional DSRVs would be procured until and unless their usefulness had been shown to justify their cost. (B-167325, February 20, 1970.)

NEED FOR IMPROVED EVALUATION OF INCENTIVE PROVISIONS IN SUBCONTRACTS FOR DEVELOPMENT OF MAJOR WEAPON SUBSYSTEMS

Department of the Army

We had previously reported to the Congress on improvements needed in the management of the NIKE-X antiballistic missile (ABM) development program. (B-164250, November 28, 1969.) This report included improvements needed in the use and administration of contract incentive provisions, designed to reduce costs, meet schedules, and improve performances, and improvements needed in the retention of records, for review by responsible Government officials, concerning multi-million-dollar negotiations between a weapon system prime contractor and its subcontractors. In other reviews we had found indications that contract incentives were used inappropriately.

As part of our response to the request of the Joint Committee on Atomic Energy for continuing review of the SAFEGUARD ABM program, we examined into the cost-plus-incentive-fee subcontract for development of the SPARTAN--the SAFEGUARD's long-range missile subsystem. The subcontract price at completion was estimated at $300 million. Our report was issued to the Secretary of Defense, with an informational copy to the Committee, in November 1970.

Current instructions in the Department of Defense and National Aeronautics and Space Administration Incentive Contracting Guide are that (1) the incentive plan must identify the critical performance elements and their alternative technical levels--the minimum acceptable, the expected or target, and the maximum desirable--and (2) significant personal judgments used to quantify an incentive element should be carefully documented and retained so that a basis exists for review and evaluation. The Guide states that expected performance goals warrant target fees only, while added fee incentives should motivate the contractor to achieve higher performance levels of value to the Government.

We found that the available records of the subcontract negotiations--contrary to the requirements of the Armed Services Procurement Regulation (ASPR) and the prime contract--

did not set forth the details leading to the agreed incentive plan. In the absence of such documentation, our evaluation could not be conclusive and was limited to specific aspects of the incentive plan.

For example, we were unable to determine whether there was a valid basis for paying added incentive fees for accomplishment of a single, specified flight test performance objective. The guidelines state that achievement of expected performance goals warrants only target fees. We found, however, that the incentive plan does not establish an "expected" or target performance for which only target fees are allowed and, in fact, appears to allow incentive fees for "expected" performance.

We suggested to the Secretary of Defense that, in the negotiation of the follow on to the present SPARTAN subcontract--due to expire December 31, 1970--emphasis be given to ensuring that (1) the incentive fee arrangements are in accord with the intent of the Department of Defense guidelines and (2) documentation is prepared and retained for use of reviewing authorities of the details in support of the judgments used in negotiating the target fee and the value to the Government of incentive fees provided by the incentive plan.

In view of the absence of clear requirements in the ASPR, we further suggested action to (1) include, in cost-reimbursement prime contracts, clauses requiring the preparation and retention of records of negotiations for large dollar amount subcontracts and (2) specifically provide that these records show the factors which were considered in negotiating the agreed-upon incentive fee plan. (B-164250, November 23, 1970.)

NEED FOR CLARIFICATION OF CRITERIA FOR IDENTIFYING APPROPRIATIONS AVAILABLE FOR FINANCING CONSTRUCTION OF FACILITIES FOR RESEARCH AND DEVELOPMENT PROJECTS

Department of the Air Force

The Air Force constructed two research and development facilities--the Celestial Guidance Laboratory and the Laser Research Facility--for which it used funds appropriated for research, development, test, and evaluation purposes (RDT&E) rather than funds appropriated specifically for construction. The expenditures from the RDT&E appropriations for these facilities amounted to $861,700. We sought to ascertain whether the Air Force had statutory authority to fund the construction from its RDT&E appropriations. A report on our findings was issued to the Congress in February 1970.

Under sections of the United States Code (10 U.S.C. 2353 and 10 U.S.C. 2674), RDT&E appropriations may be used for construction of certain contractor-operated research facilities and for construction of projects costing $25,000 or less. Since the facilities in question were Government-operated, as well as Government-owned, and their individual cost exceeded the $25,000 limit, the question arose as to whether the construction lay within the purview of 41 U.S.C. 12. This section of the code prohibits contracting for erection, repair, or furnishing of any public building or improvement that will bind the Government to pay a larger sum of money than the amount in the Treasury appropriated for the specific purpose. We believed that the two facilities constituted the erection of public buildings or improvements within the meaning of this section of the code and concluded that:

1. The buildings could not properly have been funded by RDT&E funds because those funds were not appropriated by the Congress specifically for construction purposes.

2. The Air Force did not have statutory authority to fund from RDT&E appropriations construction projects, of the type discussed in our report, in amounts over $25,000.

We recommended that the Secretary of Defense take steps to ensure that the Air Force construe and apply its criteria for using RDT&E funds, in financing the construction of facilities for research and development projects, in a manner consistent with decisions of the Comptroller General.

The Air Force took steps to review, at headquarters level, all proposed research and development construction projects costing in excess of $25,000 to more closely control the use of RDT&E funds. (B-165289, February 4, 1970.)

NEED FOR IMPROVEMENT IN MANAGEMENT OF LABORATORY EQUIPMENT

Department of Defense

As a result of our earlier findings and subsequent hearings before the House Committee on Government Operations, the Committee made certain recommendations in October 1967 to the Department of Defense and the General Services Administration designed to improve management of laboratory equipment. We made a review in the Department of Defense (DOD) to determine how effectively the Committee's recommendations had been carried out.

Although DOD had taken certain actions on the recommendations, some of the weaknesses in management continued to prevail. At the six laboratories included in our review, there was no formal, systematic procedure requiring top management to walk through the laboratory and identify unneeded or little-used equipment. (Our partial walk-throughs with agency representatives turned up excess equipment with an acquisition cost of about $1.7 million.) Four of the six laboratories had equipment pools but they were not operated efficiently; one had no equipment pool; and one had an inventory listing of equipment which it contended--and we disagreed--served the same purpose as an equipment pool. (A major benefit of equipment pools is the elimination of duplicate purchases.) Elapsed-time meters--useful in obtaining usage data for calibration scheduling and for identifying little-used equipment--were not being used in four of the six laboratories.

We recommended that DOD:

--Require laboratory management to conduct systematic, documented walk-throughs to identify unneeded and little-used equipment and make it available for redistribution or declaration as excess.

--Require the use of equipment pools.

--Provide guidance on the use of elapsed-time meters for equipment management purposes.

We recommended also that the military audit agencies include verification of these procedures in their scheduled reviews.

DOD was in general agreement with our recommendations and outlined the actions being taken to implement them. (B-160140, November 24, 1970.)

ADVERSE EFFECTS OF LARGE-SCALE PRODUCTION BEFORE COMPLETION OF DEVELOPMENT AND TESTING

Department of the Navy

(See narrative under caption "Acquisition of Weapons," p. 50.)

ACQUISITION OF WEAPONS

PROBLEMS IN ACQUISITION OF MAJOR WEAPON SYSTEMS

Department of Defense

We examined into the status of selected major weapon systems because of the large acquisition costs involved and because of the interest of the Congress in the acquisition of major defense weapon systems. Our report on the examination was issued to the Congress in February 1970.

The Department of Defense (DOD) did not maintain a central file on the total number of systems being acquired or their costs. Data furnished to us as of June 30, 1969, by DOD showed that a total of 131 major programs were in various phases of the acquisition process and that their costs were estimated to aggregate about $141 billion. Through June 30, 1969, about $55 billion of this amount had been funded to the programs by DOD.

On the basis of a review of the status of 57 major weapon systems as of June 30, 1969, we concluded that:

--There was considerable cost growth on many current development programs and the cost growth was continuing.

--There were significant variances, existing or anticipated, between the performance originally expected and that currently estimated for a large number of the systems.

--There were slippages, existing or anticipated, in the originally established program schedules of 6 months to more than 3 years on many of the systems.

Sufficient detail to permit a comparison of costs estimated at different points in time was available for only 38 of the 57 systems. We found that the current cost estimates through program completion for these 38 systems were $62.9 billion, or about 50 percent higher than the original planning estimates of $42 billion. Reasons most frequently

cited for cost growth were inflation, capability increases, contract cost increases, quantity increases, and poor initial estimates.

We have concluded from our work that one of the most important reasons for cost growth is related to decisions to commence acquisition of a weapon system before adequate demonstration that the prescribed prerequisites for advancing into the contract definition phase have been satisfied. Another significant reason for cost growth can be traced to the initial documents which define the system mission requirements and technical performance specifications, including the estimates of costs to achieve them.

In February 1968, DOD established the Selected Acquisition Reporting (SAR) system as a means of obtaining information on the progress of selected acquisition programs and of comparing the progress with the planned technical, schedule, and cost performance. We concluded that the system, in concept, represented a meaningful management tool but that, in common with most new management systems, it had certain shortcomings. DOD recognized the need for improvement, and we made specific suggestions to DOD for its consideration in refining the system.

We made no recommendations in our report. During our review, however, we made many suggestions for the improvement of acquisition management, and DOD took action on our suggestions. A new instruction on the SAR system, issued in December 1969 and revised in June 1970, significantly improved upon the data required to be included in the reports and should enhance their usefulness. Also, a Defense Systems Acquisition Review Council was established to ensure that prerequisites for each phase of the acquisition cycle are met before programs progress into subsequent phases. (B-163058, February 6, 1970.)

ADVERSE EFFECTS OF LARGE-SCALE PRODUCTION BEFORE COMPLETION OF DEVELOPMENT AND TESTING

Department of the Navy

Large-scale production of major weapon systems prior to completion of development and testing--concurrent development and production, or concurrency--is a primary cause of cost growth because of problems in attempting to produce items on the basis of unproven designs. We examined into five systems of the Navy, developed and produced concurrently at a cost of about $2 billion, and reviewed a Navy study of 13 weapons, nine of which also were produced concurrently. The purpose of our work was to obtain information on the extent of concurrency in the Navy; how it was managed, how the Navy decided that it was necessary and likely to be successful, and what success was achieved. Our findings were reported to the Congress in November 1970.

Most of the Navy's major weapon systems were approved for large-scale production before completion of development and testing. The weapons frequently would not perform all the functions intended and sizable amounts of time and money were spent to correct deficiencies. It appears that deployment of effective weapons may not have been accelerated by concurrency and, in fact, may have been delayed.

Since concurrency can seriously affect cost and readiness, it is wise to limit its use to those cases where the risk is necessary and there is a reasonably good chance of success. The Navy procedures for concurrency were not sufficiently effective. Decisionmakers were not presented with all the information that should have been available to them in considering whether to proceed into production.

The Blue Ribbon Defense Panel--appointed by the President and the Secretary of Defense in July 1969 to study the organization, structure, and operation of the Department of Defense--recommended on July 1, 1970, that:

> "A new development policy for weapon systems and other hardware should be formulated and promulgated to cause the reduction of technical risks

through demonstrated hardware before full-scale development, and to provide the needed flexibility in acquisition strategies."

The Panel stated that the new policy should provide a general rule against concurrent development and production, with the production decision being deferred until successful demonstration of developmental prototypes.

We recommended that the Navy revise its instruction on concurrent development and production to provide for submission of the following data to the Assistant Secretaries who make concurrency decisions.

--A comparison of design performance requirements with actual performance based on testing.

--An assessment of how essential an unproven component is to the weapon system and the feasibility of either delaying production or using a substitute for the component.

--Documented views of Government activities and contractors involved in the project, as well as the project manager, concerning the feasibility of proceeding on a concurrent basis.

--An assessment of the contractor's ability to produce the weapon under normal production conditions.

The Director of Defense Research and Engineering and the Navy agreed, in general, with our recommendations and outlined the actions the Navy had taken or had planned to take. (B-163058, November 19, 1970.)

NEED FOR LONGER TOURS OF DUTY
FOR MANAGERS OF MAJOR RESEARCH
AND DEVELOPMENT PROJECTS

Department of the Army

(See narrative under caption "Research and Development," p. 35.)

SUPPLY MANAGEMENT

CONTINUING PROBLEMS IN SUPPLY MANAGEMENT IN THE FAR EAST

Department of Defense

In 1966 we examined into the responsiveness of the military supply and distribution systems in the Far East and observed that they were not sufficiently flexible to meet emergency demands efficiently. In 1967 we examined into Army supply management in Vietnam and observed that the system had supplied the combat needs of military units in Vietnam despite adverse conditions. However, the high level of support was achieved through costly and inefficient supply procedures. As a result of these reviews the military departments stated that they either had taken or would take action to improve the effectiveness of their supply systems. To appraise the results of these actions, we made a review at various supply activity locations in the Far East and at inventory control points in the continental United States. Our report on the review was issued to the Congress in April 1970.

The military services had continued to provide adequate support to units in the Far East--particularly the combat forces in Southeast Asia. The supply systems in the Far East, however, as well as the supporting systems in the continental United States, continued to be costly and inefficient.

We found:

--Substantial differences between inventory records and stocks on hand.

--Use of inappropriate methods and incorrect data for computing quantities of stocks needed and resultant excesses and shortages in stock levels.

--Inadequate controls over repairable components and equipment and resultant failure to return the items for repair and reissue.

--An excessive volume of high-priority requisitions and resultant increased handling cost.

--Supply problems at supply activities in the United States and resultant shortages at Far East locations.

We recognized that it was unrealistic to expect the maintenance of inventory records under combat conditions in Vietnam at a level of accuracy as high as that expected at other supply activity locations. The records at locations outside Vietnam, however, were not accurate enough to be relied upon for effective management.

We recommended that the Secretary of Defense:

--Take steps to reduce the frequent and voluminous catalog data changes, such as unit-of-issue changes and stock-number changes, which result in misidentification and loss of stock.

--Require implementation of the inventory control procedures prescribed in January 1969 by a Department of Defense study group.

--Provide a method for consistent application in computing quantities of stock needed and require all supply activities to follow the method.

--Establish uniform procedures and criteria for review of items on order but not received and for prompt cancellation of unneeded quantities.

--Establish a direct-exchange program for all repairable items of high value and critical need in the Army. This would require that, when a new item is issued, either the unserviceable item is returned or the nonreturn is documented.

--Establish procedures for challenging the validity of the assignment of high priority to requisitions and procedures for reporting the results to management.

--Require major supply activities to establish procedures designed to bring to the attention of top-level

management those supply situations, and their causes, which are potentially critical.

The Assistant Secretary of Defense (Installations and Logistics) agreed, in general, with our findings and recommendations and said that actions had been taken or were planned to improve the conditions noted in our report.

He did not believe, however, that there was a need for procedures for bringing greater management attention to bear on potentially critical supply situations, but we pointed out that existing procedures were not detecting potential problems before they became critical.

The military services refined major factors used in their requirements computations and improved their procedures for identifying and canceling outstanding requisitions for materiel no longer needed. These actions resulted in reduction of stock requirements and cancellation of orders for unneeded supplies amounting to about $49.6 million. (B-160682, April 21, 1970.)

NEED FOR GREATER PARTICIPATION IN THE PROGRAM FOR USE AND REDISTRIBUTION OF EXCESS MATERIEL IN THE PACIFIC AREA

Department of Defense

To obtain maximum use of the materiel in the Pacific area, the Department of Defense established a special program, conducted by the Pacific Command Utilization and Redistribution Agency, Okinawa, to promote redistribution of excess materiel within and among the military services in the Pacific area. We reviewed the program to evaluate its adequacy and effectiveness. Our report on the review was issued to the Congress in August 1970.

During fiscal year 1969 excess materiel costing $603 million was reported and about $23 million worth of these excesses was redistributed. We found that more excess materiel could have been redistributed had there been greater participation in the program. Air Force contractors and some military activities had not reported their excesses to the Agency nor had they used the Agency as a possible source of supply for their requirements. Since the Government received only about $0.075 on each $1 worth of materiel sold as surplus, greater effort should have been made to use excess items rather than to sell them as surplus.

The Agency served merely as an information center. The management responsibility was fragmented and no one organization had an overview of the entire program. Also, the military services did not have clear criteria for defining excess materiel, and some of the materiel reported as excess was not actually excess and could not be delivered when redistribution was requested.

We made a number of suggestions to the Secretary of Defense to improve the effectiveness of the Pacific Command Utilization and Redistribution Agency and to clarify and improve criteria for identifying excess materiel. The Department of Defense stated that the Army had been directed to improve the effectiveness of the operations. (B-169427, August 14, 1970.)

OPPORTUNITY FOR AVOIDING UNNECESSARY PROCUREMENTS THROUGH IMPROVEMENT IN PROJECTING FUTURE NEEDS FOR SUPPLIES

Department of Defense

In our prior reviews we had observed that the inventories of the Defense Supply Agency included substantial stocks in excess of needs. We made a review of the policies, procedures, and practices followed by the Agency in determining its needs for stock. Our review covered three of the five inventory control points, called Defense Supply Centers, under the management of the Agency. A report on the review was issued to the Congress in May 1970.

As of December 31, 1968, over $250 million worth, or about 23 percent, of the stocks managed by the three Centers were excess to all known military needs. The accumulation of a substantial portion of these excesses could have been avoided had the Agency maintained tighter controls over the following situations:

--The Centers, in projecting future requirements on the basis of experienced demand, included in the experienced demand "one-time need" requisitions and requisitions which the issuers had canceled.

--The Centers initiated action for procurement of new stocks without adequately considering all stocks on hand and without considering the actual length of time needed to obtain delivery from the suppliers.

We proposed that the Agency revise its procedures for determining stock levels at all Centers to ensure that:

--Requisitions for stock are identified as recurring or nonrecurring.

--Stock on hand is properly considered.

--Requisitions for unusually large quantities are questioned, confirmed by the issuers, and appropriately considered in computing future requirements.

--Procurement lead times actually experienced are substituted for the standard lead times currently being used.

The Department of Defense stated that changes were being made to reduce the accumulation of stocks and that the Agency's new computer system, the Standard Automated Materiel Management System (SAMMS), being installed by the Agency, will establish uniform data processing procedures at all inventory control points. In its report of October 6, 1970, the House Committee on Appropriations requested that we make a comprehensive review of SAMMS in line with previous directives of the Committee. The review is in progress and our report will be issued early in 1971.

The Department of Defense stated that it would continue to include nonrecurring demands for stocks in its projections of future needs because, although the demands may be nonrecurring to individual users, the wholesale level may experience a repetitive pattern of such demands from all users and should provide for it. We suggested that the Department reconsider this point and include nonrecurring demands only in those instances where inclusion is clearly justified. (B-146828, May 28, 1970.)

SAVINGS AVAILABLE THROUGH MORE EFFECTIVE RECLAMATION OF USABLE PARTS FROM EXCESS AIRCRAFT

Department of the Navy

Excess aircraft not needed by the military services are mothballed at the Military Aircraft Storage and Disposition Center, Arizona. When there is no longer any foreseeable need for them, they are scrapped. Since many components and parts of these aircraft can be used in repairing operational aircraft, they are reclaimed before the aircraft are scrapped. During fiscal year 1969 the Center reclaimed, from aircraft which were to be scrapped, items which had originally cost about $83.5 million. We made a review of the reclamation program to test the effectiveness with which the military services were recovering needed components and parts and were reducing their purchases accordingly. Our report on the review was issued to the Congress in August 1970.

Our review of two reclamation projects of the Navy, in which items costing $3.1 million were to be reclaimed from 144 aircraft scheduled to be scrapped, showed that additional items, costing $410,000, were needed and should have been included in the reclamation projects. The Navy purchased $252,100 worth of new parts to cover its need for parts that should have been included in the reclamation projects. The Navy criteria excluded the following categories of items from consideration for reclamation even though requirements for them might have existed: (1) those for maintenance demands related to models of aircraft other than the ones being scrapped, (2) slow-moving, low-demand consumable items, (3) consumable items with a unit price under $10, and (4) consumable items designated as having a shelf life.

Our review of another aircraft disposal program of the Navy showed that the aircraft had been scrapped without a reclamation project having been established for the disposal. These aircraft contained items costing about $507,000 that the Navy needed. Had the Navy reclaimed the items, it would have avoided purchasing $120,800 worth of new items.

The reclamation criteria and procedures of the Air Force and the Army were generally effective in identifying needed items to be reclaimed. Minor areas in which improvements could be made were brought to the attention of local officials.

We found that the controls of the three services did not ensure that items to be obtained from reclamation were considered in making decisions to procure needed stock. As a result new items were procured unnecessarily.

We proposed that the Secretary of Defense require the Navy to consider the following criteria for reclamation of parts from excess aircraft:

--Needed items, regardless of whether there is a maintenance demand recorded for the particular model of aircraft being disposed of.

--Needed slow-moving, low-demand items.

--Needed low-unit-price items where (1) total quantities available or needed are great enough to warrant the effort of reclamation or (2) unit prices have changed considerably.

--Needed, although unserviceable, shelf-life items that can be economically restored to serviceable condition.

We proposed also that the Secretary of Defense (1) require that all excess aircraft being disposed of be screened for total reclamation requirements and (2) require that the military services establish appropriate procedures to ensure consideration of the items to be obtained from reclamation before purchases are made.

The Department agreed with our proposals and cited the actions taken to implement them. (B-157373, August 6, 1970.)

SAVINGS AVAILABLE THROUGH ELIMINATION OF DUPLICATE STOCKS IN THE MARINE CORPS

Department of the Navy

The Marine Corps manages and stores many items that either are designated for management under a single manager within the Department of Defense or are managed and stored for all Government users by the General Services Administration. In our report issued to the Congress in November 1970, we pointed out that this results in a sizable duplicate investment in inventories and in substantial additional costs in supply management. As of June 30, 1969, the Marine Corps Supply Activity had 265,000 items, valued at $280.5 million, on hand and on order. About 185,000 items (70 percent), valued at $148 million, were also managed by the Defense Supply Agency, the Army Tank-Automotive Command, or the General Services Administration.

Although the Marine Corps and the Department of Defense had been aware of this duplication for several years, the Marine Corps had resisted efforts to require it to relinquish its management and stockage of the duplicated items.

We proposed that the Secretary of Defense either

--require the Marine Corps to reduce existing duplicated stocks and to direct using activities to requisition directly from the designated managers, or

--direct the Defense Supply Agency and the Marine Corps to develop a plan which would retain the duplicated stocks at Marine Corps depots but under the management of the Defense Supply Agency.

The Assistant Secretary of Defense (Installations and Logistics), although agreeing with the intent of our first alternative, said that neither of our proposals would be immediately implemented. He did not comment on the second alternative but stated that a materiel management system would be developed for the Marine Corps to support deployable forces effectively and economically. We believe that the proposed action is not responsive to the problem and that prompt and aggressive action is necessary. (B-146828, November 10, 1970.)

ADDITIONAL BENEFITS POSSIBLE THROUGH FULLER UTILIZATION OF EXISTING AUTOMATED SYSTEM FOR SMALL PURCHASES

Department of the Navy

As of June 30, 1968, the Navy Aviation Supply Office (ASO) was responsible for the management of over 323,000 different aeronautical spare parts and assemblies. During fiscal year 1968 it processed about 93,000 small-purchase transactions--purchases under $2,500 each--totaling about $72 million. About 70 percent of these transactions were processed by automation. We reviewed the policies, procedures, and practices followed by ASO in operating the automated procurement system to determine whether more effective use of the capabilities of the system could be realized in processing small-purchase transactions. Our report on the review was issued to the Congress in December 1969.

We observed that the system could be improved by programming the automated equipment to:

--Assist buyers in making price analyses of small purchases.

--Solicit quotations from all known supply sources.

--Consolidate requirements.

--Make maximum use of basic order agreements (BOAs). (A BOA is a written understanding with a contractor that describes goods or services which might be purchased from the contractor and provides a method for pricing them.)

--Process many of the small purchases that continue to be processed without the aid of automation.

We also noted a lack of comprehensive reviews of the automated system by audit groups of ASO, the Navy, or the Department of Defense.

During our review ASO made changes in its automated system which should help to ensure that requirements for

like items are consolidated and that sole-source requirements are placed, as applicable, under existing BOAs.

We suggested that ASO (1) consider programming the automated system to perform price analyses, to solicit all known supply sources, and to process other small purchases and (2) provide for a periodic review of the operation of the system so that management could be informed of problem areas. In view of the present and potential use of automated procurement systems by other activities and the need for improvements in the existing system at ASO, we suggested also that the Secretary of Defense establish programs to monitor the implementation and improvement of automated procurement systems.

The Navy and the Department of Defense advised us of actions taken or planned by them which were generally responsive to our suggestions. (B-162394, December 17, 1969.)

NEED FOR CLOSER CONTROL OVER TRANSFER OF STOCKS TO THE GENERAL SERVICES ADMINISTRATION

Department of Defense

In May 1967 we reported to the Congress that a transfer of handtool and paint inventories from the Department of Defense (DOD) to the General Services Administration (GSA) showed a need for improved transfer procedures and greater coordination between the agencies. The transfer was the first of a series leading to a coordinated national supply system.

As a follow-up, on July 1, 1967, we examined into the transfer of stocks valued at about $19.5 million and representing 52 Federal supply classes. Our report on the examination was issued to the Congress in March 1970. Although DOD and GSA took considerable action to solve mutual problems relating to the 52-class transfer, some of the problems cited in our previous report remained.

Inventory tests at selected DOD depots after the transfer showed substantial quantity differences between GSA's recorded inventory and actual stocks on hand. After we brought these discrepancies to GSA's attention, DOD took physical inventories at several depots and compared their counts with GSA's inventory records. These comparisons showed that stocks valued at about $5 million had not been recorded on GSA's records and were "lost" to the supply system. As a result, GSA purchased some identical stocks and did not, in some cases, fill requisitions timely because it did not know that the items were on hand.

We concluded that these deficiencies arose because the transfer procedures adopted as a result of our previous report had not been effectively implemented.

We recommended that DOD and GSA:

--Implement transfer procedures adopted as a result of our previous report.

--Take physical inventories, on the basis of up-to-date stock locator records, of all stocks to be transferred.

--Take periodic physical inventories of stocks remaining in the custody of the transferring agency and transmit all resulting changes to the managing agency.

--Show all GSA-managed stocks stored at DOD depots on GSA inventory records.

Both DOD and GSA agreed with our recommendations and advised us that additional management controls would be applied to future transfers. We have not yet determined the effectiveness of the actions promised by DOD and GSA. (B-161319, March 9, 1970.)

QUESTIONABLE USE OF FUNDS TO TRANSPORT, ERECT, AND MAINTAIN DEFECTIVE AIR-INFLATABLE SHELTERS

Department of the Air Force

In June 1970 we reported to the Secretary of Defense that the Air Force was distributing air-inflatable shelters from which they experienced unsuccessful results.

The 2750th Air Base Wing, Headquarters, Air Force Logistics Command, bought 384 double-wall, air-inflatable shelters from an American firm. The shelters, which cost $8.9 million, were bought to meet urgent requirements for buildings in Southeast Asia.

Testing of prototypes of the shelters proved unsuccessful but the Logistics Command, in view of the extreme urgency, lowered production test requirements and accepted delivery of the entire quantity. Unsuccessful results with the shelters in Southeast Asia caused the Commander in Chief, Pacific Air Forces, to ask on December 14, 1966, that no more of the shelters be sent to the Pacific Air Forces. Prefabricated metal buildings subsequently were bought abroad for use in place of the inflatable shelters.

The Construction Branch, Engineering and Construction Division, Office of Civil Engineer at the Logistics Command was assigned supply management responsibilities for the shelters until about September 15, 1969, at which time the Robins Air Materiel Area, Robins Air Force Base, Georgia, assumed these responsibilities.

From the information developed in our review, we noted that none of the shelters issued had been used successfully for any extended period of time. Nevertheless, as recently as February 1970, 10 of these shelters had been shipped to Spain and Germany for attempted use at U.S. Air Force installations.

The Robins item manager's records showed that no shelters were issued to the Pacific area after refusal of the Commander in Chief, Pacific Air Forces, in 1966 to accept additional deliveries. Nevertheless, Robins continued to

ship shelters to other locations. For example, we observed that, as of March 13, 1970, the item manager's records showed that 90 shelters, many of which were defective, had been issued to activities in the continental United States and Europe. Of the 90 shelters, 21 found their way into disposal yards.

Although transportation cost figures were not readily available, they must be substantial, since each shelter requires from 21 to 31 containers, averages 800 cubic feet in volume, and weighs about 12,000 pounds.

We noted that Detachment I-C, 4500th Support Squadron, Tactical Air Command, located at Robins Air Force Base, was issued eight shelters during 1968. These shelters were stored in an outside area and never used. On the basis of instructions from the Tactical Air Command, two of the shelters were sent to South Vietnam and two to Seymour Johnson Air Force Base, North Carolina. The remaining four shelters were turned in to Base Supply where they had been stored marked "condition unknown." The detachment commander had not tried to use the shelters because one of his personnel, who had been specially trained, reported that they were defective and that it was time-consuming to erect and maintain them. In the Commander's opinion, their disadvantages far outnumbered their advantages and, had he been required to use them, most of his staff's time would have been required just to maintain them.

Two companies (the Goodyear Aerospace Corporation and the Air Cruisers Company) agreed to inspect and evaluate the shelters to determine whether they could be modified and effectively used. We learned that one of the companies had completed its evaluation and had concluded that modification could not be done without major redesign.

Because of continued unsuccessful results with the air-inflatable shelters, we questioned the expenditure of additional funds for transporting, erecting, and maintaining them in use until and unless design deficiencies or other deficiencies were corrected.

We therefore recommended to the Secretary of Defense that the United States Air Force be directed to:

--Suspend shipments of air-inflatable shelters to using units.

--Evaluate prospects for successful utilization of the shelters, on the basis of the experience of using units and the evaluations which have been performed by private companies and military testing units over the years.

Department of Defense officials concurred in our recommendations. We were advised that action had been taken to suspend the shipment of shelters and that a determination was to be made of whether an Air Force requirement existed for these shelters. We were informed that, if no requirement existed or if repair was not economically feasible, disposal action would be taken. (B-163389, June 18, 1970.)

NEED FOR CLOSER SURVEILLANCE OF TRANSFERS OF EXCESS AND SURPLUS PROPERTY TO THE MILITARY AFFILIATE RADIO SYSTEM

Department of Defense

The Military Affiliate Radio System was established by the Department of Defense (DOD) to provide auxiliary communications to military, civil, and disaster relief officials on a local, national, and international basis during periods of emergency. Generally, the System handles a large volume of quasi-official messages and phone calls for the morale of military and U.S. Government civilian personnel throughout the world. Units of the System operate within each of the military departments. The System includes radio stations, clubs, and operators, both civilian and military.

Transfers of excess and surplus Government property are made to the System on a priority basis primarily to supplement and improve the operating capability of member stations. We made a review to ascertain the validity of the System's requirements for transferred property and the adequacy of its controls over the property. A report on our review was issued to the Congress in February 1970.

During fiscal year 1968, the Army, Navy, and Air Force System organizations acquired excess and surplus Government property originally costing $56 million. Substantial quantities of the property were not needed by the organizations that acquired them but were needed, in many instances, by other Government agencies. The System exercised little control over either the property acquired and held in its warehouses or the property issued to individual members. Equipment was issued to individual members without consideration of their needs or their ability to use certain types of equipment and to former members no longer entitled to receive it.

We recommended that the Office of the Secretary of Defense establish adequate procedures and controls that would:

--Limit the transfer of excess and surplus property to the System to only that property which is needed and

can be used by member stations to improve their operating capability.

--Provide adequate accountability for excess and surplus property transferred.

--Require accountability over property issued to members and recovery of property from former members.

--Promote increased emphasis by management review groups, including internal auditors, on review of System activities.

DOD concurred in our conclusions and recommendations and advised that more effective, uniform procedures would be developed for the acquisition, distribution, and use of Government property by the System and that action had been taken to increase the surveillance of the operations of the System by management review groups. (B-144239, February 27, 1970.)

NEED FOR ADHERENCE TO ESTABLISHED POLICY ON PROVIDING HOUSEHOLD FURNISHINGS AT MILITARY INSTALLATIONS

Department of Defense

In November 1969 we issued a report to the Congress on our review of management of household furnishings at military installations overseas, including Alaska and Hawaii.

We made a similar review at military installations within the contiguous United States. A report on this review was issued to the Congress in May 1970. We found that the instruction of the Department of Defense governing the providing of household furnishings did not contain adequate guidance to ensure adherence to the policy established by the Bureau of the Budget (now Office of Management and Budget). The Bureau's Circular No. A-15, as revised in May 1962, states that Government-owned furnishings, with certain exceptions, are not to be provided in housekeeping quarters within the United States. In authorizing the exceptions, the Bureau specified the conditions which must exist, or the determinations which must be made, to justify providing furnishings under the exception.

Our tests at six military installations of the three military departments showed that the installations did not have procedures to ensure that individuals receiving Government-owned furniture were entitled to such furniture under the provisions of the Bureau's Circular No. A-15.

Officials of the Department of Defense advised us that the practice of providing furniture at installations within the contiguous United States would be phased out as stocks were depleted and that procurement of new furniture had been curtailed.

We suggested that the Secretary of Defense:

--Prescribe procedures to be followed by the military departments to ensure compliance with the policy of the Bureau of the Budget on providing furniture for housekeeping quarters within the United States.

--Emphasize that military personnel must rely on the use of their own furniture.

--Consider transferring unneeded furniture, being retained for housekeeping quarters within the United States, to nonhousekeeping quarters and to overseas housekeeping quarters where needed.

The Department of Defense concurred and, on March 11, 1970, issued instructions to the military departments which restricted the providing and repairing of supplemental Government-owned furniture and which should facilitate redistribution within the United States. These instructions reflect more closely the intent of the policy of the Bureau of the Budget. (B-167490, May 14, 1970.)

MILITARY CONSTRUCTION

NEED TO KEEP THE CONGRESS INFORMED ON CONSTRUCTION FINANCED WITH FUNDS OTHER THAN MILITARY CONSTRUCTION APPROPRIATIONS

Department of Defense

The Department of Defense (DOD) managed 98 active Government-owned, contractor-operated industrial plants originally costing $2.2 billion for land and improvements. We noted that large additions were being constructed at some of these plants. Accordingly, we reviewed the procedures and controls relating to expansion and replacement of industrial plants and examined into acquisition of facilities constructed between late 1965 and 1968 at two Air Force and three Navy installations. Our report on the review was issued to the Congress in January 1970.

Each major addition to facilities at military installations requires congressional review and approval and is paid for out of military construction appropriations. Major additions to facilities at Government-owned, contractor-operated defense plants, however, normally are financed with funds from procurement or from research, development, test, and evaluation (RDT&E) appropriations. Under the latter procedure, proposed acquisitions are included in separately identified facility categories in procurement or RDT&E budget requests submitted to the Congress and the projects are sometimes individually presented to the congressional committees concerned.

We found that in some cases DOD had authorized contractors operating Government-owned plants to provide the financing for new facilities and to recover the costs involved through overhead charges against Government supply and research and development contracts over a period of years--usually 5 years. Title vested in the Government when the facilities were built. Proposed acquisition of facilities under this method was not specifically identified in budget presentations to the Congress.

At the five installations we reviewed, new buildings costing $31 million had been acquired by the Air Force and

the Navy under supply and research and development contracts and financing had been provided by the contractors who were being reimbursed over a period of years. We did not question the legality of these indirect acquisitions but pointed out that the lack of disclosure of such acquisitions to the Congress was inconsistent with the procedures applicable to construction projects funded directly by the Government under military construction appropriations or under procurement or research and development appropriations.

There are no specific provisions in DOD procurement regulations covering facility acquisitions by the Government through contractor financing and subsequent reimbursement of the contractor under a supply or research and development contract. Consequently DOD does not require reporting of such projects to the Congress in the budget process, nor does it provide guidance as to when this method of financing should be used.

We did not inquire into the relative economy of acquiring facilities indirectly through contractor financing compared with acquiring facilities under the traditional method of direct financing by the Government. With respect to the financing charges, however, we noted that interest on the contractors' investments in the facilities had not been charged to the Government. Also the profit earned by the contractors on the facility costs charged as overhead over the amortization period appeared to be less than the interest cost that the Government would have incurred if it initially had paid for the construction.

We recommended that the Secretary of Defense take action to revise DOD's budgetary procedures, as appropriate, to effect full disclosure in applicable budget submissions to the Congress of all proposed expenditures from procurement and RDT&E appropriations, either directly or indirectly, for construction of Government-owned facilities. We recommended also that, if it were deemed desirable to have contractors provide initial financing for Government-owned industrial facilities, the Secretary of Defense have the Armed Services Procurement Regulation revised, as necessary, to (1) provide clear criteria concerning when this method of financing should be employed and (2) spell out the controls to be exercised.

DOD advised us that it was reviewing its current budget policies and procedures and that appropriate revisions would be made in internal regulations to ensure that future acquisitions of industrial real property are financed directly and that proposed acquisitions are disclosed in budget submissions to the Congress.

The House Committee on Appropriations, in its report accompanying the Department of Defense Appropriation Bill for fiscal year 1970, cited our findings and stated that the Committee desired that in the future all proposed major improvements to, and construction of, Government-owned facilities funded in any manner with procurement and RDT&E appropriations be clearly identified in budget requests. (B-140389, January 21, 1970.)

NEED FOR IMPROVEMENTS IN THE MANAGEMENT OF OVERSEAS MILITARY CONSTRUCTION CONTRACTS

Department of Defense

In September 1970 we reported to the Congress that the Department of Defense (DOD) early in 1966 directed a U.S. Navy construction contractor, a joint venture, to obtain equipment, materials, and personnel sufficient to complete a large and complex $960 million construction program to support the buildup of U.S. military forces in Vietnam.

At the height of the Navy contractor's mobilization, in May 1966, DOD departed from that plan and authorized the Air Force to hire a separate contractor to build a fighter-plane base at Tuy Hoa, north of Cam Ranh Bay. The estimated cost of this project was $52 million, on a cost-type contract.

The Navy had proposed to DOD that the Tuy Hoa project be constructed by its joint venture as a part of its assigned responsibility. The Navy advised DOD that its construction contractor had proven capability, that construction equipment had been purchased in specific anticipation of the Tuy Hoa project, and that using a second cost-type contractor would mean duplication of many expenses.

In view of the Navy's substantial contractor construction forces and necessary equipment then available in Vietnam, we examined into the justification for the Air Force's engaging a separate contractor to build a single airfield. Essentially, the Air Force's justification was that the airfield had been needed so urgently that no other course of action could be considered. We believe that the Navy contractor, with a known construction capability and with equipment already purchased for the Tuy Hoa project, could have completed the airfield in the time required.

We believe also that, had the Navy proposal been followed, several million dollars in added costs could have been avoided. The added costs consisted of:

1. Duplicate equipment purchases--The subcontractor for the Air Force purchased construction equipment for about $9.5 million. Similar equipment costing about

$7.4 million had already been purchased by the Navy's contractor.

2. Premium prices paid for equipment--The Air Force subcontractor purchased construction equipment direct from equipment dealers or other third parties instead of direct from the manufacturers or through the Government supply system.

3. Duplicative overhead and administrative costs--The Air Force and its contractor incurred $3.9 million in overhead and administrative costs to establish a logistical pipeline which duplicated the one established by the Navy and its contractor.

4. Disproportionate fee payment--The fee rate paid by the Air Force to its contractor was more than double the rate paid on other DOD cost-type construction contracts in Southeast Asia.

We proposed in our draft report that DOD use a single military construction agent in any one overseas geographic area, with contractor capability being increased as the construction agent requires; ensure that a contractor operating under a cost-reimbursable contract receives adequate instructions on procurement procedures; and ensure that a parity exists in construction-contractor fees.

DOD stated that its policies were in agreement with our proposals and were considered to be operative in the case of the Tuy Hoa project but that this project was approved as a specific exception. We believe, however, that duplicative contract costs can be avoided in the future if an assessment is made of the cost advantages and disadvantages of augmenting the capability of a single contractor or using multiple contractors.

We recommended that in the future the Secretary of Defense direct military construction agents to submit for DOD consideration the military justification and a detailed estimate of the duplicate overhead and equipment costs expected if more than one cost-type construction contractor is considered for a geographic area; give consideration to strengthening administrative procedures on cost-reimbursable

contracts, particularly in connection with procurement, in a manner similar to that in the guidance now being developed by the Navy; and require, in cost-type construction contracts, that military construction agents obtain advance approval from the Office of the Secretary of Defense for fee rates that are exceptions to those prevailing in a particular overseas geographic area. (B-159451, October 28, 1970.)

NEED FOR INCLUSION OF OVERSEAS CONTRACTS AND OTHER CONTRACTS IN REPORTS TO THE CONGRESS ON NONADVERTISED MILITARY CONSTRUCTION CONTRACT AWARDS

Department of Defense

In August 1970 we issued to the Congress a report on our survey of certain aspects of the award and administration of military construction contracts.

Under the military construction authorization acts, the military departments are required to report to the Congress all nonadvertised--negotiated--military construction contract awards. The fiscal year 1968 reports listed 110 nonadvertised contract awards, totaling $91 million, and indicated that about 91 percent of the amount of military construction contracted for in that year had been advertised.

We found that the reports to the Congress did not include most of the nonadvertised military construction contract awards for work overseas. We identified 125 awards of this type: 100, totaling $184 million, in Southeast Asia and 25, totaling $7 million, in the Republic of Germany. Inclusion of these overseas awards in the nonadvertised contracts reported to the Congress would have shown the proportion of advertised-contract amounts in fiscal year 1968 to be 72 percent rather than 91 percent.

We also noted that the Department of Defense was not required to report to the Congress nonadvertised construction contract awards financed with other than the military construction appropriations. We identified nonadvertised military construction contract awards of $98 million in fiscal year 1968 that had been funded from other appropriations--principally procurement appropriations. In addition, we had found in an earlier review that subcontracts for construction had been awarded by prime contractors holding negotiated defense contracts for research and development and for production of materiel.

We suggested that the Department of Defense require the military departments to improve their practices in reporting to the Congress. In response the Department stated that

other means had been used to keep the Congress informed of the overseas awards discussed in our report. The Department, however, concurred in our suggestion and cited new instructions that had been put into effect to ensure proper reporting in the future. (B-133316, August 18, 1970.)

NEED FOR CONSIDERATION OF ALTERNATIVE METHODS OF ACQUIRING FACILITIES IN ITALY

Department of the Navy

Under the lease-construction method of acquiring facilities, the lessor agrees to construct a building or buildings in accordance with general guidelines prepared by the lessee. The Navy has acquired a considerable number of buildings under this method for the use of the Naval Support Activity in Naples, Italy. Rents for these buildings were about $900,000 in fiscal year 1969. The Navy plans to increase its leasing in future years. We examined into the Navy's use of the lease-construction method for acquiring these facilities. Our report on the examination was issued to the Congress in January 1970.

Acquisition of facilities in foreign countries through lease-construction has certain advantages and disadvantages compared with acquisition through the military construction program. Therefore the major factors affecting acquisition of a facility should be thoroughly reviewed and documented prior to selection of a particular method.

The Navy established a policy in 1956 of acquiring facilities in Naples exclusively by leasing with no consideration's being given to acquisition through the military construction program. The Navy had no indication in its files that it had considered estimated costs of construction, estimated appraised values, local rental rates, or other factors in establishing rental rates for the leased facilities.

The leased buildings were built to lower standards than U.S. military specifications and contained numerous deficiencies in design, workmanship, and quality of materials. Also the lessor's responsibility for maintenance was not clearly established. This resulted in disagreements as to who should bear the cost of maintenance and in lengthy delays in having the work done.

We suggested that:

--The Navy's procedures for acquisition of facilities by lease-construction be revised to provide for

consideration of acquisition through the military construction program.

--Records of future negotiations for lease-construction projects contain full documentation of factors considered in establishing rental rates.

--The Secretary of the Navy issue instructions providing additional guidance for entering into and administering lease-construction contracts.

--The Navy withhold a sufficient amount from rental payments for the Naples complex to compensate for construction deficiencies and for extraordinary maintenance that the Navy had to perform as a result of the failure of the lessor to make required repairs.

The Assistant Secretary of the Navy (Financial Management) agreed, in general, with our conclusions and agreed to take appropriate action. (B-167807, January 6, 1970.)

NEED FOR CLARIFICATION OF CRITERIA FOR IDENTIFYING APPROPRIATIONS AVAILABLE FOR FINANCING CONSTRUCTION OF FACILITIES FOR RESEARCH AND DEVELOPMENT PROJECTS

Department of the Air Force

(See narrative under caption "Research and Development," p. 43.)

ADMINISTRATION OF MANPOWER MATTERS

NEED FOR GREATER ACCURACY OF DATA IN THE AUTOMATED MANPOWER AND PERSONNEL MANAGEMENT INFORMATION SYSTEM

Department of the Navy

The Navy's automated manpower and personnel management information system is designed to furnish accurate and timely data on its 1.2 million active and reserve officer and enlisted personnel. The data provide information for use in making decisions on such matters as personnel assignments, promotions, and school selection. In June 1970 we issued to the Congress a report on our review of the system.

On the basis of our tests, we estimated that, at the activities we visited, at least 83 percent of the records of officers and 79 percent of the records of enlisted men contained one or more errors. Inaccuracies were found in various types of information, such as data on the qualifications, achievements, and prior assignments of personnel on active duty. At our suggestion, the Navy established accuracy standards for many data items. The error rates we found on specific data were considerably higher than those the Navy standards indicated were acceptable.

At the activities we visited, existing procedures for finding and correcting errors were not followed and internal reviews were not made to inform management on adherence to procedures and the degree of accuracy attained.

We suggested that the Navy strengthen the error detection and correction procedures, establish appropriate accuracy standards for all data, and request the Navy Auditor General to make an independent assessment of the validity of the system data.

The Navy stated that its existing error detection and correction procedures were adequate when complied with and that it would take the necessary action to achieve compliance. (B-169031, June 23, 1970.)

PROBLEMS IN ACCOUNTING FOR PAYMENTS TO MILITARY PERSONNEL IN ADVANCE OF REGULAR PAY DAYS

Department of the Army

We reviewed the controls and procedures established by the Army to make sure that payments to its military personnel in advance of regular pay days--called casual and partial payments--were properly adjusted through subsequent payroll deductions. We had noted that, in January 1968, the Army had discontinued its program for verifying the collection of such payments because of staffing limitations and because of other personnel ceiling restrictions imposed by section 201 of the Revenue and Expenditure Control Act of 1968. Our review covered the period January through June 1968.

In a report issued to the Congress in April 1970, we stated that overpayments of about $3.5 million were made during the 6-month period because certain of the casual and partial payments had not been deducted in subsequent payroll periods from the pay of the recipients of such advance payments. Contributing factors to loss of control over casual and partial payments were that:

--Individual financial records apparently were not adequately protected from unauthorized access and some records of payments were lost or removed.

--Army regulations did not provide for the maintenance of permanent records of the disposition of casual and partial payment documents.

--There was a lack of uniformity in the disposition of casual payment documents when the paying office was unable to determine the new station of a recipient of a casual payment.

--It normally took from 3 to 4 months to determine the duty station of a recipient of a casual payment and this resulted in additional handling and delay and in possible loss of pay documents.

Since 1966 the Department of Defense, in coordination with the military services, has been engaged in developing a Joint Uniform Military Pay System. One of the features of the proposed system is the computerized maintenance of pay accounts on a centralized basis. The Army-wide implementation of the proposed system, tentatively scheduled to be operable by January 1972, should improve control over casual and partial payments and should reduce the incidence of overpayments. Because the estimated losses under the existing system were so significant, however, we believed that immediate action to improve internal controls was needed. We made several suggestions designed to improve internal controls, and the Army took action on some of them. We recommended that:

--The Secretary of Defense direct that the Army maintain its verification program at an acceptable level until an effective system of internal control over its payroll procedures has been established.

--The Secretary of the Army consider the feasibility of requiring the paying finance offices to institute follow-up controls for collecting casual payments.

--The Secretary of the Army direct the Army Audit Agency to test periodically the procedures followed at all field installations in making and controlling casual and partial payments to make sure that the procedures are adequate.

The Army agreed, in general, with our observations and conclusions. Also with the repeal of section 201 of the Revenue and Expenditure Control Act of 1968, which had imposed personnel ceiling restrictions, the Army reestablished its centralized program for verifying the collection of casual and partial payments. The program, however, was supported only through fiscal year 1970 because of further planned reductions in manpower for economy reasons. In June 1970 we were advised that the program would be supported through fiscal year 1971. (B-125037, April 1, 1970.)

SAVINGS AVAILABLE THROUGH REDUCTION OF PER DIEM PAYMENTS TO APPROXIMATE COSTS INCURRED AND CONSIDERATION OF OTHER ALTERNATIVES

Department of the Army

Student officers at the Army's Fort Rucker were required to reside off the base during 16 weeks of temporary duty because the Army, in accordance with Department of Defense regulations, considered the existing bachelor officers' quarters inadequate for their use. The Army paid the maximum cash allowances permitted for lodging--averaging about $356 a month--although students returned questionnaires indicating that their lodging costs in the surrounding communities averaged $145 a month. Fort Rucker officials were aware of lodging costs but had taken no action to bring the cash payments into line with the costs incurred by the students. Internal audit agencies of the Department of Defense had not reviewed the need to pay cash allowances for temporary lodging at Fort Rucker.

In a report issued to the Congress in March 1970, we stated that about $800,000 a year could be saved by reducing the cash allowances to the average reported costs incurred by students. We also estimated that savings from a minimum of about $600,000 to as much as $1.7 million could be achieved at Fort Rucker by other alternative methods of providing temporary lodging for the student officers:

--Savings of about $660,000 a year by earlier construction of new bachelor officers' quarters planned for incremental construction during fiscal years 1973 and 1974.

--Savings of about $1.7 million a year if existing bachelor officers' quarters currently classified inadequate by the Army were renovated for use on a temporary basis.

--Savings of about $1 million a year by leasing mobile homes for use as bachelor officers' quarters.

--Savings of about $667,000 a year by changing the quarters assignment policy to require student officers to occupy adequate bachelor officers' quarters.

We recommended that:

--The Secretary of Defense select a less costly method of providing temporary lodging for student officers at Fort Rucker.

--The Secretary of the Army exercise his authority to reduce the per diem rate for lodging at Fort Rucker to a rate commensurate with the average lodging costs incurred by student officers.

--The Department of Defense establish and monitor review procedures to ensure that the military services are giving proper audit consideration to the necessity for paying cash allowances for lodging.

--The Secretary of Defense consider the advantages of introducing simple techniques for controlling per diem payments such as a sliding scale, used by some Government agencies, which ties per diem rates to actual lodging costs.

The Army recently changed its quarters assignment policy at Fort Rucker to provide permanently assigned officers the option of either occupying adequate bachelor officers' quarters or residing off base. (Authorized cash allowances for quarters for permanently assigned officers are substantially less than those for officers on temporary duty.) This change in policy made adequate bachelor officers' quarters available for about 300 student officers and could result in annual savings of about $600,000. Also the Department of Defense agreed that audit emphasis should be placed on the necessity for payment of cash allowances and stated that the military services would include this aspect in their internal audit programs.

The Department of Defense generally did not concur in our suggestion that there be adopted at Fort Rucker alternative, less costly methods of providing housing for use by student officers on a temporary basis. The Department cited

the problems that would be involved, such as military construction priorities and procedures, constraints on the availability of funds, long-range and Army-wide requirements for bachelor officers' quarters, and the interests of the individuals involved. We pointed out that about 700 officers on temporary duty at Fort Rucker were still receiving cash allowances far in excess of their average reported lodging costs and that, in our opinion, the Department should reconsider its decision. (B-146912, March 3, 1970.)

PROBLEMS RESULTING FROM CIVILIAN PERSONNEL CEILINGS AND RECRUITING PRACTICES

Department of Defense

At the request of the Chairman, Manpower and Civil Service Subcommittee, House Committee on Post Office and Civil Service, we reviewed the management by the Department of Defense of its civilian personnel ceilings--annual budgetary limitations on the number of civil service employees authorized for an agency--and its related recruiting practices. Our review was performed at 12 Army, Navy, and Air Force installations of various types. Our report on the review was issued to the Congress in December 1969.

The system for managing civilian personnel ceilings lacked sufficient flexibility. Efforts of military officials to obtain approval for additional civil service positions were lengthy, cumbersome, and often unproductive. There also were recruiting problems. These factors resulted in the uneconomical and otherwise undesirable practice of contracting for the needed services from private firms.

Some contracts for personnel services were awarded despite the fact that cost comparisons indicated that civil service workers could perform the same work more cheaply. Other contracts were awarded for work which officials preferred to have performed by civil service employees in order to develop and maintain technical capability, to achieve more effective control over the work, and to lessen dependence on contractors.

Some installations needed to improve and intensify their recruiting efforts and to take action to provide every possible employment incentive. Ineffective recruiting practices included failure to advertise in trade and professional journals for needed employees, inability to make firm commitments to prospective employees because of hiring ceilings, delays in selecting candidates and in contacting them, uncompetitive salaries offered, and failure to offer desirable tours of duty after completion of duty in remote areas--practices followed by Defense contractors and other agencies of the Government.

We proposed that the Secretary of Defense:

--Direct the military departments to review their systems for managing personnel ceilings in order to provide greater flexibility.

--Ensure that the military departments intensify their recruiting efforts and use all available resources and methods to obtain qualified personnel.

The Assistant Secretary of Defense (Comptroller) agreed, in general, with our findings and proposals and outlined the corrective actions that were being taken. (B-165959, December 30, 1969.)

SAVINGS AVAILABLE THROUGH IMPROVEMENT IN PERFORMANCE STANDARDS FOR PRODUCTION PERSONNEL

Department of Defense

We reviewed the performance standards used to measure the work production of civilian personnel at three Defense industrial activities--one Army, one Navy, and one Air Force. A report on the review was issued to the Congress in December 1969.

At one of the activities, the Yorktown Naval Weapons Station, use of invalid standards resulted in significant amounts of idle time in operating a bomb-production line. We estimated that, even after certain corrective actions had been taken by the Navy, about $280,000 a year was still being spent unnecessarily because of overstaffing. We found no conclusive evidence of overstaffing at the other two locations included in our review.

There were weaknesses in the development and evaluation of performance standards at all three locations which limited usefulness of the standards in controlling work loads and in ensuring economical and efficient management of labor. The weaknesses were primarily attributable to shortages in staffing and incomplete training of certain specialists in performance standards at two locations and to an unsuitable plan of standards development at the third location.

We proposed to the Secretary of Defense that action be taken to ensure that:

--The military departments provide fully trained and qualified personnel for development of performance standards.

--A satisfactory system of internal review of performance standards be implemented.

--Standards for bomb-production work at the Yorktown Naval Weapons Station be reviewed to determine the

most efficient procedures and economical use of manpower

In response, the Department of Defense (DOD) stated that it considered its existing training programs for the development of standards personnel to be adequate to meet the objectives of our first proposal and that steps would be taken to strengthen the effectiveness of internal review and evaluation of standards to meet the objectives of our second proposal. In response to our third proposal, the Navy eliminated 13 positions from the bomb-production line at Yorktown.

We believed that DOD training programs, although significant, had not provided adequate staffing of the standards function at the industrial activities we reviewed and that, although the Navy had eliminated 13 positions from the bomb-production line at Yorktown, improvements in balancing the work load could result in a further reduction of manpower requirements by more than 40 employees at a saving of about $280,000 a year without adverse effect on bomb production.

Therefore we recommended that:

--The Secretary of Defense take actions to ensure that the Army, Navy, and Air Force reevaluate staffing requirements and place increased emphasis on training and staffing for their standards programs.

--The Secretary of the Navy initiate and monitor a review of the bomb-production functions at Yorktown to redefine jobs, establish new standards, balance the work load between sections and operators, and adjust the staffing in accordance with the findings in the review.

On March 6, 1970, DOD outlined to us the steps it had taken to implement our recommendation and advised us that the Secretary of the Navy had requested the Chief of Naval Operations to review bomb-loading operations at naval activities. (B-167982, December 29, 1969.)

MILITARY TRAINING AND EDUCATION PROGRAMS

NEED FOR CLARIFICATION OF OBJECTIVES OF FULL-TIME GRADUATE EDUCATION PROGRAMS FOR MILITARY OFFICERS

Department of Defense

A memorandum issued by the Joint Chiefs of Staff in 1964 established criteria for determining graduate education requirements for military officer positions. During fiscal year 1969 over 4,200 officers were enrolled in full-time graduate education programs at an estimated cost of at least $70 million.

In a report issued to the Congress in August 1970, we pointed out that the criteria for identifying military officer positions requiring graduate education and the ways in which the criteria were applied were so broad and permissive that almost any officer position could be certified as requiring such education. Positions were certified as requiring graduate education although the need for such education had not been established. Certifications were requested and approved without adequate consideration of:

--Work experience or short training courses as alternatives to full-time graduate education.

--Inconsistencies between the official job descriptions which did not require graduate education, and the job descriptions submitted for certification of graduate education requirements.

--Use of civilians in the positions where possible.

--Inconsistencies among the services concerning the need for graduate education in similar or identical positions.

--Essentiality of graduate education for performing duties of the position.

Furthermore, many officers having graduate education were not assigned to positions requiring their specialized education.

We suggested that the Secretary of Defense:

--Issue a policy statement expressing more clearly the objectives of the graduate education program.

--Order revision of the existing criteria to limit the broad, permissive interpretations.

--Obtain the advice of the Civil Service Commission or other qualified body in developing the new criteria.

--Require uniform application of the new criteria by the military services.

--Consider using civilians in positions requiring graduate degrees.

--Review the assignment policies and practices of the military services for ensuring maximum use of personnel having specialized graduate education for those jobs having such education as a prerequisite.

The Department of Defense noted that we had failed to take into account the intangible accepted values and benefits of graduate education. We pointed out that the criteria of the Joint Chiefs of Staff did not justify the program on these generalized bases but on the requirements of specific positions.

The Department of Defense position indicated little early corrective action in response to our findings and suggestions. We suggested that, in view of the Department's position and the announced plans of the military services to expand the graduate education program, the Congress may wish to consider limiting the full-time, fully funded graduate education program to (1) those positions for which such education is essential for the satisfactory performance of duty and (2) only those officers who can be used primarily in those positions. (B-165558, August 28, 1970.)

PROBLEMS IN ATTAINING OBJECTIVES OF PROJECT TRANSITION FOR ENLISTED MILITARY PERSONNEL

Department of Defense

Project TRANSITION was developed by the Department of Defense (DOD) in 1968 to provide educational and vocational training designed to increase the chances for employment of enlisted men in civilian life after separation from service. As of March 31, 1969, 250 installations were participating in the project. We reviewed the project at the five military installations having the longest experience in the program, to obtain information on administration of the program and to identify areas in which corrective action could reduce costs or improve effectiveness of the program. Our report on the review was issued to the Congress in December 1969.

In view of the relative newness of Project TRANSITION, we were not in a position to express an opinion on its overall effectiveness. We found, however, that certain improvements were needed if the stated objectives of the program were to be attained.

Many enlisted personnel eligible to participate in the program were not identified during their last 6 months of service. Many others identified as eligible were not contacted to determine if they wanted to participate. Also, a large number of Career Plans Questionnaires, which had been given to eligible servicemen, were not returned to the local TRANSITION office.

DOD considers counseling to be the keystone of the program. At three of the five installations we visited, however, the counselors did not have descriptions of the courses offered by the program or adequate current information on available jobs. Also in many instances the counselors were keeping inadequate records of the assistance given to each serviceman. The criteria used for determining needed training courses were inadequate in some instances.

Other deficiencies were noted in accounting for costs and in the recordkeeping and reporting procedures.

We proposed that DOD take appropriate action to correct the matters revealed by our review.

Officials of the Office of the Secretary of Defense were generally aware of the areas which needed improvement and advised us that corrective action had been taken to strengthen the administration of the program.
(B-164088, December 8, 1969.)

PROBLEMS IN ATTAINING OBJECTIVES OF PROJECT ONE HUNDRED THOUSAND FOR ENLISTED MILITARY PERSONNEL

Department of the Army

Project One Hundred Thousand (POHT) is a continuing program developed by DOD in 1966 to accept for military service men who previously would have been disqualified under existing mental and physical standards. We reviewed the program to obtain information on the administration of its early phases and to identify areas where corrective action would improve its effectiveness. Our report on the review was issued to the Congress in December 1969.

The Army had a marked degree of success in attaining the objectives of the program. Certain problem areas, however, required continued attention by the Army to realize increased benefits from the program. The more significant problem areas follow.

--Many POHT individuals were not receiving needed reading instruction because of insufficient instructors and facilities.

--Restructuring of certain regular training courses to accommodate POHT individuals resulted in additional investment in training aids and personnel.

--There was a relatively high discharge rate for certain individuals accepted under the Medically Remedial Enlistment Program (MREP)--a program which permits acceptance into the Army of men with selected, correctable medical conditions.

--Not all additional costs associated with the POHT program were readily identifiable.

--The reporting system contained deficiencies, particularly pertaining to recycling during training. (Recycling is the requirement that an individual repeat certain portions of training because he has not met the standards of a particular phase of training.)

We suggested that, to improve the effectiveness of the program, the Secretary of Defense take the necessary action to:

--Reevaluate MREP to determine whether there is a need to revise acceptance standards or to exclude individuals with certain physical defects from the program.

--Prevent acceptance into MREP of individuals who would require more than the prescribed approximate 6-week period of treatment.

We suggested also that the Secretary of the Army take the necessary action to:

--Ensure that adequate local implementing instructions are prepared governing the information required to be forwarded for use by management in evaluating the POHT program.

--Establish a system for obtaining more reliable cost data for certain areas of training and other programs operated specifically for POHT personnel.

DOD agreed, in general, with our findings and suggestions and stated that the suggestions contained in our report were helpful in improving the management of the program. Regarding the MREP, DOD advised that it would further evaluate those conditions which had resulted in high separation rates and lengthy periods of noneffective time. (B-164088, December 8, 1969.)

OPPORTUNITY FOR IMPROVING EFFECTIVENESS OF THE FORMAL SCHOOL TRAINING PROGRAM FOR MILITARY PERSONNEL IN EUROPE

Department of the Army

Inasmuch as the Army operates a large service school system in the continental United States, we reviewed the reasons for, and the effectiveness of, the Army's extensive formal training organization in Europe. A report on our review was issued to the Congress in January 1970. Our review was conducted primarily at the U.S. Army School, Europe, the largest Army training organization in Europe. During fiscal year 1968 the school conducted 88 courses attended by about 32,000 military students at an estimated cost of about $10 million.

Maximum benefits were not being obtained from the formal training program because many of the students:

--Were being trained in skills not related to their assigned duties.

--Had attended similar courses previously.

--Had been working in their skill for more than 1 year prior to attending courses.

--Had left the U.S. Army, Europe (USAREUR), subsequent to the training and prior to the time when their training would have been of service to the command.

--Had not satisfactorily completed courses of instruction.

This resulted because many of the allocations of school spaces were not related to actual needs. In some cases men were sent to school to fill the allocated school spaces rather than to fill their units' need for men trained in the particular skills. Also school training requirements were not being properly developed.

The assignment practices of the Army contributed to the need for an extensive formal training effort in Europe.

These practices included rotating personnel to and from Europe and not providing a sufficient number of replacement personnel trained in the skills needed to perform assigned duties adequately. An extensive formal training effort in Europe will be needed as long as these practices continue. Also USAREUR was not assigning personnel, in some instances, where their skills were authorized and needed.

We proposed that the Army take action to (1) ensure that USAREUR provides uniform guidance to its using units for determinations of training requirements, allocation of school spaces, and selection of school candidates and (2) attain greater coordination between the training requirements in the United States and those in USAREUR in order to reduce the possibility of duplication of training in Europe. USAREUR took action to implement these proposals. (B-167664, January 9, 1970.)

NEED FOR MANAGEMENT IMPROVEMENTS AT THE UNITED STATES ARMED FORCES INSTITUTE

Department of Defense

The mission of the United States Armed Forces Institute is to provide to members of the Armed Forces educational services and materials on subjects normally taught in civilian academic institutions. The annual budget of the Institute is about $6 million. To determine the effectiveness of the Institute's education programs and its management of field inventories, we reviewed the completion rates experienced in the correspondence and group-study programs and the control over educational materials issued to field installations. Our report on the review was issued to the Congress in October 1970.

The Institute had experienced low course-completion rates in recent years--about 10 percent in the correspondence program and about 31 percent to 39 percent in the group-study program. Internal auditors of the Department of Defense reviewed the programs in 1965 and, in a report on the review, expressed concern about the low completion rates and made recommendations for improvement. When we began our review in 1969, we found no evidence that the Institute had taken action on the recommendations. During our review, however, the Institute took action to deal with the low-completion-rate problem--including a study to provide an information base on dropouts and student nonstarts (students who, after enrolling, do not submit lessons).

Also, prior to July 1969, the Institute was issuing from its Madison, Wisconsin, inventory to field installations more than a million dollars' worth of educational materials annually but was not keeping records of the location, quantities on hand, or disposition of the materials. This condition contributed to the Institute's denying enrollment to servicemen in courses when the Madison inventory had stock shortages. Institute officials informed us that, when Madison had stock shortages, in all probability stock was available at field installations and could have been provided to at least a portion of the applicants. In July 1969 the Institute introduced procedures intended to improve its control of inventories at field installations.

We recommended that the Secretary of Defense take action to ensure (1) that the study to provide an information base on student dropouts and nonstarts is completed timely and that the corrective action suggested by the study is taken and (2) that the inventory control procedures initiated during our review are properly employed and that attention also is given to other areas that appear to warrant management attention. We recommended also that procedures be established to provide the Institute with information, for management purposes, on future trends in course enrollments and completion rates. The Deputy Assistant Secretary of Defense (Manpower and Reserve Affairs) stated that the Department of Defense agreed with these recommendations. (B-169062, October 8, 1970.)

READINESS OF COMPONENTS OF THE ARMED FORCES

PROBLEMS IN MAINTAINING READINESS OF THE ATLANTIC AND SIXTH FLEETS

Department of the Navy

In June 1970 we issued to the Congress a classified report (secret) on our review of the combat readiness of the Navy's Atlantic and Sixth Fleets. An unclassified summary of our findings follows.

Supply, personnel, and equipment problems were preventing the Atlantic and Sixth Fleets from achieving and maintaining a desired state of readiness. The fleets' own evaluations had concluded that, under current conditions, the fleets were capable of handling a contingency but were only marginally capable of maintaining a high level of sustained wartime operations. Many of the problems were due to factors beyond the direct control of the Navy, such as funding restrictions, the use of available resources in Southeast Asia, and the age of the ships. There were other significant problems, however, directly related to the need for more effective management of the resources available to the Navy. These problems included

--the lack of timely support from ashore,

--inadequate supply management aboard ships, and

--the lack of sufficient qualified personnel.

Improvement was also needed in the criteria used for measuring and reporting combat readiness. The criteria did not permit uniform application of readiness standards throughout the two fleets and therefore did not result in comparable readiness evaluations of the capabilities of similar units. There was also a need for greater surveillance of the readiness-reporting system to ensure that the reports to higher authorities reasonably reflected existing conditions.

We recommended that the Secretary of Defense follow the measures being taken by the Navy to improve readiness

through more effective management of existing resources. We also suggested that the Congress may wish the Department of Defense to reexamine the status of the current force structure of the fleets. We offered the following alternatives for consideration.

1. Reduction of naval units in the Atlantic and Sixth Fleets to a level that could be supported effectively with available resources.

2. Allocation of additional resources to upgrade the combat-readiness status of the Atlantic and Sixth Fleets.

3. Maintenance of the status quo and assumption of the risk of reduced operational capability in the event that action by these forces is required.

(B-146964, June 30, 1970.)

PROBLEMS IN MAINTAINING READINESS OF THE ARMY RESERVE COMPONENTS

Department of the Army

We reviewed the readiness of 10 selected units of the Army Reserve Components (Army National Guard and Army Reserve) as a part of an overall readiness review program. A report on the review was issued to the Congress in January 1970.

Reserve units selected as having the highest degree of readiness and deployability were designated "Selected Reserve Force (SRF) units" by the Army in October 1965. The SRF designation was eliminated in September 1969--subsequent to our review--but contingency plans provided for early deployment of Reserve units of the type included in our review.

The 10 SRF units that we reviewed were not ready to mobilize and deploy as rapidly as planned in the event of war or national emergency because of deficiencies in organization, training, equipment, and management. Records showed that about half the personnel in the sample which we tested were not qualified to perform assigned duties in their military occupational specialty, were receiving training incompatible with needs of their units, or might not be immediately available if their units were mobilized. Among the reasons for including nonavailable members was the failure of the units to obtain current availability agreements from members who had already fulfilled their military obligations or who were qualified for release because of personal hardship.

Material programmed for SRF had been sent to Southeast Asia, which left only limited material available for the Reserve Components. There were significant shortages of required major equipment and spare parts, and some equipment on hand was not compatible with the units' missions. These shortages affected training capability and prevented the units from meeting their mobilization requirements.

Assessments by higher authorities of the true state of readiness were hindered by the lack of standardized management and of a periodic reporting system.

Because our findings related to the basic organization, personnel, material, and reporting systems, we expressed the belief that the findings were characteristic of problem areas existing throughout the Army Reserve. Therefore we proposed to the Secretary of Defense that:

--Reserve units be specifically assigned to like units in the Active Army to ensure the improved organization, training, and equipping of such units.

--Uniform standards for all units, both Active and Reserve, be established for determining occupational specialty qualifications.

--The Army Audit Agency (AAA) or the Army Inspector General be requested to select, as "special interest" areas, those items which we had identified as problem areas.

The Deputy Assistant Secretary of the Army (Manpower and Reserve Affairs) expressed general agreement with our findings and cited the actions taken by the Army to solve the problems. These actions included:

--Initiation of a test to determine the degree of readiness that could be attained by affiliating Reserve units with similar Active Army units.

--Development of a means to project Reserve Component training requirements.

--Adjustment of the AAA audit concept to recognize changes to the Reserve Component structure and initiation of action to provide reports that would summarize the results of AAA audits for Army National Guard and Army Reserve commanders and for higher management levels.

(B-148167, January 7, 1970.)

PROBLEMS IN MAINTAINING READINESS OF NAVAL AIR RESERVE UNITS

Department of the Navy

Naval Air Reserve units at the four naval air stations that we visited were not achieving their primary purpose of having trained units and suitable equipment available for active duty in the Armed Forces in time of war or national emergency. These units had aircraft which lacked certain equipment needed to perform assigned primary missions; there were various types of supply and maintenance problems; and there were shortages of aircraft and maintenance support equipment which impaired training.

In two recent readiness/administrative inspection reports that we examined, little emphasis was placed on the material readiness of the units and no mention was made of needed improvement in the management of aircraft maintenance support equipment. The priority being given to furnishing the Active Navy with equipment resources was a contributing factor to the low-readiness status of the Naval Air Reserve units; however, the substantial costs incurred to maintain Reserve units suggested a need to determine whether alternative courses of action were advisable.

In April 1969 the Navy approved the development of a five-year plan to improve the readiness of the Naval Air Reserve. As of June 30, 1970, however, the plan had not been fully developed. The development and implementation of the plan would provide a sound basis for the corrective actions needed.

Assuming that the present Naval Air Reserve force level would be maintained, we suggested two alternatives to the Secretary of Defense--allocation of additional resources to upgrade the readiness status of the Reserves or maintenance of the status quo and assumption of the risk of reduced operational capacity in the event that mobilization of the Reserves is required. The Navy generally concurred with our first alternative.

On other matters noted in our review, we recommended that the Naval Air Reserve inspectors give increased

emphasis to the reporting of material readiness and that the Secretary of Defense give attention to the completion and implementation of the five-year plan to improve the readiness of the Naval Reserve. (B-146964, November 30, 1970.)

OPPORTUNITY FOR IMPROVING ACCURACY AND COMPLETENESS OF READINESS REPORTS PREPARED BY THE STRATEGIC AIR COMMAND

Department of the Air Force

We found that, under the criteria established by the Joint Chiefs of Staff and prescribed by the Air Force, the manned-bomber and ballistic missile forces were maintaining a high state of readiness at all five Strategic Air Command bases that we visited and apparently were capable of fulfilling their assigned missions. In our report issued to the Congress in March 1970, we stated that we were impressed with the management emphasis and techniques employed to stress the importance of combat readiness and, we believe that other military services could profitably adopt some of the procedures.

We noted, however, several opportunities to improve the accuracy and completeness of the readiness reports prepared by the Strategic Air Command and to increase the usefulness of the reports to management. These improvements, if adopted, would result in the reporting of

--reduced capability of individual units with less than the acceptable number of personnel,

--training deficiencies which occur upon conversion to new items of equipment, and

--locations and probable reaction time of aircraft and crews on temporary duty away from home stations.

We proposed that the Secretary of Defense initiate action to have other military services adopt internal surveillance procedures similar to those of the Strategic Air Command and that certain changes be made in the readiness reports to increase their accuracy and completeness.

In response, the Office of the Secretary of Defense requested the other military services to evaluate the applicability to their operations of the techniques used by the Strategic Air Command for measuring the readiness of

key combat units, and the Air Force concurred in our proposal for changes in the readiness reports. (B-146896, March 9, 1970)

MAINTENANCE AND MODIFICATION OF AIRCRAFT

SAVINGS AVAILABLE THROUGH MORE EFFICIENT PROCEDURES AND PRACTICES IN MAINTENANCE OF AIRCRAFT

Department of the Navy and
Department of the Air Force

The Navy and the Air Force have about $40 billion invested in various models of aircraft and have spent about $5.5 billion annually to keep them in operation. In our previous work we found that the Navy and the Air Force had been following substantially different procedures and practices in the maintenance of their aircraft.

We made a review to evaluate and compare the way the two services scheduled their maintenance operations; we did not evaluate the quality or the effectiveness of the maintenance actually performed. Our review was based on the F-4, a supersonic, all-weather aircraft, because it is used by both the Navy and the Air Force. Our findings in the review were reported to the Congress in May 1970.

We found that:

--The Navy could realize savings by following the Air Force practice of basing organizational inspections and maintenance (that performed by the operating units in support of their own operations) on flight-hours rather than on elapsed days.

--The Navy could reduce downtime by following the Air Force practice of performing maintenance on a cycle or phased basis, between periods of use of the aircraft, rather than by performing the entire scheduled maintenance at one time.

--Had the Navy followed procedures similar to those of the Air Force for organizational maintenance, the equivalent of 40 additional F-4 aircraft could have been available to the Navy during fiscal year 1968 and organizational maintenance costs might have been reduced in fiscal year 1967 and 1968. (The Navy's

costs for that period were about $4.3 million higher than the costs incurred by the Air Force for an equivalent number of aircraft.)

--Neither the Navy nor the Air Force had given sufficient recognition to the results of studies, and to their own experience, in determining the frequency of depot-level maintenance (that which is major and is performed at industrial-type maintenance depots). Less frequent depot maintenance appeared to be warranted in some instances.

We suggested that:

--The Navy test the phased maintenance concept which the Air Force had implemented and reach a decision regarding its applicability to the F-4 and other aircraft in the Navy.

--The Air Force make a servicewide review and evaluation of the frequency with which depot-level maintenance is performed on individual F-4 aircraft and establish realistic criteria for the frequency of such work.

--The Navy and the Air Force establish procedures to ensure continuing review of the criteria for the frequency of depot-level maintenance of first-line aircraft important to strategic, tactical, defense, or logistics posture.

The Department of Defense agreed in substance with these suggestions. The Navy also agreed with the suggestions and started action to put them into effect.

The Air Force pointed out that its existing procedures for annual reviews of the frequency of depot-level maintenance served the purpose of the review and evaluation we had suggested. The Air Force stated, however, that it had changed the existing procedures to ensure that the summaries of the annual reviews include the rationale and the analytical findings which are the bases of decisions. Although this change may be beneficial, we expressed our belief that

the Air Force should adopt reporting procedures to ensure that effective action is taken on the results of the annual reviews. (B-152600, May 7, 1970.)

PROBLEMS IN CARRYING OUT AIRCRAFT MODIFICATION PROGRAMS

Department of the Army

Aircraft are modified to make them safer, more effective, operationally compatible with newer equipment, and easier to maintain. The Army spent about $120 million for kits, parts, and tools for modifying aircraft during the fiscal years 1965 through 1968. We reviewed the procedures and techniques used in Army management of its aircraft modification program. Our report on the review was issued to the Congress in January 1970.

In many cases, modifications--including those classified as being urgent--were not applied promptly. For example, an urgent modification work order involving safety of the aircraft was issued in February 1967; however, a year later the Army records showed that 223 of the 1,650 affected aircraft had not been modified. As late as August 1969, 24 aircraft were still unmodified, of which 17 had been flown an average of 75 hours in that month.

The volume of modification work orders resulted in work loads beyond the capacity of maintenance activities. More effective management review of proposed modifications was needed to ensure that work loads could be accomplished within the specified time.

The Army found it necessary to procure more modification kits than were required, on a one-for-one basis for aircraft, because of apparent loss of kits by local using units. Also, modifications were delayed in some instances because kits were not received in time for economical installation concurrently with overhaul of the aircraft.

We recommended that:

--The Army require responsible commanders to specifically justify delays in modification work.

--Adequate controls be established to ensure that no modification work order be approved unless a statement of all prerequisites for completion of the work,

as well as anticipated penalty for nonadoption of the modification, is prepared and reviewed.

--Recommendations for management of aircraft modifications, as presented by Army Aviation Systems Command officials to the Army Materiel Command and the Army Deputy Chief of Staff for Logistics, be given immediate attention by the Army.

--The Army improve management controls to ensure that officials responsible for significant modification programs have continuous visibility of the status of modification work-order kits from the time the contractor delivers them to the time they are used.

We also made other recommendations to improve management of modification kits.

The Army implemented the third one of our four recommendations. The Army took no position on the other three recommendations, pending completion of its own study and of a joint study of the subject being performed by the three military departments. (B-157373, January 14, 1970.)

MANAGEMENT OF VEHICLES OVERSEAS

SAVINGS AVAILABLE THROUGH IMPROVEMENT IN COMMERICAL VEHICLE MAINTENANCE PRACTICES IN EUROPE

Department of the Army and
Department of the Air Force

In August 1970 we issued a report to the Congress on our review of the Department of Defense management of commercial vehicle maintenance in Europe.

The costs to the Army and the Air Force for maintaining their commercial vehicles in Europe during the fiscal year 1969 were about $7 million, or $2.8 million higher than planned. Factors contributing to higher costs included frequent and large volumes of repetitive repairs, excessive preventive maintenance and inspections, and excessive time spent on repairs and inspections. Neither the Army nor the Air Force were using established standards for direct and indirect labor to measure efficiency and productivity of the maintenance operations.

As of January 31, 1969, about 23 percent of the Army's commercial vehicles qualified for replacement. Replacements were not available, however, and the Army approved about $234,000 for expenditure on repairs to vehicles which were considered uneconomical to repair. The Army stocked a large inventory of vehicle repair parts at Frankfurt, Germany, in addition to stocking similar parts at six maintenance centers and at 48 motor pools in Germany. The Frankfurt inventory was unnecessary and its elimination would have saved about $475,000 annually--principally in salaries.

A single purchasing office for commercial vehicle parts--serving both the Army and the Air Force--would have been feasible and could have resulted in reduction of administrative costs and in larger discounts for quantity purchases.

We suggested:

--That the Secretary of Defense reemphasize to the Army and the Air Force the need to use and enforce labor standards to measure and improve efficiency and productivity of the maintenance operations.

--That the Army in Europe report to higher headquarters the uneconomical effect of the lack of new replacement vehicles and the repair of old vehicles beyond economical repair, and that the reports be used by the Secretary of Defense as the basis for requests for additional funds for replacement vehicles.

--That the Army consider eliminating the Frankfurt automotive parts center and having the six equipment support centers order directly from the manufacturers' distributors.

--That the Army and the Air Force consider establishing a single purchasing office for automotive parts serving both services.

The Department of Defense cited the actions taken or planned with respect to our suggestions. (B-133244, August 11, 1970.)

SAVINGS AVAILABLE THROUGH USE OF LARGER CAPACITY REFRIGERATED VANS TO MOVE MILITARY FOOD SUPPLIES

Department of the Army

In June 1970 we reported to the Secretary of the Army that costs could be saved in Europe if the Army procured and used larger commercial-type refrigerated vans coupled with the use of fewer drivers and truck tractors.

The U.S. Army, Europe, in supplying its troops, moves refrigerated food supplies by military highway from German and Benelux ports to individual cold stores and commissaries located throughout Germany and the Benelux countries. These movements are accomplished by using 7-1/2-ton military-design refrigerated vans which carry an average payload of 5 tons a trip.

Although we did not question the need of using military-design vehicles in Europe for local deliveries and in areas with small roads, we believed that the infusion of larger capacity refrigerated vans could result in faster and less costly movements of refrigerated food supplies.

In Europe we found that the traffic of refrigerated food supplies had increased over the years and that the cargo movements were such that larger capacity vans could be used in most instances. Larger capacity vans could handle about three times the former average payload.

U.S. Army, Europe, officials agreed, in principle, that savings could be obtained but informed us that 20-ton refrigerator vans, on which such savings would be based, were not available. That is, the 7-1/2-ton refrigerator van is the largest van listed in the military inventory (although 20-ton commercial vans meet military specifications) and present plans do not contemplate acquisition of large capacity vans.

The U.S. Army, Europe, had 174 7-1/2-ton vans, all about 14 years old, in need of replacement in the near future. One shipment of 50 new 7-1/2-ton refrigerator vans had already arrived to replace 50 old vans.

Transportation officials in Europe informed us that, after our review was completed, an attempt was made to replace the 7-1/2-ton vans with larger capacity vans; this, however, was to no avail.

We learned in Washington, D.C., that the U.S. Army had approximately 144 of these vans earmarked for shipment to Europe, in addition to the 50 already sent. We estimated that about $600,000 in costs could have been saved by buying and using the larger commercial-type van.

We understand that, in Germany, an exception was made during 1964 to procure commercial-designed tractors as replacements for the military-design trucks needed for a military transportation unit. It appears to us that such similar exception should be granted for the acquisition of some larger capacity commercial-design refrigerator vans.

Department of the Army officials concurred, in general, with our report and stated that they intended to look further into the matter by having U.S. Army, Europe, recommend the appropriate mix of refrigerator-van equipment to meet its needs. (B-163869, June 11, 1970.)

COST AND BALANCE-OF-PAYMENTS ADVANTAGES OF REPLACING FOREIGN-MADE BUSES WITH AMERICAN-MADE BUSES ABROAD

Department of Defense

We reviewed the Department of Defense's practice of leasing foreign-made buses at its overseas locations to learn whether the practice was justified--particularly since dollar payments abroad could have been reduced by using American-made buses. Our report on the review was issued to the Congress in February 1970.

The Congress expressed concern at the leasing of foreign-made buses and in September 1968 added section 404 to the Department of Defense Appropriation Authorization Act for fiscal year 1969 (Public Law 90-500), prohibiting the use of any appropriated funds for the purchase, lease, rental, or other acquisition of multipassenger motor vehicles (such as buses) other than those manufactured in the United States. The Secretary of Defense was authorized to make exceptions in cases where the acquisition of U.S. vehicles would not be economical or would adversely affect the national interest.

Our review showed that the armed services could have reduced their overall budgetary costs and could have realized significant balance-of-payments advantages by using American-made buses at some locations where transportation services had been provided through leasing arrangements using foreign-made buses.

The Department of Defense leased about 1,700 foreign-made buses at a cost of $7.7 million during calendar year 1968. Included in this amount were vehicle-leasing costs and, in many cases, operating costs, maintenance costs, and drivers' salaries.

There are certain practical difficulties in estimating overall financial advantages that could have been realized by substituting American-made buses for foreign-made buses; but there can be little doubt that the advantages would have been substantial. On the basis of calculations we made at selected overseas locations, we estimated that dollar

payments abroad could have been reduced by more than $3.1 million and that cost savings from one-third to one-half million dollars could have been realized annually.

We recommended to the Secretary of Defense that the military services develop better local operating and maintenance cost data to serve as a factual basis for evaluating the comparative costs of leasing foreign-made buses as opposed to buying American-made buses. We made also a series of recommendations designed to increase the usage of American-made buses abroad, particularly at locations where our cost calculations showed that the greatest savings could have been realized through such usage.

Department of Defense officials were in general agreement with our findings and recommendations and advised us that they were taking appropriate steps to improve local operating and maintenance cost data to be used in cost studies. They agreed also to make appropriate provisions for future procurements of American-made buses whenever cost studies show economic advantages to the United States. (B-163869, February 5, 1970.)

DEFENSE INTERNATIONAL ACTIVITIES

NEED FOR INCREASED CONTROL OVER LOCAL CURRENCY MADE AVAILABLE FOR VIETNAM BUDGET SUPPORT

Department of Defense
(and Department of State and
Agency for International Development)

During a 1966 investigation of economic assistance provided to Vietnam, the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations, found that the U.S. Agency for International Development (AID) mission had not established adequate controls over U.S. owned or controlled local currency made available for support of Vietnam's civil budget.

In July 1970, we issued a report to the Congress on a follow-up review as to the effectiveness of corrective actions taken as requested by the Chairman of the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations.

The equivalent of about $629.7 million in local currency was made available to support Vietnam's military and civil budgets in calendar years 1966 through 1968. The U.S. Military Assistance Command was responsible for administering the equivalent of about $431.4 million designated for the military budget and the AID mission was responsible for administering the equivalent of about $198.3 million assigned to the civil budget.

Since 1966 the AID mission had strengthened its administration and controls by increasing its participation in the formulation of Vietnam's civil budget and by earmarking piasters for specific programs. The U.S. Military Assistance Command in Vietnam had also developed procedures which should provide a reasonable degree of control over the planning for the use of funds for military budget support.

Our review showed that further strengthening was needed. Controls and procedures established would generally not

detect or prevent improper payments by Vietnamese, such as payments for unauthorized activities or for padded payrolls.

The AID mission made few postaudits of civil expenditures whereas the Military Assistance Command did not make postaudits of military expenditures but relied upon an understaffed Government of Vietnam audit group; the result was that local currency was released for both the military and civil budgets on the basis of unreliable and unverified Vietnam Government reports. As a result, a few of Vietnam's civil agencies had accumulated the equivalent of about $25.4 million in local currency by December 31, 1968, representing unspent funds released in 1968 and prior years.

The Department of Defense and AID advised us that actions had been and would be taken to strengthen controls over the local currency for support of Vietnam's military and civil budget. Both agencies believe that control and review practices in use plus actions to be taken, including procedural changes and staff increases needed to monitor the funds and programs, will provide adequate control.

We believe, however, that considerable improvements are still needed, especially with regard to verification or other measures to ensure that Vietnam's reports of obligations and expenditures are reliable.

We therefore recommended that the Department of Defense and AID establish a system in Vietnam for verifying and inspecting pertinent Government of Vietnam reports and activities. (B-159451, July 24, 1970.)

PURCHASE COMMITMENT MADE TO AN INTERNATIONAL ORGANIZATION PRIOR TO AVAILABILITY OF FUNDS

Department of Defense

The Department of Defense (DOD) entered into a written agreement in 1960 with a consortium of five North Atlantic Treaty Organization (NATO) countries formed for the purpose of producing HAWK surface-to-air missiles in Europe. U.S. participation included providing certain materials, equipment, and technical services needed for production along with purchasing four of the missile systems. Part of the assistance provided was to be applied as an offset to the cost; however, the total cost was not stated in the agreement. The agreement contemplated that preproduction performance would begin immediately and it did.

The DOD had only a portion of the funds available to purchase the four missile systems when the 1960 agreement was signed. In lieu of making sufficient funds available or limiting U.S. liabilities, the Department of Defense had a clause inserted into the agreement stating that the U.S. purchase commitment was "subject to availability of funds."

In September 1970, we reported to the Congress that no express authorization existed in law allowing DOD to enter into the purchase commitment without having sufficient funds available, and thus DOD's action did not comply with the intent of the Anti-Deficiency Act. By this act Government agencies are required either to have estimated funds available, or to have advance congressional approval before entering into contractual obligations. This affords the United States some financial protection and control by ensuring that the Congress has the opportunity to approve or disapprove contractual obligations for which it will be required to appropriate funds.

We concluded that, by signing the 1960 agreement and providing assistance to the consortium which made it possible to proceed with production of the missile systems, DOD had firmly committed the United States to buying four missile systems at an unknown cost. DOD's actions had the effect of committing the Congress to appropriating the additional funds after the fact, notwithstanding the proviso "subject

to availability of funds," and there was little practical control that the Congress could exercise over the amount of funds it would subsequently be required to appropriate if the United States was to meet its contractual commitments under the international agreement.

We also found that DOD had funded the commitment incrementally, consistent with the annual assistance requirements, but with little or no relation to the costs of the four systems because the funding was less than the projected costs of the systems. As of June 30, 1969, DOD estimated the total costs of the four systems in millions of dollars. It was also estimated that a payment of several millions of dollars would have to be made to the consortium, the exact amount depending upon the resolution of an $11.9 million claim to the NATO consortium regarding documentation, technical and engineering services, and depreciation costs. The final cost was not expected to be known or final payment made until 1972 or 1973.

We recommended to the Secretary of Defense that a report be made to the President, through the Director, Office of Management and Budget, and to the Congress of all pertinent facts concerning this matter and any action taken or to be taken, as required by law. In addition, we recommended that this matter be brought to the attention of appropriate DOD officials to point out that decisions on the making of contractual obligations of the Government should be consistent with the requirements of law and pertinent DOD directives.

In commenting on our draft report in October 1969, DOD stated that it did not agree with the findings and recommendations. DOD stated also that section 105b of the Mutual Security Act of 1954, as amended, was the authority for its actions and that the term "subject to availability of funds" was used in accordance with the then-current Comptroller General decisions. It stated further that the Congress had been clearly advised of the agreement, through the military assistance budget estimates, of U.S. funding support for the NATO-HAWK weapons production program on an incremental basis. In addition, it was stated that the U.S. obligation for funding an additional amount to cover the total U.S. liability was of a contingent nature and not an actual recordable obligation.

In May 1970, we were informed that $9.1 million of the claim had been tentatively accepted and that the current cost projection for the four systems was higher than previously estimated; several millions of dollars had been obligated for a tentative payment to the consortium.

After considering DOD's comments, we still believe that a violation of the Anti-Deficiency Act occurred and that DOD should take appropriate action as recommended. (B-160154, October 2, 1970.)

NEED FOR IMPROVEMENT IN THE COMBAT READINESS OF A MAJOR WEAPON SYSTEM PROVIDED TO FAR EAST COUNTRIES

Department of Defense

We reviewed the readiness of a major weapon system provided to Far East countries under the military assistance program. Units of the system were furnished for incorporation into and augmentation of the defense system of the Pacific Command. The system is subject to U.S. control in the event of hostile actions.

Our review showed that the combat-readiness condition of the units of the system was being seriously impaired by inadequate supply and maintenance support. They had not been combat ready (i.e., fully capable of accomplishing assigned mission) for extended periods of time. A U.S. Army, Pacific, regulation requires full combat readiness at all times.

In one country, the major reasons for the low-readiness condition were (1) the shortages of required repair parts due to failure to stock mandatory items and delays in ordering replenishments and (2) the inability of the recipient country maintenance shop to make timely repairs. Also, continental United States and recipient country supply sources did not provide adequate support.

The low combat readiness of similar units provided to another country was due primarily to inadequate repair parts support by the U.S. Army. Supply management problems experienced by the Army included (1) excessive order and shipping time, (2) shortage of funds to purchase replenishment stocks, and (3) filling low-priority orders while high-priority orders for the same part remained unfilled. To improve support, the U.S. Army implemented a separate depot system for this type of weapon system.

The Department of Defense (DOD) stated that our findings were generally valid for the period (July to December 1967) covered by the initial review but that, subsequent to that time, corrective actions had been taken and the situation had been improved.

We performed a follow-up review and found that, although some improvements had been made, a low level of readiness continued primarily because of inadequate supply and maintenance support.

We submitted a report to the Congress in January 1970 to call attention to the low state of readiness of the system. In view of the low-readiness condition of these units of the Pacific Command defense system, we recommended to the Secretary of Defense that the need for continued improvement be stressed to appropriate officials.

In commenting on our report, DOD stated that the supply and maintenance deficiencies cited in the report were being gradually corrected and that responsible U.S. military commands and advisory groups, as well as recipient country military authorities, were fully aware that substantial improvement was still needed before full combat-ready status could be sustained. DOD also stated that the Commander in Chief, Pacific, was being requested to submit semiannual reports of progress in accomplishing corrective action. (B-161764, January 14, 1970.)

QUESTIONABLE PAYMENT OF TAXES TO FOREIGN GOVERNMENTS

Department of Defense
(and Department of State)

Through arrangements with various governments, generally by agreement or understanding, the U.S. Government is exempt from foreign taxes and import duties on U.S. purchases in a country and on supplies and equipment it imports into a country for the collective defense or for other purposes which are in their mutual national security interest. In January 1970, we reported to the Congress that substantial tax costs had been incurred in several countries. Examples of significant direct and indirect tax costs incurred by the United States over several years are:

Vietnam	$ 28 million
Thailand	4 "
Germany	2.2 "
United Kingdom	890,000
Philippines	600,000
Republic of China	300,000

These taxes were paid in connection with leases of property, rentals of family housing, procurements in the various countries, and imports of supplies and equipment. They involved real property taxes, local or municipal taxes, business and trade taxes, excise taxes, and import taxes.

The wide variety of problems associated with the administration of tax matters affecting defense expenditures in other countries indicates a need for (1) clearly stated guidance and criteria relating to tax-exemption provisions in various agreements, (2) better delineation of responsibilities by the Department of Defense (DOD), and (3) improved management to ensure the development and implementation of procedures useful to identification, measurement, and elimination of significant taxes from procurements.

We believe that, when the financial burden of a foreign tax is passed on to the United States indirectly and the tax is substantial, such action is inappropriate,

especially in view of the substantial U.S. expenditures for the common collective defense.

We believe also that the United States has the right to expect that host countries should honor their commitments in regard to tax-relief agreements or understandings.

We recommended that the Secretaries of State and Defense (1) jointly develop and promulgate specific guidelines which will define the U.S. tax-exemption policy, (2) clearly establish the responsibilities of the concerned U.S. agencies, (3) provide for an adequate management system to operate an effective tax-relief program, and (4) negotiate adequate tax-relief agreements with the Governments of Vietnam and Thailand.

The Departments of Defense and State in joint comments generally agreed with our findings and recommendations and recognized that tax-exemption problems existed. A number of corrective actions were reported as being taken, or to be taken, to correct the present situation, including the establishment of the Defense Committee on Foreign Taxation, the issuance of a DOD directive, and the State Department's focusing more departmental attention on foreign tax matters. We were also informed that preparatory studies were necessary before proceeding with any negotiations regarding tax agreements with the Governments of Thailand and Vietnam.

We believe that benefits derived from these actions to improve management will have a favorable impact on the U.S. balance of payments and will also provide more funds for direct defense and other aid. (B-133267, January 20, 1970.)

LIMITED DOCUMENTARY EVIDENCE FURNISHED BY AGENCIES IN CONNECTION WITH OUR REVIEW OF U.S. SUPPORT OF THE PHILIPPINE CIVIC ACTION GROUP IN VIETNAM

Department of Defense
(and Department of State)

In March 1970, at the request of the Chairman, Subcommittee on U.S. Security Agreements and Commitments Abroad, Senate Committee on Foreign Relations, we reported on a study of the payments made to the Government of the Republic of the Philippines by the Government of the United States in support of the Philippine Civic Action Group (PHILCAG) in Vietnam.

We reported that our work had been seriously hampered and delayed by the reluctance of the Departments of State and Defense to give us access to the documents, papers, and records which we considered pertinent to our review. Generally we were given access to only those documents, papers, and records which we were able to specifically identify and request and then only after time-consuming screening at various levels within the Departments. We stated that, in view of the restricted access to records, there was the possibility that the agencies may have withheld information which was pertinent to our study.

On the basis of the limited documentary evidence made available for our review, we were able to verify that quid pro quo assistance was given to the Philippine Government. Our study was directed toward investigating (1) payments for the cost of per diem and overseas allowances of PHILCAG personnel in Vietnam, (2) material and logistic support provided to PHILCAG by the U.S. Military Assistance Command in Vietnam, and (3) related material assistance given to military units in the Philippines.

The assistance, which was funded by the Department of Defense, consisted of approximately $35 million in equipment and logistic support and about $3.6 million in direct payments to the Government of the Philippines. There was also evidence that other forms of U.S. assistance to the Philippine Government, such as military and economic aid funded

under the Foreign Assistance Act, were increased during the period of the PHILCAG commitment to Vietnam.

The $3.6 million of direct payments included in the assistance was appropriated by the U.S. Congress for the Department of Defense and paid to the Philippine Government in quarterly payments between October 1966 and October 1969. One additional payment was made in January 1970. We were unable to ascertain, however, whether the PHILCAG troops actually received the per diem and overseas allowances according to the daily rates which were used to compute the amount of the quarterly payment by the United States. We pointed out that our inquiries in this matter were confined to U.S. sources and that no information was required of or received from the Philippine Government on the disposition of the funds paid to them by the United States. (B-168501, March 21, 1970.)

OTHER AREAS OF OPERATIONS

NEED FOR AN OVERALL FEDERAL POLICY ON FOOD INSPECTION

Department of Defense
(and other departments and agencies)

Federal food inspection started in 1891. The function evolved from piecemeal legislation and regulations designed to solve specific problems as they arose. Because of their relatively limited scope, the laws and related regulations do not provide a clear expression of overall Federal policy on food inspection. As a result parts of the function are performed by many Federal, State, and local organizations. In June 1970 we issued to the Congress a report on our review of the roles of the Federal organizations in this function.

Federal food inspection activities are performed by the Departments of Agriculture, of Defense, of Health, Education, and Welfare, and of the Interior. About 14,500 people are involved in Federal food inspection at an annual cost of about $185 million. About $48 million of this amount is reimbursed by users of certain inspection services.

Similar inspection activities are frequently performed by more than one organization, at the same commercial establishment, and often on the same food product. For example, at a dairy products company we visited:

--Military veterinarians made monthly sanitary inspections and obtained bimonthly milk samples which were analyzed for bacteria and for butterfat content.

--One group from the Department of Agriculture checked plant sanitation quarterly to qualify the plant for grading services, while another group obtained butter and cheese samples eight times a month.

--Personnel of the Food and Drug Administration inspected periodically for potential health hazards.

--The State health department inspected for sanitation and analyzed fluid milk for bacteria, at least quarterly, to qualify the plant for the approved listing of the U.S. Public Health Service.

Many of the inspections are made for different purposes and vary in degree. We believe, however, that a more effective and economical method of performing the Federal food inspection function could be devised.

Several Federal agencies have established food standards, some for the same item. Although more than one standard for the same food item may not be improper in itself, it has caused dissatisfaction among food suppliers.

Agreements have been made between organizations to establish clearer lines of responsibility, to make more effective use of the skills and experience of each, and to reduce overlap. Reaching such agreements has been time-consuming, and the agreements sometimes have been difficult to administer.

There are basic differences in the concepts and practices of the inspecting organizations. Some of the differences involve:

--The extent of reliance placed on food venders for product quality.

--The desirability and extent of use of statistical-sampling techniques for product inspection.

--Federal surveillance of State and/or local inspections in lieu of direct Federal inspection.

We recommended that the Director, Bureau of the Budget (now Office of Management and Budget), make a detailed evaluation of the food inspection function to determine the most effective method of improving the administration of the function. The study should determine the feasibility of consolidating at least some of the inspections, and it could draw upon the skill and experience of the agencies performing inspections. The findings and recommendations of the evaluation should be reported to the Congress as soon

as possible since reconsideration of existing legislation may be involved.

Federal agencies that make food inspections agree that there is a need for reassessing the food inspection function, and the Bureau of the Budget has agreed to make the evaluation of the function when sufficient resources are available. (B-168966, June 30, 1970.)

NEED FOR COORDINATION IN MANAGEMENT AND OPERATION OF THE DEFENSE COMMUNICATIONS SYSTEM

Department of Defense

In 1960 the Department of Defense (DOD) established the Defense Communications System and the Defense Communications Agency to supervise the System. Although some progress has been made toward the integrated communications system envisioned at that time, much remains to be done. As stated in our report issued to the Congress in October 1970, we found significant problems in organization and management which appeared to hamper accomplishment of the objective.

Other than the Secretary of Defense, there was no one person or office serving as a focal point having authority and responsibility for coordinating all aspects of communications. There was a lack of coordination among the organizations involved in communications, including the staff in the Office of the Secretary of Defense, the Joint Chiefs of Staff, the Defense Communications Agency, and the military departments. We found many examples of the costly effects attributable, at least in part, to fragmented and uncoordinated management. Some of the examples follow.

An uncoordinated program, begun in 1965, to procure data subscriber terminal equipment (equipment at the end of transmission circuits used to send or receive data) required more than 1,000 changes in specifications at a cost of $29 million. These changes delayed delivery, and additional millions of dollars were spent to lease equipment.

The uncoordinated development of Project Advent, under the satellite communications program, resulted in duplications, inefficiencies, and delays. About $170 million had been spent on this project when it was canceled. Despite that experience current satellite projects were being developed with an organization similar to that of Project Advent.

Lack of coordination, between the Defense Communications Agency which manages the main trunk lines of the Automatic Voice Network (DOD's main voice system) and the users who control the access lines to the Automatic Voice Network, was the chief reason for an inadequacy of access lines and

a low rate of completed calls--45 to 53 percent in a sample 6-month period.

In early November 1969 a reorganization plan prepared by the Deputy Secretary of Defense proposed the establishment of the position of Assistant to the Secretary of Defense (Communications). We recommended that, in the proposed reorganization, consideration be given to removing the Defense Communications Agency from the chain of command under the Joint Chiefs of Staff and making the Director of the Defense Communications Agency responsible directly to the new Assistant. This would permit greater autonomy in the functions of the Defense Communications System. We recommended also that consideration be given to making the position of Director of the Defense Communications Agency a civilian post. This would remove any question of the Director's partiality toward his own military department.

On May 21, 1970, DOD established a new position of Assistant to the Secretary of Defense (Telecommunications) and appointed a civilian to fill the position. DOD stated that the new assistant would consider our first recommendation. With respect to our second recommendation, DOD did not agree that the directorship of the Defense Communications Agency should be a civilian post. DOD felt that, since the Agency was a military organization, the Director should have military experience. (B-169857, October 19, 1970.)

NEED FOR CLOSER SURVEILLANCE OF INDUSTRIAL PLANT EQUIPMENT RETAINED FOR POSSIBLE FUTURE USE

Department of the Army

We reviewed the overall management, by the Army commands, of industrial plant equipment reserved to meet production contingencies in time of war. Such equipment, referred to as "packages," is either retained in factory production lines and ready for start-up and use or set aside in storage and not ready for immediate use. A package includes the equipment necessary to produce a specific artillery gun, rifle, tank, ammunition casing, or similar item. About 34,000 pieces of industrial plant equipment, valued at about $500 million, were assigned to 176 packages. Our report on the review was issued to the Congress in April 1970.

In a number of cases, the packages retained by the Army did not meet retention criteria of the Department of Defense (DOD). Some of the packages provided the capability for production in quantities which exceeded the planned production requirements or for production of items for which there were no planned requirements. Other packages did not include enough equipment to meet the planned production requirements. Also, for some of the packages, the specific contractor or Government plant where the planned production requirements were to be met had not been designated.

During one 6-month period, the possibility existed that the Government had purchased new equipment--estimated to cost about $6 million--even though similar equipment, not needed and not reported as being available for redistribution, was held in the packages of the two Army commands covered in our review. Conversely, some of the equipment needed in the retained packages had been either transferred or loaned to others.

We recommended that the Secretary of Defense take steps to make sure that packages which do not meet DOD's criteria for retention are not retained and that the industrial plant equipment not needed is reported promptly to

permit redistribution to meet other requirements. We recommended also that the Secretary of the Army ensure compliance with established procedures for identifying and reporting excess industrial plant equipment in packages and for making loans of such equipment.

DOD concurred, in general, with our findings and recommendations and stated that:

--A limited number of packages would be reviewed for factors to be considered in a full-scale evaluation of the need for the packages.

--Army commanders had been directed to make sure that industrial plant equipment not identified with a package was reported to the Defense Industrial Plant Equipment Center as excess.

--The proposed program to inventory each package and verify its readiness--scheduled to begin in 1970 and to be completed in 1973--would be speeded up.

(B-140389, April 7, 1970.)

SAVINGS AVAILABLE THROUGH MORE EFFICIENT USE OF THE AIR FORCE LOGISTICS AIRLIFT SYSTEM

Department of the Air Force

The Air Force contracts for a logistics airlift system with commercial carriers to ship high-priority cargo within the continental United States. This system, known as LOGAIR, costs the Air Force $35 million annually. Its primary function is to provide daily support for all firstline weapon systems of the Air Force. Another important function is to provide support to Air Force bases in remote areas which lack adequate commercial transportation. We made a review of the management of the LOGAIR system. A report on the review was issued to the Congress in December 1969.

The cargo capacity requirements for LOGAIR were not forecast accurately. On some routes, more capacity was scheduled than needed; on others, less was scheduled than needed. We also found that the cost of day-to-day operations could be reduced by:

--Establishing controls to encourage prompt revisions to existing routes and thereby avoid the costs of chartering extra flights to provide additional capacity.

--Reducing the number of flights to some stations.

--Using truck service, instead of LOGAIR service, between stations near one another.

--Attaining greater utilization of available aircraft space by improving the procedures for making cargo available for movement by LOGAIR.

We proposed that the Air Force Logistics Command (AFLC) devise a system that would enable it to accumulate accurate and complete data with respect to the movement of cargo eligible for air transport throughout the continental United States. We proposed that AFLC study the possibility of using automatic data processing equipment to assist in solving the difficult problem of constructing and revising

LOGAIR routes that provide optimum service at minimum cost. We proposed also that the Air Force evaluate the need for more than one daily LOGAIR flight to locations other than its Air Materiel Areas and Aerial Ports of Embarkation and that AFLC take appropriate action to ensure that the potential benefits of LOGAIR are fully exploited by its users. In addition, we proposed to the Secretary of Defense that an analysis be made of the possibility of substituting truck service for LOGAIR between stations less than 100 miles apart.

The Air Force concurred, in general, with our findings and proposals and stated that:

--Action had been started to standardize procedures and improve accuracy of forecasts of airlift requirements.

--The frequency of LOGAIR service to one station had been reduced.

--Five installations previously served by LOGAIR would be served by truck operations from other nearby LOGAIR stations.

--Corrective actions to attain more effective utilization of LOGAIR aircraft had been initiated at several installations and would be applied to other LOGAIR stations where practicable.

(B-157476, December 18, 1969.)

U.S. GAO Wash., D.C.