REPORT TO THE
COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

Implementation Of Section 203, Public Law 91-441, On Payments For Independent Research And Development And Bid And Proposal Costs B-167034

Department of Defense

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

APRIL 17, 1972

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

B-167034

Dear Mr. Chairman:

As requested in your letter of October 5, 1971, we have reviewed the actions taken pursuant to Section 203 of the Military Procurement Authorization Act for Fiscal Year 1971 (P.L. 91-441, October 7, 1970). This section established requirements to be met by the Department of Defense (DOD) in paying contractors the costs of their independent research and development (IR&D) and bid and proposal (B&P) efforts.

We noted the statement in your letter, attributed to principal DOD witnesses, that because of the late enactment of the 1971 Procurement Act, not enough time had passed to measure the effectiveness of DOD's implementing actions. Section 203 became effective January 1, 1971. Although steps were taken by DOD at that time to implement the law, not all actions were completed at the time of our review. For example, determinations of potential relationship to a military function or operation of most B&P projects had not yet been made. We believe, therefore, it is still too early to make a conclusive evaluation of either the actions taken or the effects of the provisions of Section 203; however, we will comment on these matters to the extent presently possible.

First, there are some portions of the language of Section 203 which are not sufficiently clear as to meaning or intent to enable proper evaluations of effect. For example, the law precludes DOD from paying contractors for IR&D or B&P costs unless the work has a potential relationship to a military function or operation, and unless other specified conditions are met. One of these conditions is that advance agreements be negotiated with companies which had more than $2 million of IR&D or B&P payments from DOD during their preceding fiscal years. It is not clear as to whetner the intent of the law was to require a determination of potential military relationship of the projects of all companies receiving funds from DOD for IR&D and B&P, or only of companies with which advance agreements are negotiated.

We were told by a DOD official that application of a relevancy test to all defense contractors would be administratively infeasible; consequently, DOD interpreted the law as requiring the test only for major

companies. We agree that DOD's interpretation is administratively sound, but suggest that the Congress may want to clarify the intent of the law.

The law also fails to provide any criteria for determining when a project has "potential relationship to a military function or operation" or any indication as to what the provision was intended to achieve. We believe that without clarification, the law can be interpreted to allow practically any IR&D or B&P project to be classified as having "potential military relationship," even though it may be primarily for commercial or nondefense purposes. This matter is discussed more fully in an attachment (appendix I) which includes examples of projects accepted as having potential military relationship, although they were undertaken primarily for nondefense purposes.

A third problem we see in the language of the law is contained in Section 203(a)(1) which requires that advance agreements be negotiated "with all companies which during their last preceding fiscal year received more than $2,000,000 of independent research and development or bid and proposal payments from the Department of Defense. . . ." In implementing this provision DOD has taken the position that the Congress intended that the $2 million should apply to IR&D and B&P combined. We believe that the DOD interpretation is realistic because of the very close relationship of IR&D and B&P costs.

Industry, however, has pointed out (see Council of Defense and Space Industry Associations' (CODSIA) letter of January 31, 1972, appendix II), that DOD's interpretation (along with its extension of the law's requirements to subcontracts, and its requirement for burdening of IR&D and B&P) could result in requiring some companies to negotiate advance agreements that would not be required to do so if the $2 million criterion were applied to IR&D and B&P separately. CODSIA referred to one such company in its letter.

We did not make a detailed study of this matter, but based on DOD-developed statistics on the amounts of contractors' IR&D and B&P costs, we doubt that more than five to ten companies would have been required to enter into advance agreements under DOD criteria that would not have been required to do so under a strict interpretation of the law. Concerning subcontracts and burdening,[1/] the law neither provides nor precludes the action taken by DOD. In view of

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[1/] DOD requires that IR&D and B&P costs be burdened, i.e., they are to include not only all direct costs, but also all allocable indirect costs except for general and administrative expenses.

the high level of subcontracting that prevails, we believe subcontracts should be included along with prime contracts in determining if the criterion for negotiating advance agreements has been achieved. We also believe it is appropriate that IR&D and B&P costs bear their appropriate share of indirect costs.

Now, to DOD's implementation of the law. We have examined all the implementing actions of DOD, as requested in your letter, to the extent possible at the present time. We reviewed the policies, practices, and procedures established and followed by DOD and the military services; reviewed records and obtained information from Government officials responsible for procurement and financial administration; and reviewed the activities of six selected contractors in complying with the law and DOD's implementing instructions. We did not examine the potential military relationship of contractors' B&P costs and contractors' subsequent changes to approved IR&D programs because insufficient time had elapsed for DOD to take action on these matters. We plan, however, to continue monitoring DOD's administration of IR&D and B&P efforts.

In our opinion, DOD has been reasonably diligent, and with the possible exceptions discussed above, the provisions of the law are being implemented. Our observations on certain major aspects of the law, including DOD's implementation and industry's views, are included in appendix I.

As authorized by your office, we are sending copies of this letter and appendixes to the Chairman of the House Armed Services Committee, Congressman Charles S. Gubser, the Department of Defense, CODSIA, and the six contractors included in our review. We plan to make no further distribution unless specific requests are received.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

The Honorable John C. Stennis
Chairman, Committee on Armed Services
United States Senate

OBSERVATIONS ON IMPLEMENTATION OF SECTION 203, PUBLIC LAW 91-441, REGARDING PAYMENTS FOR INDEPENDENT RESEARCH AND DEVELOPMENT AND BID AND PROPOSAL COSTS

POTENTIAL MILITARY RELATIONSHIP

We have previously referred in our letter to the lack of criteria in the law for determining potential relationship and the absence of a statement as to what the legal requirement is expected to achieve.

In the absence of a definition or criteria from the Congress, DOD must interpret the intent of the law and establish its own criteria. During the first year that Section 203 was effective, DOD and the military services chose generally not to formalize criteria for determining potential military relationship, preferring to gain experience first. Consequently, the Service representatives responsible for reviewing contractors' IR&D and B&P projects had considerable latitude in determining potential relationship. In February 1972, DOD issued an instruction which states that IR&D projects aimed only at commercial or non-DOD areas of interest are not considered relevant.

We attempted to evaluate the reasonableness of the Service determinations of the relevancy of IR&D projects included in the proposed plans of six selected companies.[1/] These plans formed the basis for the advance agreements for IR&D of the companies. We found a number of projects that are considered by DOD to have potential military relationship although they were undertaken primarily to meet nondefense needs.

For example, a project of one aerospace-oriented company had an objective of developing a conceptual design that would identify new equipment design criteria and provide methods for combining benefits of fresh water recovery with water pollution abatement by the use of distillation equipment. The company said this project would benefit the military services and the Environmental Protection Agency. The company stated that the Navy and Coast Guard were looking for solutions to waste-treatment problems aboard ships.

1/ In view of DOD's determination--with which we agree--that the relevancy of B&P projects could not reasonably be determined except on an after-the-fact basis, rather than on a programmed basis such as IR&D, our review was too early to permit an evaluation of the relevancy of the B&P segment.

The DOD evaluator commented that the project had potential military relevancy because of DOD's interest in curbing pollution at military installations and facilities. In view of the Environmental Protection Agency's responsibilities in the water pollution abatement area, it would appear that the potential military relationship of such IR&D projects would be marginal.

Another aerospace-oriented company included in its plans a project concerning a flight-type electrochemical system. The application of this project was to provide (1) advanced life support systems for manned space flights; (2) aircraft oxygen systems, and (3) regenerative fuel cells for manned and unmanned systems. The purpose of the program was to develop design approaches in certain areas and to demonstrate the flight worthiness of those approaches through appropriate environmental tests. It seems to us that this project is directed to matters of greater concern to NASA than DOD.

CODSIA believes that the Congress should consider amending the potential relationship portion of the law to read "potential relationship to the interests of the U. S. Government." It contends that the current law is resulting in contraction of imaginative and innovative research, and it points to the military services' use of the potential military relationship requirement in reducing the costs of IR&D and B&P.

We did not find, however, that contractors' proposed IR&D/B&P programs were being reduced by the military services for nonmilitary related projects. DOD's instructions state that in negotiating advance agreement ceilings consideration will be given to the potential relationship determinations; but in practice the military services have computed ceilings without including the amount of nonrelated projects as a factor. This has been possible because the cost of projects found to be nonrelated has been relatively insignificant.

For example, the ceiling for one of the six contractors included in our review, with a proposed program of $20.5 million, was negotiated at $15.5 million. The total nonrelated projects were only $1.3 million. In view of the nonacceptance by DOD of $5 million of the contractor's program for other reasons, the $1.3 million of nonrelated projects had no effect on the ceiling. For three other contractors no projects were determined to be nonrelated and for the other two the amounts were minor, $1.2 million and $80 thousand.

It seems to us that the only time nonrelated projects would be a factor in reducing costs is when they are so large in dollar volume as to exceed the amount of a contractor's program not accepted by DOD for

other reasons. We were informed by a DOD representative that none of the 63 companies negotiating advance agreements in calendar year 1971 had their IR&D ceilings reduced because of work that did not meet the relevancy test.

In view of the lack of effect on contractors' ceilings, we doubt that the potential military relationship requirement in the law has actually caused the serious restrictive impact on industry, the contraction of research, and the stifling effect on National security mentioned by CODSIA. In view of the law's general recognition through the potential military relationship provision that the military services should not be paying for research and development efforts that do not benefit them, we do not believe it should be changed as suggested by CODSIA. We suggest, however, that the Congress consider providing more specific guidance in the law as to what it is intended to achieve. For example, if the intent is to limit DOD's payment for IR&D to work undertaken primarily to meet potential military needs, a provision of such nature would be helpful.

NEGOTIATION OF ADVANCE AGREEMENTS

Within the framework of Section 203, DOD has issued regulations which put the burden on the contractors who meet the criteria of the law to come forth and negotiate advance agreements. DOD has further stipulated that no IR&D or B&P costs will be allowable if a company meeting the criteria fails to initiate negotiation prior to the end of the fiscal year for which the agreement is required. We believe this approach should ensure that DOD will negotiate advance agreements with all companies meeting the criteria as required by Section 203.

Delays in Negotiation of Advance Agreements

Of 63 companies that negotiated advance agreements with DOD in calendar year 1971, only about 3 percent had completed negotiations prior to cost incurrence, and only about 26 percent were completed by 7 months after the beginning of the contractors' fiscal years. Section 203 requires that advance agreements be negotiated prior to or during the Government's fiscal year covering each contractor's fiscal year beginning on or after the beginning of the Government's fiscal year. This requirement is in conflict with the generally recognized meaning of an advance agreement--that it is made in advance of cost incurrence.

If made in advance of cost incurrence such agreements give the contractor some assurance that its IR&D costs will be recovered and that disputes with Government contracting personnel concerning the

reasonableness or allocability of the costs will be minimized or avoided. They also provide a basis for an objective evaluation of projects by the Government, unencumbered by consideration of costs already incurred and the effect disallowance of already incurred costs would have on the contractor. If not made on a timely basis the Government cannot use advance agreements in contract price negotiations. Prior agreements must be used and appropriately adjusted to meet current conditions. In the event of substantial changes, pricing problems could result.

We recognize the difficulties encountered in reaching agreement with a large number of contractors before the beginning of their fiscal year, but believe that all parties would benefit from negotiating prior to cost incurrence. DOD is aware of the problem and is attempting to bring about earlier negotiations of 1972 agreements through requiring earlier submission of proposed programs, better scheduling of technical evaluations, etc. While this does not mean that agreements will be negotiated prior to cost incurrence, the action is in the right direction.

Penalty for Failure to Agree

Section 203(b) of Public Law 91-441 requires that DOD substantially reduce its expected IR&D and B&P payments to any company with which negotiations are held but no agreement is reached before the end of the contractor's fiscal year.

DOD's instruction provides that when agreement is not reached, DOD will not pay more than 75 percent of the amount which the contracting officer believes the company would be entitled to receive under an advance agreement. The instruction establishes (1) guidelines to contractors for appealing decisions for reduced payments and (2) final appeal hearing groups for each of the departments.

CODSIA believes this requirement in the law has provided the DOD negotiator with too much leverage in the negotiating process because he can unilaterally reduce a contractor's payments when agreement is not reached. No specific examples of such arbitrary actions were cited by CODSIA. CODSIA believes there should be no penalty when reasonable but unsuccessful efforts are made by a contractor to reach agreement.

DOD officials informed us they had reduced the payments of only one contractor because an agreement was not reached. The contractor's appeal was heard but denied. We were told that the contractor is considering the possibility of filing a civil suit.

It is obvious that DOD negotiators could use the penalty provision in the law as a leverage in negotiations, although we have no evidence that this is being done. On the other hand, contractors could also be arbitrary during the negotiations. If advance agreements were actually made in advance of cost incurrence, instead of any time during the contractor's fiscal year, the possibility of harm to the contractor, through actions on the part of the Government contracting officer to reduce the amount of the contractor's program to be supported by DOD, would be minimized. The contractor would have an option of not starting certain projects so as to stay within the ceiling negotiated in the advance agreement.

Arbitrary Reduction of Proposed Programs

CODSIA said that despite extensive technical review and other efforts on the part of DOD to assure that contractors' expenditures are at reasonable levels, well managed, and of high technical quality, some DOD personnel have established an unsupportable criteria of "the same or less than last year." CODSIA is afraid this will result in involuntary cost-sharing on the part of the contractor, and perhaps in contractors refraining from conducting needed IR&D tasks or making appropriate bids. The latter would, CODSIA says, result in weakening our National capabilities and impairing the competitive process.

DOD's instructions state that in negotiating the ceilings for IR&D and B&P to be included in advance agreements particular attention is to be given to technical evaluations of contractors' programs, determinations of potential military relationship, comparison with previous years' programs including the level of the Government's participation, and changes in the company's business activities.

We were unable to ascertain the effect of each of these factors on the ceilings negotiated for the six contractors included in our review because the negotiators' files did not show how the ceiling amounts were determined. However, in discussing the matter with DOD negotiating personnel we concluded that the level of previous years' programs is given substantial weight in determining the Government's prenegotiation position. Considering recent budgetary constraints and congressional concern over costs incurred for IR&D and B&P in prior years, it is not surprising that historical cost experience is a basic consideration.

Adjustment of Negotiated Ceilings

CODSIA is concerned about the practice of some DOD negotiators to include a clause in advance agreements which provides DOD with an option

to reopen negotiations aimed at downward adjustment in the ceiling when the technical rating[1] is subsequently received at lower than a stipulated value. CODSIA believes that if a higher technical rating is received, the rules should similarly allow an increase in the allowable ceiling.

We analyzed all 146 agreements negotiated with 63 companies in calendar year 1971 and found that 48 provided DOD with the option to reduce ceilings based on subsequent technical reviews. The clause was inserted in all agreements negotiated prior to completion of technical reviews of the contractor's proposed programs. Departmental officials informed us, however, that only one of these 48 agreements was renegotiated because of a subsequent low technical rating.

Although the experience to date does not show that renegotiation of ceilings downward because of low technical ratings is a major problem area, CODSIA's position seems reasonable.

TECHNICAL EVALUATIONS

Section 203(a)(2) requires that the IR&D portions of advance agreements must be based on company-submitted plans on each of which DOD makes a technical evaluation before or during the fiscal year covered by the agreement.

DOD's technical evaluations are of two types. One, which is made annually, consists of a review by technically oriented personnel of the written descriptions of IR&D projects furnished by the companies in their annual plans (brochures). DOD currently requires that at least 90 percent of the dollar value of each company's IR&D program be reviewed in this manner. The descriptions are reviewed with the objective of judging the quality of the projects with respect to such things as technical objectives, approach, past achievements, originality, uniqueness, facilities, personnel, etc.

The second type, which DOD now requires to be made at least once every three years, is referred to as an on-site review. This review complements the annual "brochure review" in that it allows the Government evaluators to see the actual facilities and to discuss projects with company personnel. In contrast to the 90 percent rule for the brochure review, the evaluating team generally has considerable discretion in selecting the numbers and types of projects it will examine during the on-site review.

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[1] In making technical evaluations of contractors' IR&D programs DOD evaluators generally assign a numerical rating which in their judgment represents the quality of the programs in relation to predetermined standards.

In view of the time and cost required to make on-site reviews, we believe that after a contractor's program has once been subjected to a thorough on-site review, the annual reliance thereafter on paper (brochure) reviews, augmented periodically with on-site reviews, is a reasonable practice.

DOD'S ANNUAL REPORT TO THE CONGRESS

Section 203(c) requires the Secretary of Defense to submit an annual report concerning IR&D and B&P to the Congress on or before March 15 of each year. We reviewed the report recently submitted, and believe it meets the requirements of the law.

We also made a limited test of the reasonableness of the Defense Contract Audit Agency's (DCAA's) annual statistical report submitted as a part of the Secretary's annual report, because of the report's importance in providing the Congress with visibility of the costs incurred for IR&D and B&P. This test was restricted to the six major contractors included in our review, and included a review of DCAA's method as well as a validation of source data to the extent we deemed necessary.

Although we found minor discrepancies, we believe the DCAA report can be relied on as a gauge of IR&D and B&P activity. We believe, however, that the value of the report could be further enhanced by including payments made to the contractors by other Government agencies. DCAA officials informed us that such payments have not been included because this is not required by Section 203; however, this information is available in DCAA's files. In view of the relatively large sums involved, about $85 million for NASA alone in 1970, the Congress may wish to consider having DCAA extend its report to include payments by other Government agencies to those contractors receiving payments from DOD.

COUNCIL OF DEFENSE AND SPACE INDUSTRY ASSOCIATIONS (CODSIA)

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January 31, 1972

Mr. W. D. Lincicome
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Dear Mr. Lincicome:

This is in response to your letter of December 1, 1971, requesting the views of industry on the implementation by the Department of Defense of the provisions of Section 203 of Public Law 91-441, pertaining to the recognition of Independent Research and Development (IR&D) and Bid and Proposal (B&P) costs.

In November 1970, DoD, acting promptly and responsively to implement Section 203 (passed in October 1970), requested CODSIA to submit comments on the proposed ASPR Regulations which would implement this Section. At the time, we suggested certain changes which were considered necessary to prevent over-implementation or misimplementation of the law.

Even though 14 months have passed since the issuance of Defense Procurement Circular No. 84, sufficient time has not yet elapsed to assess accurately all of the effects of Section 203 and DoD's implementation of that legislation. Implementation problems are still surfacing as DoD procedures continue to be formalized and refined. Fourteen months is not sufficient time for full-cycle including an after-the-fact audit and analysis of results. For this reason, we are addressing a few key issues realizing that additional problems could very well develop in the future.

There is, however, some evidence that potentially harmful effects have emerged. We now see that some aspects of the legislation and DoD's implementations are beginning to stifle technical ingenuity which is critical not only to defense needs but also to social and economic needs.

POTENTIAL RELATIONSHIP

The provision of the legislation which requires that IR&D and B&P have a "potential relationship to a military function or operation" is producing a serious restrictive impact on industry IR&D programs. There appears to be a trend towards recognition of IR&D only when related to present readily identifiable needs with a resulting contraction of imaginative, innovative research. We sincerely doubt that this was the result the Congress had in mind at the time the legislation was enacted. For example, at one time even the Space Shuttle Program was ruled to have no potential military relationship, though this ruling was subsequently changed.

Congressional Hearings held in early 1970 and subsequent Committee reports issued as a result of those Hearings do make it clear that the Congress desired improvement in administration of IR&D and B&P by the DoD and identification of the amounts allocated by DoD for IR&D and B&P. On the other hand, it appears clear from the Hearings and Committee Reports that Congress recognized the importance of industry funded research and development effort to the national security. Unfortunately, experience shows that some elements of the DoD and the military services are laboring under the impression that Congress has mandated that IR&D and B&P costs be continually reduced regardless of the national priorities. With this "mandate" in mind, the "test of potential relationship" offers one means of accomplishing such reductions.

In addition to the stifling effect of DoD's interpretation of the "test of potential relationship" on the national security, the law has an even greater impact on other priority national goals such as ecology, transportation, medicine, housing, and urban problems. The contributions of technology to national strength and a better society are recognized by other nations, both friend and foe. This recognition is evidenced both in the national budgets and in subsidies to support industry research and development. At a time when there is a need for realization that only through technological advance can we hope to maintain national security and continue economic and social progress, we find an anomaly in legislation, whether intended or not, which seriously impedes industry research and development.

We therefore, submit that narrow interpretation of the regulations and the statute with respect to "potential relationship" is only the evidence of the problem rather than its root.

As an immediate correction of what we consider to be a most serious and damaging legislative anomaly, Congress should consider amending the potential relationship portion of the law to

read "potential relationship to the interests of the U. S. Government" in order to permit and encourage recognition of industry's independent technical effort benefiting all branches of the Federal Government. In addition, such action would support the continuing encouragement by Congressional leaders for utilization of defense technology in solving non-defense problems.

PENALTY FOR FAILURE TO AGREE

Section 203, P.L. 91-441, provides that a contractor who fails to conclude an advance agreement shall by the end of the pertinent fiscal year receive "substantially less" than he would otherwise be paid. Although to date, only a few contractors to our knowledge have been confronted with such a determination, all are threatened with this possibility. This provision creates an imbalance in the negotiating process as it gives the DoD negotiator an inequitable leverage in negotiations since, failing agreement, he must make an unilateral determination for a significantly reduced recoverable ceiling. Such authority effectively destroys the concept of bilateral negotiation and unavoidably leads to forcing of agreements that may well be detrimental to both the government's and industry's best interests. It may not be unreasonable for the law to impose a penalty on a contractor who refuses to enter into negotiations looking toward an advance agreement. However, there should be no penalty when a contractor makes reasonable efforts to negotiate an agreement, but is unable to reach an agreement by the end of the pertinent fiscal year.

ARBITRARY REDUCTION OF CONTRACTOR'S PROPOSED IR&D AND B&P PROGRAMS

With the leverage afforded the DoD negotiator as discussed under "Penalty For Failure to Agree", it is observed that despite extensive technical review and control and reporting techniques being directed at contractor's IR&D/B&P programs by the DoD to assure that contractor expenditures are at reasonable levels, well managed, and of high technical quality, some DoD personnel have established an unsupportable criteria of "the same or less than last year." It is obvious that the opportunities for and requirements of individual contractors, as well as the Government, will vary from year to year. Unless some valid judgments are made in recognition of these needs, the result will be that contractors will incur essential but non-recoverable costs, the end result of which is involuntary cost sharing not intended by the legislation or by DoD policy. The only alternative is to refrain from conducting certain IR&D tasks and from making otherwise appropriate bids with the resultant weakening of our national capabilities and impairment of the competitive process.

ADJUSTMENT OF NEGOTIATED CEILINGS

Some DoD negotiators are now requiring in current advance agreements, a clause which makes mandatory consideration of a downward adjustment only to otherwise allowable IR&D/B&P expense ceilings when the Government's technical grading is subsequently received at lower than a stipulated value. We believe that if a higher technical grade is received, the rules should similarly allow an increase in the allowable ceiling. It is our view that the "downward" philosophy is neither a reasonable nor an equitable business arrangement.

INCONSISTENCIES BETWEEN SECTION 203, P.L. 91-441, AND DOD IMPLEMENTATIONS, DPC 84 AND DPC 90

Defense Procurement Circular 90 provides that advance agreements must be negotiated with any company which received payments, either as a prime contractor or subcontractor, in excess of $2 million from the DoD for IR&D and B&P in a fiscal year while the act provides $2 million in IR&D or B&P payments in the prior year and is silent as to subcontracts.

DPC 90 provides that companies which meet the $2 million criterion must negotiate advance agreements either at the corporate level or at the profit center level for those profit centers which contract directly with DoD and which in the preceding year allocated recoverable IR&D and B&P costs in excess of $250,000 to all DoD contracts and subcontracts. DPC 90 correctly provides that in the computation to determine whether the $2 million or $250,000 threshold was reached, only contracts for which the submission and certification of cost or pricing data was required shall be included. However, the changing of "or" to "and" as well as the inclusion of "subcontracts" (and burdening) results in the negotiation of many more agreements than the language of the statute requires. To give a specific example, a medium size company has advised that these changes in language have caused it to have to submit brochures, go through a two day technical review with 18 government representatives, and to negotiate advance agreements for two profit centers of the company where the applicable DoD billings were less than 10% of the total profit center billings in each case. In one of the profit centers 1500 man hours were expended and in the other 3500 man hours, all of which would have been unnecessary had DPC 90 followed the letter of the law and not enlarged upon it.

As indicated at the beginning of our letter, CODSIA appreciates the opportunity afforded to comment upon Section 203, P.L. 91-441 and its implementation, because this is a matter of great

importance to the vitality and future of our country. We appreciate also your indication that this letter will be made a part of the GAO Report to the Senate Committee on Armed Services.

CODSIA representatives will be available to discuss and clarify any of the subject matters discussed in this letter.

Very truly yours,

Jean A. Caffiaux
Staff Vice President
Electronic Industries Assn.

Joseph M. Lyle
President
National Security Industrial Assn.

Robert E. Lee, President
National Aerospace Services Assn.

Edwin M. Hood, President
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