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OVERPRICING OF GOVERNMENT CONTRACTS

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HEARINGS

BEFORE THE

SUBCOMMITTEE FOR SPECIAL INVESTIGATIONS

OF THE

COMMITTEE ON ARMED SERVICES

HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

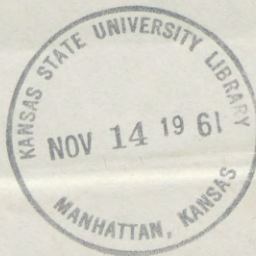
FIRST SESSION

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HEARINGS HELD APRIL 27, 28, 1961

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SUBCOMMITTEE FOR SPECIAL INVESTIGATIONS

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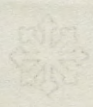
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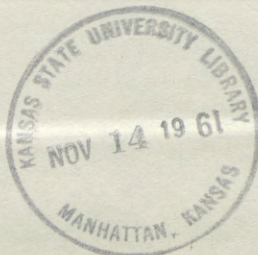
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OVERPRICING OF GOVERNMENT CONTRACTS

THURSDAY, APRIL 27, 1961

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE FOR SPECIAL INVESTIGATIONS
OF THE COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. F. Edward Hébert (chairman of the subcommittee) presiding.

Mr. HÉBERT. The committee will be in order.

The Chair wishes to make a brief prepared statement before we begin the hearing this morning.

As a way of background and to the purpose of the hearing on this particular subject: During the 1st session of the 86th Congress, this subcommittee requested and received testimony from the General Accounting Office on a selected review of pricing of prime and subcontracts of the Navy and the Air Force.

We requested this testimony because of a deep concern over the increasing number of instances wherein incentive-type contracting being used by the Navy and Air Force was supposed to achieve less costly production through inducement of larger incentive profits and more efficient production.

In the 6-month period prior to this testimony, the subcommittee received a number of separate reports on Navy and Air Force contracts which presented an entirely different picture. Rather than the purported "savings" which we were led to expect, the GAO reports revealed serious failures of Government negotiators in costing and pricing for incentive-type and other contracts.

Fourteen specific cases involving the Air Force were discussed. In certain of these cases estimated costs used in pricing were excessive, resulting in excess cost to the Government of about \$6.4 million; in other cases, prices were negotiated without adequate consideration of available information resulting in selling prices to the Government above actual costs of about \$13.8 million, or about 30 percent profit to the contractor.

Two special reports were among the 14 submitted by the GAO. These two special reports, because of the implication of certain of the GAO findings, were referred to the Department of Justice for review and consideration. The excessive costs to the Government of these Navy contracts amounted to some \$15 million.

Disclosure of these data by the GAO resulted in action by Navy and Air Force to adjust contract prices, resulting in recoveries of \$4.1 million by the Air Force and \$2.5 million by the Navy. The GAO also recommended that specific additional actions be taken to give better assurance that prices negotiated for prime and subcontracts are fair and reasonable.

Both the Navy and the Air Force agree to these conclusions.

We now propose to examine the extent to which action was taken to achieve this purpose; and the results obtained by the Navy and the Air Force in recovering additional money on these allegedly overpriced contracts.

Now this morning we have Joseph Campbell, the Comptroller General, as our first witness.

And, Mr. Campbell, may I thank you again for your cooperation with this committee and assure you that the committee appreciates the continued efforts, the continued splendid cooperation which we constantly receive from the General Accounting Office.

I have said on many occasions, and I repeat here today, you are both our right and left arm, and this committee could not have functioned as effectively as it feels it functions without the assistance of your office and yourself personally.

You may make any statement you desire.

General CAMPBELL. Thank you, Mr. Chairman.

During the course of hearings by your Subcommittee on Weapons System Management and Team System Concept in Government Contracting, representatives of the General Accounting Office in June and July 1959 discussed selected Air Force and Navy contracts and sub-contracts in which fair and reasonable prices had not been negotiated. Summaries of increased costs to the Government under such contracts, together with the amounts which had been recovered by the Air Force and the Navy at that time, are set out on pages 369 and 642 of the hearings.

At your request, we are today presenting up-to-date information as to the recoveries related to reports discussed during the 1959 hearings, together with information on similar reports released by our Office since these hearings. For your use, we have prepared schedules which summarize our reports through March 1961 on the Air Force and Navy contracts and which show both the nature of the finding in each case and the recoveries to that date. In most cases, the recoveries were either initiated by the contractors involved or obtained by the agency. In a limited number of cases, recoveries were effected through action by the Department of Justice and the Renegotiation Board. We have no doubt that the interest of your subcommittee in these matters has had a very significant effect on the recoveries that have been made.

With your permission, we would like first to present an up-to-date summary of the recoveries obtained under the Air Force contracts which were discussed in the June 1959 hearings. And I refer here to the statement marked "Schedule A," which is appended to the copies of this statement.

In the 1959 hearings, we summarized 14 Air Force reports released during the preceding year. These reports showed increased costs to the Government of \$6,340,000, of which \$4,112,000 had been recovered at the time of the hearings. As a result of further action by the Air Force, the amount of the additional cost to the Government identified under these contracts has been increased by \$1,210,000, making a total of \$7,550,000. The additional amounts identified by the agency generally involved contracts where the lack of cost data and other information at the time of negotiations precluded our determining on a

sound basis the extent to which the prices were excessive. While we did not, in those cases, identify the amount of increased cost to the Government, nevertheless, the Air Force later obtained significant price reductions. In other cases where the amount of the finding was identified in our report, the Air Force increased this amount by extending the finding to areas not included in our review. Since the 1959 hearings, recoveries of \$2,870,000 have been effected for a total of \$6,982,000. Therefore, of the total identified amount of increased cost under Air Force contracts involved in the 1959 hearings, \$568,000 remains unrecovered through March 1961.

We would like now to present summaries of our reports to the Congress on Air Force contracts released before and after the reports discussed in the 1959 hearings.

Prior to release of the reports covered in the 1959 hearings, we had issued four reports to the Congress in which we identified increased costs to the Government of \$9,522,000.

I draw your attention to schedule B, which is appended to my statement.

Further action by the Air Force, and in one instance by the Department of Justice, increased the amount due the Government by \$9,133,000 to a total of \$18,655,000, and the full amount has been recovered.

Since the 1959 hearings, we have released 19 reports in which we identified increased costs to the Government of \$13,773,000. I refer here to schedule C, which is appended to my statement.

Action by the Air Force has resulted in increasing the amount of our findings by \$1,096,000 to a total of \$14,869,000, of which \$7,618,000 has been recovered through March 1961. By letter received on April 3, 1961, the Air Force informed us that a contractor had agreed to a price adjustment involving one of the reports listed in schedule C and a subsequent contract. This adjustment when effected will reduce the unrecovered amount shown in schedule C by \$3,402,000 to a remainder of \$3,849,000. Of this unrecovered remainder, \$1,849,000 is applicable to two cases which have been referred to the Department of Justice for action.

With respect to Department of the Navy contracts, in the July 1959 hearings we summarized 14 reports in which we had identified increased costs to the Government of \$10,561,000 and amounts recovered by the Navy at that time totaling \$2,510,000. I refer here to schedule D, which is appended to my statement.

As a result of settlement negotiations by the Navy, amounts identified in our reports were reduced by \$288,000 to a total of \$10,273,000. Since the July 1959 hearings, the Navy has made additional recoveries of \$20,000. Therefore about \$7,743,000 remains unrecovered in these cases. Since the July 1959 hearings we have released two reports on Navy contracts in which we identified increased costs to the Government of \$9,618,000. These are set out in our schedule E, which is appended to this statement.

Of the total unrecovered amount of \$17,361,000 involving Navy contracts as listed on schedules D and E, \$4,680,000 has been referred to the Department of Justice for action and an amount not yet identified by the Navy in one other case has been recovered through receiv-

ing certain services from the contractor without reimbursement for the cost of these services.

Mr. Chairman, in summary, we find that from February 1957 to March 1961 we sent 53 reports to the Congress concerning Air Force and Navy contracts in which recoveries of increased costs to the Government of \$60,965,000 have been effected or recommended. Our records show that of this amount \$35,785,000, or about 59 percent, had been recovered through March 1961. A summary schedule in this matter is attached.

In 37 reports relating to Air Force contract negotiations, the increased costs amounted to \$41,074,000, and, of this amount, \$33,255,000 had been recovered through March 1961, or about 81 percent. The percentage of recovery will be increased to about 89 percent when the previously mentioned price adjustment offered by one contractor has been accepted.

In the remaining 16 reports relating to Navy contract negotiations, the increased costs amounted to \$19,891,000. Of this amount, about 13 percent, or \$2,530,000, has been recovered, plus an additional undetermined amount in the case mentioned earlier where certain services are being received without reimbursement for the cost of these services. Also, in some cases where recoveries are incomplete, we understand that the Air Force, the Navy, and the Department of Justice are still making efforts to obtain adjustments from the contractors involved.

You will note that in several instances the contract prices shown on our schedules are quite substantial in amount. It is our practice in the examinations of negotiated contracts to direct our attention primarily to those areas where the interests of the Government appear to have been adversely affected and which offer the greatest opportunity for constructive improvement.

The magnitude of the defense expenditures, the large number of contracts, and, in many cases, the size of individual contracts require that the limited manpower of the GAO be used judiciously. Therefore, to be effective, our work must be highly selective in nature but intensive as to the activity we select for review. Although we devote a considerable amount of our effort to procurement matters, we examine a relatively small percentage of the total dollar amounts of negotiated contracts, and, in the case of large contracts, we examine only the elements of the contract negotiation that seem to warrant particular attention.

We are sure your subcommittee is aware of the changes that the Department of Defense and the services have made in their procurement procedures and the increased emphasis being placed on more effective negotiation of contracts. Although we are continuing our reviews of contract negotiations including those conducted under the revised procedures, our coverage, of necessity, will be limited. Therefore continued emphasis and surveillance by the Department of Defense and the military services will be required if the full benefits of these improvements are to be realized.

(The charts referred to are as follows:)

GAO reports to the Congress on Air Force negotiated contracts presented in the June 1959 hearings (summary report B-152942)

	Contract price	Findings				Recoveries			Unrecovered to date
		Excess amount in price	Increased cost to the Government		Reported in June 1959 hearings	Subsequent recoveries	Total		
			Amount identified in GAO report	Agency adjustments ¹					
Excessive costs included in contract prices:									
McDonnell Aircraft Corp.....	\$102,460,000	\$5,193,000	\$1,506,000	-\$1,000	\$1,505,000	\$1,505,000	\$1,505,000		
Boeing Airplane Co.....	193,109,000	5,023,000	1,398,000	104,000	1,502,000	999,000	1,156,000	\$346,000	
Lockheed Aircraft Corp.....	198,893,000	4,111,000	1,251,000	121,000	1,372,000	122,000	1,372,000		
General Precision Lab., Inc.....	22,547,000	500,000	150,000	1,000	151,000	151,000	151,000		
The Cessna Aircraft Co.....	6,325,000	243,000	68,000		68,000	68,000	68,000		
Goodyear Aircraft Corp.....	7,381,000	209,000	209,000		209,000		165,000	44,000	
Friden, Inc.....	2,199,000	446,000	446,000	174,000	620,000	46,000	620,000		
Avco Manufacturing Corp.....	15,400,000	1,134,000	1,134,000		1,134,000		1,134,000		
Rheem Manufacturing Co.....	609,000	178,000	178,000		178,000			178,000	
Subtotal.....	548,923,000	17,037,000	6,340,000	399,000	6,739,000	2,861,000	6,171,000	568,000	
Contract prices unreasonably high in relation to prior cost experience:									
Lambert Engineering Co.....	1,187,000	(3)	(3)	9,000	9,000	9,000	9,000		
The Firestone Tire & Rubber Co.....	11,824,000	(3)	(3)						
Menasco Manufacturing Co.....	29,100,000	(3)	(3)						
GMC, AC Spark Plug Division.....	7,800,000	(3)	(3)	750,000	750,000		750,000		
Subtotal.....	49,911,000			759,000	759,000	9,000	759,000		
Inappropriate use of fixed-price type of contract:									
Avtron Manufacturing, Inc.....	693,000	(3)	(3)	52,000	52,000		52,000		
Total (14 reports).....	599,527,000	17,037,000	6,340,000	1,210,000	7,550,000	2,870,000	6,982,000	598,000	

¹ Agency adjustments largely due to (1) agency determination of increased costs where GAO did not identify such amounts (see note A), and (2) extensions of review to areas not included in GAO review.

² Recovered by Department of Justice.

³ Amount not identified in GAO report because of lack of sufficient cost data and other information at time of negotiation to determine the extent to which increased costs were included in the contract price.

OVERPRICING OF GOVERNMENT CONTRACTS

SCHEDULE B.—GAO reports to the Congress on Air Force negotiated contracts prior to the June 1959 hearings

	Contract price	Findings				Recoveries	Unrecovered to date
		Excess amount in price	Amount identified in GAO report	Agency adjustments ¹	Total		
Excessive costs included in contract prices:							
McDonnell Aircraft Corp.-----	\$114,382,000	\$1,200,000	\$1,200,000	\$782,000	\$1,982,000	\$1,982,000	-----
GMC, Buick-Oldsmobile-Pontiac Division-----	208,998,000	8,322,000	8,322,000	1,586,000	9,908,000	29,908,000	-----
Boeing Airplane Co., subcontractor with Ford Motor Co.-----	139,601,000	(²)	(²)	5,000,000	5,000,000	5,000,000	-----
Subtotal-----	462,981,000	9,522,000	9,522,000	7,368,000	16,890,000	16,890,000	-----
Deficiencies relating to the commercial use of Government-owned facilities: Curtiss-Wright Corp.-----				1,765,000	1,765,000	1,765,000	(⁴)
Total (4 reports)-----	462,981,000	9,522,000	9,522,000	9,133,000	18,655,000	18,655,000	-----

¹ Agency adjustments largely due to (1) agency determination of increased costs where GAO did not identify such amounts (see note A), and (2) extensions of review to areas not included in GAO review.

² Recovered by Department of Justice.

³ Amount not identified in GAO report because of lack of sufficient cost data and other information at time of negotiation to determine the extent to which increased costs were included in the contract price.

⁴ Amount recovered is under review.

OVERPRICING OF GOVERNMENT CONTRACTS

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SCHEDULE C.—GAO reports to the Congress on Air Force negotiated contracts subsequent to the June 1959 hearings

	Contract price	Findings				Recoveries	Unrecovered to date
		Excess amount in price	Increased cost to the Government		Total		
			Amount identified in GAO report	Agency adjustments ¹			
Excessive costs included in contract prices:							
Fairchild Engine & Airplane Corp.	\$132,441,000	\$1,350,000	\$1,350,000	-----	\$1,350,000	-----	\$1,350,000
North American Aviation, Inc.	23,542,000	295,000	103,000	-----	103,000	-----	103,000
The Martin Co., Subcontractor of McDonnell	31,573,000	687,000	252,000	-----	252,000	-----	\$252,000
Burroughs Corp.	40,236,000	1,083,000	285,000	-----	285,000	-----	285,000
Convair Division of General Dynamics	490,109,000	12,149,000	3,402,000	-----	3,402,000	-----	3,402,000
Northern Radio Co., Inc.	2,546,000	543,000	-----	-\$37,000	506,000	2,506,000	-----
General Electric Co.	19,528,000	3,409,000	3,409,000	-----	3,409,000	3,356,000	53,000
General Electric Co.	7,422,000	329,000	329,000	-----	320,000	320,000	-----
Kearfott Co., Inc.	9,198,000	499,000	499,000	-----	499,000	-----	499,000
J. A. Maurer, Inc.	521,000	188,000	188,000	-----	188,000	-----	188,000
Thiokol Chemical Corp., Reaction Motors Division	511,000	103,000	103,000	122,000	225,000	225,000	-----
GMC, AC Spark Plug Division	527,000	(³)	(³)	106,000	106,000	106,000	-----
Thompson Ramo Wooldridge, Inc.	2,104,000	566,000	566,000	-----	559,000	559,000	-----
Thompson Ramo Wooldridge, Inc.	6,124,000	56,000	56,000	-----	56,000	56,000	-----
Continental Aviation & Engineering Corp.	6,000,000	412,000	412,000	-----	412,000	236,000	176,000
GMC, Allison Division	58,986,000	1,480,000	1,480,000	-----	1,480,000	-----	1,480,000
GMC, Allison Division and Engineering Corp.	9,764,000	579,000	365,000	-----	884,000	884,000	-----
Subtotal	\$41,132,000	23,738,000	13,556,000	480,000	14,036,000	6,785,000	7,251,000
Inappropriate use of fixed-price type of contract: Bendix subcontractor of General Electric Co.	1,602,000	(³)	(³)	616,000	616,000	616,000	-----
Deficiencies relating to the commercial use of Government-owned facilities: Avco Corp., Lycoming Division	-----	217,000	217,000	-----	217,000	217,000	-----
Total (19 reports)	\$42,734,000	23,738,000	13,773,000	1,096,000	14,869,000	7,618,000	7,251,000

¹ Agency adjustments largely due to (1) agency determination of increased costs where GAO did not identify such amounts (see note A), and (2) extensions of review to areas not included in GAO review.

² Recovered by Renegotiation Board.

³ Amount not identified in GAO report because of lack of sufficient cost data and other information at time of negotiation to determine the extent to which increased costs were included in the contract price.

OVERPRICING OF GOVERNMENT CONTRACTS

	Contract price	Findings				Recoveries			Unrecovered to date
		Excess amount in price	Increased cost to the Government		Reported in June 1959 hearings	Subsequent recoveries	Total		
			Amount identified in GAO report	Agency adjustments ¹				Total	
Excessive costs included in contract prices:									
Collins Radio Co.	\$26,988,000	\$770,000	\$177,000	—\$39,000	\$138,000		\$138,000		
Westinghouse Electric Corp.	16,426,000	933,000	933,000		933,000			\$833,000	
Aircraft Radio Corp.	16,565,000	75,000	75,000		75,000			35,000	
Philco Corp.	17,098,000	29,000	29,000		29,000			29,000	
Special Rept. No. 1	20,654,000	5,140,000	4,419,000		4,419,000			4,419,000	
McDonnell Aircraft Corp.	76,518,000	2,722,000	2,722,000		2,722,000			1,522,000	
Subtotal	168,229,000	9,689,000	8,355,000	—39,000	8,316,000		1,338,000	6,978,000	
Contract prices unreasonably high in relation to prior cost experience:									
Special Rept. No. 2	154,000	43,000	43,000		43,000			43,000	
Chance Vought Aircraft, Inc.	186,122,000	1,536,000	726,000		726,000		252,000	474,000	
Lambert Engineering Co.	749,000	(2)	(2)						
Librascope, Inc.		13,000	13,000	3,000	10,000		10,000		
GMC, Cleveland Diesel Engine Division	118,700,000	929,000	929,000	—239,000	690,000		690,000		
Subtotal	305,725,000	2,521,000	1,711,000	—242,000	1,469,000		10,000	517,000	
Inappropriate use of fixed-price type of contract:									
Librascope, Inc.	1,893,000	(2)	(2)						
The Electric Products Co., Inc.	249,000	(2)	(2)						
Subtotal	2,142,000								
Deficiencies relating to the commercial use of Government-owned facilities:									
Birdsboro Armorcast, Inc.			213,000		213,000			213,000	
Bell Helicopter Corp.			247,000	—7,000	240,000		10,000		
McDonnell Aircraft Corp.			35,000		35,000			35,000	
Subtotal			495,000	—7,000	488,000		10,000	248,000	
Total (14 reports)	476,096,000	12,190,000	10,551,000	—288,000	10,273,000		2,510,000	7,743,000	

¹ Amounts not collected by the Navy in settlement negotiations with contractors.

information at time of negotiation to determine the extent to which increased costs were included in the contract price.

SCHEDULE E.—GAO reports to the Congress on Navy negotiated contracts subsequent to the July 1959 hearings

	Contract price	Findings			Recoveries	Unrecovered to date
		Excess amount in price	Increased cost to the Government			
			Amount identified in GAO report	Agency adjustments		
Excessive costs included in contract prices:						
Brown-Raymond-Walsh.....	\$292,218,000	\$9,400,000	\$9,400,000	-----	\$9,400,000	1 \$9,400,000
Philco Corp.....	11,598,000	590,000	218,000	-----	218,000	218,000
Total (2 reports).....	303,816,000	9,990,000	9,618,000	-----	9,618,000	9,618,000

¹ An unidentified portion of the \$9,400,000 has been recovered by the Navy through receiving certain services from the contractor without reimbursement for the cost of these services. We have been informed that the Navy intends to determine the extent of such recovery at completion of the contract.

Summary of 53 GAO reports to the Congress on Air Force and Navy negotiated contracts from February 1957 to March 1961

	Air Force				Navy				Total				
	Num- ber	Findings	Recoveries	Un- recovered	Num- ber	Findings	Recoveries	Un- recovered	Num- ber	Findings	Recoveries	Un- recovered	
BY PERIODS													
Reports presented in 1959 hearings (schedules A, D)	14	\$7,550,000	\$6,982,000	\$568,000	14	\$10,273,000	\$2,530,000	\$7,743,000	28	\$17,823,000	\$9,512,000	\$8,311,000	
Reports prior to 1959 hearings (schedule B)	4	18,655,000	18,655,000						4	18,655,000	18,655,000		
Reports subsequent to 1959 hearings (schedules C, E)	19	14,869,000	7,618,000	7,251,000	2	9,618,000		9,618,000	21	24,487,000	7,618,000	16,869,000	
Total	37	41,074,000	33,255,000	7,819,000	16	19,891,000	2,530,000	17,361,000	53	60,965,000	35,785,000	25,180,000	
Percent		100	81	19		100	13	87		100	59	41	
BY TYPES OF FINDINGS													
Excessive costs included in contract prices	29	\$37,665,000	\$29,846,000	\$7,819,000	8	\$17,934,000	\$1,338,000	\$16,596,000	37	\$55,599,000	\$31,184,000	\$24,415,000	
Contract prices unreasonably high in relation to prior cost experience	4	759,000	759,000		4	1,469,000	952,000	517,000	8	2,228,000	1,711,000	517,000	
Inappropriate use of fixed price type of contract	2	668,000	668,000		2				4	668,000	668,000		
Deficiencies relating to the commercial use of Government-owned facilities	2	1,982,000	1,982,000		2	488,000	240,000	248,000	4	2,470,000	2,222,000	248,000	
Totals	37	41,074,000	33,255,000	7,819,000	16	19,891,000	2,530,000	17,361,000	53	60,965,000	35,785,000	25,180,000	

¹ An unidentified portion of \$9,400,000, included in the unrecovered amount of \$9,618,000, has been recovered by the Navy through receiving certain services from the contractor without reimbursement for the cost of these services. We have been informed that the Navy intends to determine the extent of such recovery at completion of the contract.

Summary of recoveries

	Air Force		Navy		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
By agency.....	\$21,336,000	64	\$2,530,000	100	\$23,866,000	67
By Department of Justice.....	11,413,000	34	-----	-----	11,413,000	32
By renegotiation board.....	506,000	2	-----	-----	506,000	1
Total.....	33,255,000	100	2,530,000	100	35,785,000	100

Mr. Chairman, I am accompanied here today by Mr. Welch, our Deputy General Counsel, and Mr. Bailey, who is responsible directly for our contract examination work.

We will attempt to answer any questions you may wish to put to us.

Mr. HÉBERT. Thank you very much, Mr. Campbell. I just have one or two questions.

In the references you make to the cases being referred to the Department of Justice, is the committee to understand that this is merely in the matter of a recovery, or does it indicate probable fraud?

General CAMPBELL. I would like to have our counsel answer that question.

Mr. WELCH. Well, it is our custom, when we encounter cases where we feel there might be a suspicion of fraud, to refer such cases to Justice.

Mr. HÉBERT. Well, then, the committee is to understand that in these cases that you referred to there is a suspicion of fraud, and it is not merely for the purpose of collection?

Mr. WELCH. I think that is correct. It would be both purposes.

Mr. HÉBERT. Well, naturally.

Mr. WELCH. Yes, sir.

Mr. HÉBERT. But some you have not referred to the Department of Justice and you are allowing the services to attempt to recover. So in those areas that indication would be there is no suspicion of fraud. But where you have referred it to the Department of Justice, the committee is to assume that there is a suspicion of fraud?

Mr. WELCH. I believe that is a proper assumption, sir.

Mr. HÉBERT. How many cases do you have before the Department of Justice?

Mr. BAILEY. We have five cases pending, I believe, at the present time, Mr. Chairman.

Mr. HÉBERT. I am sorry?

Mr. BAILEY. We have approximately five cases pending at the present time, I believe.

There have been in total some 15 cases all together that have been considered by Justice, at various times.

Mr. HÉBERT. But pending now, five cases?

Mr. BAILEY. I believe that is right, Mr. Chairman, yes, sir.

General CAMPBELL. In this matter of our referral of these cases to Justice, where we feel that there is a possibility of fraud, rather than a suspicion of fraud, we just don't take any chances and do refer these matters to Justice.

Mr. HÉBERT. That is what the committee is to understand.

General CAMPBELL. Yes, sir.

Mr. HÉBERT. Now I understand a total of 15 cases have been referred since our hearings?

Mr. BAILEY. I would like to correct that, Mr. Chairman. I have just counted them. There are 12.

Mr. HÉBERT. Twelve since our hearings of 1959?

Mr. BAILEY. No. These go back beyond that.

Mr. HÉBERT. Beyond that?

Mr. BAILEY. Yes, sir. They include the earlier, two earlier cases.

Mr. COURTNEY. You are talking about the period since 1957?

Mr. BAILEY. Since 1957?

Mr. COURTNEY. Yes.

Mr. BAILEY. There have been 12 cases.

Mr. HÉBERT. There have been 12 cases since 1957?

Mr. BAILEY. Yes, sir.

Mr. HÉBERT. And I know that some of them involved the hearings that we conducted.

Mr. BAILEY. Yes, sir.

Mr. HÉBERT. At that time.

Mr. BAILEY. Yes, sir.

Mr. HÉBERT. And recovery was made, in the instances which I have in mind.

Now, is the committee then to assume that in 7 of the 12 there was found to be no fraud at present, since you have referred to 12 and 5 are still pending—

Mr. BAILEY. No, sir. Some of these cases have been closed by recovery by the Department of Justice.

Mr. HÉBERT. By recovery?

Mr. BAILEY. Yes, sir.

Mr. HÉBERT. But there are now five pending before Justice?

Mr. BAILEY. Yes, sir.

Mr. HARDY. Mr. Chairman.

Mr. HÉBERT. Yes, sir.

Mr. HARDY. In that connection, if seven of them have been closed—is that correct, seven of them have been closed?

Mr. BAILEY. Yes, sir, that is right.

Mr. HARDY. And they were, either by recovery or for other reasons, closed?

Mr. BAILEY. Yes, sir.

Mr. HARDY. But insofar as you know, no action has been taken in any with any suspicion of fraud?

General CAMPBELL. Not to our knowledge.

Mr. HARDY. Justice takes an awful lot of time to act. In another committee I sent over there a case of bribery which was admitted, and it has been hanging for 2 years, and only recently have they started anything. So I am just wondering if maybe they still have some of these that they may decide they have a basis for prosecution.

Mr. BAILEY. In one case we know of they are filing suit, Mr. Hardy. What the suit will be, I don't know. I mean I don't know what charges will be made.

Mr. HARDY. Unless you laid out an open-and-shut case, they probably wouldn't act on a fraud basis anyhow. They don't seem to be able to stir those up very thoroughly.

Mr. HÉBERT. Now, Mr. Campbell, in connection with your recoveries, to recapitulate: What is the total recommended recovery for the Air Force? The total now. Beginning with the hearings, those cases, since 1959.

Mr. COURTNEY. Page 4, Mr. Campbell.

Mr. BAILEY. \$41 million.

Mr. COURTNEY. \$41 million.

General CAMPBELL. The total, Mr. Chairman, is \$41,074,000.

Mr. HÉBERT. That was the overcharge?

General CAMPBELL. Yes, sir.

Mr. HÉBERT. The recovery: What has it been?

General CAMPBELL. They have recovered a total of \$33,255,000, leaving unrecovered \$7,819,000. And that is the 81 percent to which I referred.

Mr. HÉBERT. In other words, \$7 million.

General CAMPBELL. \$7 million.

Mr. HÉBERT. Of course the Air Force will have to speak for itself.

Mr. BAILEY. This is subject to additional collection that we reported in April.

Mr. COURTNEY. There is one addition that may be made to that. There is an adjustment now under consideration, Mr. Chairman, which, if completed, would raise that recovery to 89 percent.

Mr. BAILEY. Yes, sir.

Mr. COURTNEY. Instead of 81 percent.

Mr. HÉBERT. Now this is now in the process of negotiation?

Mr. COURTNEY. This is now in the process of negotiation.

Mr. HÉBERT. In other words, the Air Force is still to recover \$7 million plus as of today, is that correct?

Mr. BAILEY. No, sir. It would be about \$3,849,000, Mr. Chairman. Because the \$3 million adjustment that Mr. Courtney just mentioned would be deducted from the \$7.8 million.

Mr. HÉBERT. That is if this is accomplished?

Mr. BAILEY. Yes, sir.

Mr. HÉBERT. But as of today, there is remaining \$7 million to be collected.

General CAMPBELL. The 19 percent, to our knowledge, is correct.

Mr. BAILEY. That is correct.

Mr. HÉBERT. But as Mr. Courtney said, it may not be completed.

General CAMPBELL. As far as we know, there remains 19 percent to go.

Mr. HÉBERT. Give me the Navy figures.

Mr. HARDY. Mr. Chairman, before you do, could I clear up one item there. Presumably—if an adjustment is pending in one of these cases, presumably that is not a full settlement of the amount indicated.

Mr. BAILEY. Yes, sir, this will be a full settlement.

Mr. HARDY. That will be a full settlement.

Mr. BAILEY. Yes, sir.

Mr. HARDY. All right.

Mr. HÉBERT. Now give me the Navy.

General CAMPBELL. With respect to the Navy, the findings were a total of \$19,891,000, of which 13 percent has been recovered, or an amount of \$2,530,000.

Mr. BAILEY. There is also some recovery through services rendered.

General CAMPBELL. So that makes a total of \$2,530,000 recovered, slightly more than 13 percent, and in addition to that we understand that they have recovered and are recovering through the services which I mentioned, for which reimbursement will not be made, an additional amount, the figure for which we do not have at this time.

Mr. HÉBERT. Now in dollars and cents, what does that remain for the Navy to recover?

General CAMPBELL. A maximum of \$17,361,000 less the worth of these services they are receiving on a nonreimbursable basis.

Mr. HÉBERT. Then in other words, \$17 million remains unrecovered out of a total of what?

General CAMPBELL. \$19,891,000.

Mr. HÉBERT. Just about—about 15 percent is all the Navy has recovered?

General CAMPBELL. Not quite that.

Mr. COURTNEY. Thirteen percent.

Mr. HÉBERT. Not quite that.

General CAMPBELL. Thirteen percent.

Mr. HÉBERT. Of course, the Navy will have an opportunity to explain why it hasn't recovered.

Mr. Courtney, have you any questions?

Mr. COURTNEY. Not just yet.

Mr. HARDY. Mr. Chairman.

Mr. HÉBERT. Mr. Hardy.

Mr. HARDY. I had one question, Mr. Chairman.

General Campbell, you pointed out that GAO's facilities are limited in respect to this total negotiated procurement and that you have to conduct your studies on a selected basis.

Now that leads me to wonder whether there is any way that we can be sure that there aren't tremendous amounts in other negotiated procurements which you are not able to examine which are not recovered or which we will not recover unless we take some steps to see that a similar analysis is made of them. What can we do about that?

General CAMPBELL. Well, Mr. Hardy, I think—I know in the past, as I have emphasized that when we approached this problem a few years back we did so on the basis that whatever we were doing would be more or less on a sampling arrangement. We never intended that we would be able to cover even a good part of the whole expenditure of funds. Now, as far as we are concerned, we are expanding daily our activities in this field, as our staff becomes larger and more competent—that is, the staff available for this work.

Mr. HARDY. Well, I understand that you can't do the entire job. But I was wondering how the Congress could find any way, if there is any way we can find some assurance that the weaknesses and deficiencies that you have pointed out, improprieties, or perhaps even fraud that you pointed out in these more glaring cases—how can we be assured that they don't exist in some of the others that you aren't able to touch?

General CAMPBELL. Well, I have every reason to feel they do exist. This is such an enormous field that what we have picked up on a sample basis shows that if you extend this out there must be many, many more cases. And our only hope is that the services themselves and the Defense Department, with your help and prodding and with our own suggestions, might improve their operations.

Mr. HARDY. On the basis of the sampling that you have done, what percentage of the negotiated procurement have you examined during this particular period of time?

General CAMPBELL. I would take a long guess and say not more than 5 percent.

Mr. HARDY. So that if we were reasonable in projecting the same percentage, we would have 20 times as much overcharges which you are not able to examine—wait a minute. You have \$60 million? Is that what we have discovered?

General CAMPBELL. \$60 million, about \$60 million.

Mr. HÉBERT. Yes.

Mr. HARDY. So if we multiply 60 by 20, what do we get? \$1.2 billion.

General CAMPBELL. Yes, sir.

Mr. BAILEY. Mr. Hardy, it might be a little difficult to really project that in that fashion, because—

Mr. HARDY. I understand. Because you have indicated that you deliberately pick those areas that you suspected.

Mr. BAILEY. Yes, sir.

Mr. HARDY. But you don't know whether your judgment is good on that.

Mr. BAILEY. No, sir.

Mr. HARDY. There might be some areas that are worse than the ones you examined.

Mr. BAILEY. Yes, sir; that is right.

Mr. HARDY. So I wouldn't be surprised if that would not be unreasonable.

I don't know. It might be that we still got \$1 billion worth of overcharges in here that we haven't been able to put our finger on yet.

General CAMPBELL. I would like to say, Mr. Hardy, in that connection, that you are perfectly right, that we have no particular competence in finding out where the real weak spots are.

Mr. HARDY. I understand.

General CAMPBELL. Because we are on the outside, just as you are. And therefore your statement has a good deal of merit.

Mr. HARDY. The thing that bothers me is, with a lack of information up to now, as to whether the services have corrected the deficiencies which permitted these things to happen in the past. Do you have any information on that?

Mr. BAILEY. Well, Mr. Hardy, we do know that they have put into effect certain procedures which should have a salutary effect.

However, as indicated in Mr. Campbell's statement, we believe that continued surveillance by the services to see that these procedures are implemented and carried into effect the way they should be carried into effect is necessary to assure this.

Now, as an illustration, there are two cases cited on schedule C that you have attached to Mr. Campbell's statement which involve certificates. These were obtained under the new procedure that the Department of Defense has instituted to attempt to correct this problem, that is, certificates by which the contractors certify that they have submitted all current, complete, and correct cost data. These two cases illustrate there have been mistakes found under these new procedures.

Mr. HARDY. Well, now, for instance, do you have any basis to suppose that the Navy has been any more diligent in applying these new procedures than they have in collecting these refunds?

Mr. BAILEY. Well, I would have no basis to judge that, Mr. Hardy.

Mr. HARDY. Well, we make some comparisons in our own mind.

And here you have pointed out nearly \$20 million in excesses, which, if you were accurate with the Air Force, presumably you must have been just as accurate in evaluating the Navy's situation. But if they have not been diligent in collecting back these excesses—these overcharges, I just wonder if we have any reason to suppose they have been more diligent in applying improved procedures.

But you have no knowledge of the extent to which they have improved their procedures?

Mr. BAILEY. Well, Mr. Hardy, we are attempting to get into more current negotiations of contracts.

At the present we have not had an opportunity to arrive at any conclusions as to how well these new procedures have been applied. But we are currently trying to get into more and more of these contracts that were executed after the new procedures were put into effect so we can see the results of the new procedures—how they are working out in practice.

Mr. HARDY. I was looking for something, reaching for some straw that might give me a ray of optimism for the future. But you, with your limited facilities, haven't been able to provide it yet.

Mr. BAILEY. That is right.

Mr. HÉBERT. I may suggest this, Mr. Hardy, that until the organization of this committee I knew of no very substantial recoveries at all. And it was only after the close cooperation and the magnificent help which we received from the General Accounting Office that we have been able to recover anything.

Mr. HARDY. Well, I don't want to be misunderstood.

Mr. HÉBERT. No, I know you are not critical of them. But I think the people that should have to be closely examined—and I am sure you will diligently examine them—we will have witnesses from the Air Force and from the Navy, to find out exactly what they have done to correct these deficiencies.

Mr. HARDY. That is right. And I am grateful for the accomplishment that has thus far been made through efforts of the GAO. But that does not remove from my concern the overall problem.

Mr. HÉBERT. No.

General CAMPBELL. Well, Mr. Hardy, I have to agree that the mere setting up of procedures, regulations, and rules doesn't cure this problem. That is what we know has happened now; there has been a correction in the procedures. But it will take us a little time to really find out if the carrying out of those regulations and procedures has been intelligently done.

Mr. HARDY. You have made suggestions which they have adopted in the form of regulations.

General CAMPBELL. Yes, sir.

Mr. HARDY. But you have no way of knowing whether or not those regulations are significant because of their failure to be applied?

General CAMPBELL. Not until we go back into—

Mr. HARDY. I have observed in times past that that has often happened.

General CAMPBELL. Yes, sir.

Mr. GAVIN. Will the gentleman yield?

Mr. HÉBERT. Mr. Gavin.

Mr. GAVIN. Would you have any idea how many contracts remain to be negotiated with the Government by the various services, the amount of money that is involved in those contracts, and how far back it extends; that is, how long these negotiations have been going on to get them cleaned up?

General CAMPBELL. You mean these contracts that are in dispute or are subject to—

Mr. GAVIN. All of them. Some of them are several years old, I imagine.

General CAMPBELL. Oh, yes.

Mr. HÉBERT. You are talking about the Renegotiation Board?

Mr. GAVIN. Yes.

General CAMPBELL. I would have no idea, Mr. Gavin. It is a tremendous job.

Mr. GAVIN. That information ought to be available someplace, as to actually how many contracts remain to be renegotiated, as well as the amount of money that is involved and how long they have been hanging around.

General CAMPBELL. The Renegotiation Board would have to be consulted, and the Department of Justice would be involved, and all the military services.

Mr. HÉBERT. Mr. Campbell, in the beginning of these proceedings the General Accounting Office ran into some difficulties, both on the part of the services and on the part of the contractor, wherein it was unable to receive the proper cooperation. And the help of your committee was invoked at that time to try to bring about this cooperation. Has that situation changed? Has the department, or are the departments giving you full cooperation now?

General CAMPBELL. We feel that the effect of your interest in that problem of ours, which was fundamental with us, has improved the situation immeasurably, and that at the present time we are not having any real difficulty.

Mr. HÉBERT. Would you say the cooperation is satisfactory?

General CAMPBELL. We think so, yes, with the departments.

Mr. HÉBERT. You give them a passing mark?

General CAMPBELL. Yes, sir.

Mr. KITCHIN. May I ask a question right in line with that?

Mr. HÉBERT. Mr. Kitchen.

Mr. KITCHIN. Is this cooperation you are receiving now more or less acquiescent, is it perfunctory, or you think they are aggressively cooperating in this matter?

Mr. BAILEY. Mr. Kitchen, if I could answer that one?

Mr. KITCHIN. Yes, sir.

Mr. BAILEY. I think it varies, of course, depending on the individual you happen to deal with in the services. They have all varieties of individuals. The same as we do. But I think on the whole it is—there is no attempt to hold back, so far as the services are concerned.

And I think we might say that the Air Force has been particularly cooperative in acting on our findings once we develop them and bring them to their attention.

Mr. KITCHIN. Now what about the other services, other than the Air Force?

Mr. BAILEY. Well, I wouldn't say that there has been any resistance on their part, Mr. Kitchin, no, sir. They have cooperated with us in our efforts to get the facts with respect to these contract negotiations, and so on.

Mr. KITCHIN. In policing their own household, I say I could judge from your remarks that the Air Force, at least, has been aggressive in their policing activity.

Mr. BAILEY. They have been aggressive in trying to accomplish something, yes, sir.

Mr. KITCHIN. And without putting words in your mouth, if the other services were as aggressive as the Air Force has been, you probably would be ahead of the game in which we now have this reflection.

Mr. BAILEY. I would say the Air Force has been more aggressive, let's put it that way, than the others.

Mr. HARDY. Could I follow up on that just a little?

As I recall it, there was a period of time in which you couldn't get access to records either from the Defense Agency or from contractors.

Now as I understand it, you are making some progress, or some progress has been made and you are getting some cooperation from the military services in providing you with the information you require and your access to their records.

But now what about the contractors? I recall one contractor standing right here before the committee and, in effect, telling us he wasn't going to let you see anything.

Mr. BAILEY. We still have occasional difficulty with some of the contractors, Mr. Hardy, but, thanks to the legislation you sponsored, ordinarily we are able to straighten out those difficulties under the access-to-records clause that is contained in the contracts.

Mr. HARDY. You do have that access-to-records clause in all your contracts.

Mr. BAILEY. Yes, sir.

Mr. HARDY. And where they won't comply with it, if my memory serves me correctly, we had one vice president of a big corporation standing here and refuse to permit you to have access to the records on a contract he was performing. And I believe we finally had to call in his superior officer, in the contract, and threatened to issue a subpoena.

Mr. BAILEY. Yes, sir.

Mr. HARDY. But you are not having that kind of trouble any more?

Mr. BAILEY. Well, they are a little reluctant sometimes to show us the records.

But ordinarily, I know of no instance where finally the contractor hasn't given us the records that we have asked for, based on the examination of records clause in the contract.

Mr. HÉBERT. Whenever you have any trouble down here, just come up here. We have a stack of subpoenas that are about that high [indicating with hands]. We will use them.

Mr. COURTNEY, do you have any questions.

Mr. COURTNEY. First, Mr. Norblad.

Mr. NORBLAD. No.

Mr. COURTNEY. Mr. Chairman, I would like to ask a question on this subject of the certificate to which Mr. Bailey referred. The certificate, Mr. Bailey, to which you referred is a representation which is signed in writing by the contractor during negotiations as to the accuracy of the cost data which is submitted on it.

Now this, of course, has been made a part of the regulations since the hearings that were started here some 2 years ago on this very subject of representation and on inaccurate cost data.

Now you still find, even in a limited sampling, that in two instances those certificates have not been adequate to the purpose?

Mr. BAILEY. Yes. I might explain, though, that also as part of the same regulation the services asked contractors to submit certain facts after the negotiations in connection with contracts that were then current, and these cases involved subsequent submission of the certificates where the negotiations had been concluded.

Mr. COURTNEY. Oh.

Mr. BAILEY. The contractor submitted the certificate later.

Mr. COURTNEY. Oh.

Mr. BAILEY. Under this directive from the Department of Defense the contractors were asked to reexamine their costs and to certify that the data used in negotiations were current and accurate. These contractors submitted such certificates and we found that the certificates were incorrect.

Mr. COURTNEY. Of course all they were doing was verifying what had transpired, isn't that right? They were making original representations.

Mr. BAILEY. I wonder if they actually verified the data or just submitted the certificates as a perfunctory compliance with the request.

Mr. COURTNEY. Now on that question, an expression of opinion, if you have one, and if you will share it with the committee.

The representations of which we were speaking, which we got the so-called "certificate of correct information" to be made by the contractor, generally related to out-of-house prices; that is, subcontractors' prices—purchased parts to a large degree but not exclusively.

The certificate is made a part of the regulation. And because of the great importance of subcontracting, or subcontracts, and the large number of subcontracts on these number of contracts, something like 50 percent—sometimes 40 percent and 50 percent—what do you think would be more effective in endorsing the presentation of reliable data on a responsible basis: the regulation which you have now or a statute which would make it mandatory upon the contractor and on the Government to receive a certification of the reliability of the statements made in negotiation?

General CAMPBELL. Excuse me, Mr. Courtney. I think Mr. Welch might be the man to answer that.

Mr. WELCH. Well, the regulation, of course, is mandatory as long as it is in effect. But the difference would be that a regulation can be changed whereas a statute would be a permanent requirement, that could not be changed administratively.

Mr. COURTNEY. Well, of course the contractor or the subcontractor would have the same view of regulations that you do.

Now as to the impression that it might make on the contractor as to his responsibility and what might ensue for his failure to make accurate statements, which would be preferable: A statute or regulations?

Mr. WELCH. Certainly a statute, Mr. Courtney.

Mr. COURTNEY. And would you recommend to the subcommittee that a statute be enacted covering the matter of certificates?

Mr. WELCH. Yes.

General CAMPBELL. We do so recommend.

Mr. WELCH. We do recommend that.

Now we haven't made recommendations on this.

Mr. COURTNEY. You have not made a formal recommendation?

Mr. WELCH. Not on this. But on others we have.

Mr. COURTNEY. You have made recommendations on other subjects.

But I am directing this one at the particular time because of the pendency of bills relating to procurement regulations.

Now the next——

Mr. HÉBERT. Before you leave that, Mr. Courtney.

May I inquire, in order to review the situation: The certificate was put in by the Air Force——

Mr. COURTNEY. By the armed services.

Mr. HÉBERT. All the services carry it now?

Mr. BAILEY. Yes, sir. It is in the Armed Services Procurement Regulations.

Mr. HÉBERT. In the Armed Services Procurement Regulations.

And does the certificate carry a notarial stamp, or is it just merely a statement of the contractor? Is there any indication of a penalty if he does not supply the accurate figures?

Mr. BAILEY. I think there is an indication of a penalty. I couldn't say specifically whether the statement is notarized or not, Mr. Chairman. But there is an indication of penalty there.

Mr. HÉBERT. There is definitely the indication of penalty carried in the certificate?

Mr. BAILEY. In the wording of the certificate?

Mr. WELCH. I would have to check the regulation.

Mr. BAILEY. It is in the wording of the regulation. I don't know that it is in the certificate, Mr. Chairman.

Mr. HÉBERT. Does somebody have that?

Mr. COURTNEY. Well, Mr. Chairman, the purport of my question or the intent of my question was not to develop whether or not there could be or could not be a penalty for fraud because of a violation of the regulations.

The purpose of the inquiry was to prevent the evil, and not merely to provide a punishment for it that would exist.

My question was which would be preferable and more impressive upon a contractor and more likely to be obeyed: a statute or a regulation. It was for that purpose which I directed the question.

Mr. WELCH. We would think unquestionably a law would be more effective.

Mr. COURTNEY. You think it would be given greater weight?

Mr. WELCH. Greater weight, yes, sir.

Mr. KITCHIN. Mr. Chairman, may I ask a question in connection with that?

Mr. HÉBERT. Mr. Kitchin.

Mr. KITCHIN. If there was a statute passed, in what form would the statute take? Merely requiring a certificate that is now required under the regulation or the administrative procedure, or would you broaden that to extend some other phraseology as to the nature of the certificate and to the penalties involved in the event there is any falsification of the certificate per se?

Mr. COURTNEY. Well, there are statutes.

Mr. HARDY. You could draw your statute any sort of way. You could draw your statute so it would constitute fraud to make a false representation.

Mr. HÉBERT. That is the question I raised.

Is the language of the certificate so worded that it would put the contractor liable to action for perjury?

General CAMPBELL. I think we have a copy of it here now, Mr. Chairman.

Mr. HÉBERT. Good. Fine.

Mr. BAILEY. This is not —

Mr. COURTNEY. The regulation, no.

General CAMPBELL. This is the certificate?

Mr. BAILEY. Yes, sir.

General CAMPBELL. Read the certificate.

Mr. COURTNEY. The certificate of pricing data. I have it.

Mr. BAILEY. You have it?

Mr. COURTNEY. Yes.

Mr. Chairman, on that subject, in answer to Mr. Kitchin, of course the general statutes relating to fraud and the penalty for fraud would be applicable without putting a specific provision in a statute.

But what I had reference to was the fact that in the bill H.R. 5532, which was passed out of this committee a few days ago with reference to price formula contracts, there is a provision which makes it mandatory that there be a review, a final review and readjustment of negotiated prices, relating back to the time of the original negotiations, before the formula can be applied.

Now, this proposition to which I am addressing myself now would be in the same direction, but with another step.

Mr. Chairman, the provisions that we are referring to here are section 3-807.7, namely, the certificate of current pricing data.

Now this starts out with the proposition that "Where a certificate of current cost or pricing data is required in accordance with section 3-807.3A, it shall be in the form set below and should be included in the contract file, along with a member of the contract negotiations."

Now the time at which this is to be applied is in connection with another section.

The contracting officer shall, in the case of subcontracts which meet the criteria of this section, require the prime contractor to obtain from first tier subcontractors a certificate set forth in 3-807.7—

which is the one I am going to read—

modified to reflect that it is a certification to the prime contractor rather than to the Government. The prime contractor should be required to furnish such certification to the contracting officer.

Now that isn't exactly the one to which I was pointing. But it raises another point, and that is that there is a difference between representations and responsibility for representations made by subcon-

tractors in the first tier and the representation made and required to be made by the prime contractor.

Now if subcontractors were not of such large moment and didn't occupy such a large sphere, by name, of defense procurement, if probably wouldn't make any difference. But in the case of our larger missiles, for example, the subcontractor is a pretty substantial fellow. In fact, the prime contractor may have only 10, 15, or 20 percent of the total performance, whereas the subcontractor, by name, legally the subcontractor, or subcontractors, would have 80 percent.

The question I am seeking to answer is whether or not this representation ought not be carried down as well to the subcontractor, of the class and kind that I am referring to, so that he too would be required or have a responsibility, knowing he is a subcontractor, of presenting accurate data for negotiation?

Mr. WELCH. Well, we wouldn't see any objection to that. In fact, we would think it was a further step in the right direction, I would think.

Mr. KITCHIN. Can't you do that by your present instructions under the administrative decisions? Without a statute, couldn't you carry them down to the subcontractors?

Mr. WELCH. The Armed Services Procurement Regulation Committee could do it, by making it a requirement of their regulations.

Mr. KITCHIN. Well, do you or don't you think that that should be suggested to them, pending any action that we might take?

General CAMPBELL. I would certainly say it should be.

Mr. WELCH. It is a good suggestion.

Mr. HÉBERT. Wouldn't it be assumed that the prime is responsible for the contract?

Mr. KITCHIN. Mr. Chairman, if I might answer that before he does—

Mr. WELCH. Yes.

Mr. KITCHIN. I think probably here is an escape procedure for the prime contractor, that he was relying upon information furnished by the subcontractor. And you haven't any—

Mr. GAVIN. Evidence.

Mr. KITCHIN. Well, you haven't any prima facie evidence that it is fraud on the part of the prime contractor when he is accepting information that he got, according to this particular statute, from the subcontractor.

Mr. HÉBERT. It would be the same situation as an income tax file, where the accountant says, "On information furnished him".

Mr. KITCHIN. That is correct.

General CAMPBELL. That is correct.

Mr. BAILEY. May I clarify a point here?

On October 1, 1959, the ASPR was changed and by the addition of that date a requirement was set out that in the negotiation of prices where competition is not an important factor in establishing the price and the procurement is expected to exceed \$100,000, the contractor or subcontractor is required to submit cost and pricing data in support of its price proposal—

Mr. KITCHIN. To whom?

Mr. BAILEY. And to certify that such data is current, complete, and correct.

The sub would certify to the prime and the prime would certify to the service.

Mr. KITCHIN. Then suppose the certification of the subcontractor is, on its face, erroneous; where would you be with reference to prosecuting that particular prime contractor for any fraudulent statement?

Mr. BAILEY. I would ask Mr. Welch about that.

Mr. KITCHIN. I think the answer is obvious.

Go ahead, sir.

Mr. WELCH. Well, it depends on whether it was a mere oversight or there was fraud involved. If there was fraud involved, I would think we could claim back through the prime and that the sub would be subject to fraudulent prosecution.

Mr. KITCHIN. But if a requirement for the certification was made on behalf of the subcontractor in the same manner in which the prime contractor must certify to—

Mr. COURTNEY. Directly to the Government.

Mr. KITCHIN. Directly to the Government, then you wouldn't have to go through that particular procedure, would you?

Wouldn't it strengthen your position not only psychologically to get accurate data in the first instance, but also in any subsequent reclaiming or getting back some of these overcharges and also in your criminal prosecutions if it was fraud?

Mr. WELCH. Well, the accepted system really is that the Government deals with the prime and the prime is responsible for his subs.

Mr. KITCHIN. Yes, but the prime has no criminal responsibility as far as the sub is concerned.

Mr. WELCH. No.

Mr. KITCHIN. You would have to prove fraud on the part of the prime contractor if there was fraud in connection with the subcontracts, in that certification by the subcontractor to the prime contractor, would you not?

Mr. WELCH. I think so; yes, sir.

Mr. KITCHIN. Well, you get back to the original statement. It seems to me you could embrace both in the same category with reference to certification and probably at least create a little better psychological situation than we face today.

Mr. WELCH. Well, the difficulty there, as I would see it, would be that the Government negotiators aren't negotiating with the sub. The sub is not submitting the cost data to the Government negotiators. He submits it to his prime.

Mr. KITCHIN. Yes, but aren't there conditions in the prime contractor's agreement with the Government, or are there?

Mr. BAILEY. There are certain conditions, Mr. Kitchin, such as prime contractors having to require the access-to-records clause in subcontracts, and so on. There are provisions of that kind in the prime contract that state certain ground rules with respect to the—

Mr. KITCHIN. So this is not setting any precedent beyond the regular contractual agreement. There are regulations within the prime contract that would affect a subcontractor's relationship, would it not?

Mr. BAILEY. Yes, sir; I would say.

Mr. KITCHIN. So this would not be establishing any precedent beyond the regular contractual agreement if you did embrace within

those particular categories that you just mentioned another requirement that these certifications be made to the Government agency; that is, to the Defense Department, or whoever is the contracting agency.

I think it is a matter to be explored. We can't settle it here.

Mr. BAILEY. Yes, sir.

Mr. KITCHIN. But pending any consideration of statutory requirement, I think probably they might consider adding something to that administrative procedure.

Mr. HÉBERT. Mr. Courtney.

Mr. COURTNEY. Now, Mr. Campbell, or the members of your staff: the recommendations that were contained in your reports which we have discussed here which have resulted in the recovery of 81 percent of the Air Force examined and 13 percent of the Navy—

Mr. GAVIN. What percentage is the Navy?

Mr. COURTNEY. Thirteen percent of the Navy contracts examined: Do you have any system—do you follow up in your department, or are you able to, with the staff which is available to you and has so many duties, whether or not the recommendations are actually implemented by regulations or by administrative procedural changes?

General CAMPBELL. We have a staff constantly on the job and we try to keep relatively closely in touch with what the departments are doing. We naturally have to let time pass before we go back in in a particular matter to see what has happened. It would be a very difficult job for us to know on a daily basis what is happening.

Mr. COURTNEY. Of course on a daily basis you would make an occasional review for observation, is that it?

General CAMPBELL. And also the services themselves come back to us and advise us what they are doing. We look for those advices from time to time.

Mr. HÉBERT. In this particular case of the Navy, where only 13 percent has been recovered, have you made any inquiry, or has the Navy told you why it has failed to collect the remaining amount of money which is due?

General CAMPBELL. I think Mr. Bailey has a story on each of the contracts.

Mr. BAILEY. Well, I do have the story on each of the cases, Mr. Hébert.

But I think there is one further thing that should be pointed out, that is brought out in Mr. Campbell's statement, and that is the fact that several of these Navy contracts where amounts are due have been placed in the hands of the Department of Justice.

Mr. HÉBERT. Which estops the Navy from further procedure.

Mr. BAILEY. Yes, sir.

Mr. HÉBERT. How much—what is the dollar value?

Mr. BAILEY. I can give you that figure, I believe. Let me check the statement here: \$4,680,000 of that.

Mr. HÉBERT. That would make a total of \$6 million, then, if we are to assume that the Navy is estopped in the \$4 million amount?

Mr. BAILEY. Yes, sir.

Mr. HÉBERT. Now how about the difference between the \$6 million and the \$20 million? There is \$14 million still out.

Mr. BAILEY. Then, in addition, \$9 million is involved in this one contract where the Navy is receiving services from the contractor.

Mr. HÉBERT. That is being worked out?

Mr. BAILEY. Well, we don't know whether it will be worked out in total or not. We do know some services have been received by the Navy.

Mr. HÉBERT. The Navy would be able to testify on that.

Mr. BAILEY. Yes, sir; they could give you the information.

Mr. COURTNEY. Well, on the matter of referral to the Justice Department, Mr. Chairman, if I may interrupt: The referral was made by the Comptroller General?

Mr. BAILEY. In the Navy's cases?

Mr. COURTNEY. Yes, sir.

Mr. BAILEY. To the Department of Justice?

Mr. COURTNEY. Yes, sir.

Mr. BAILEY. Yes, sir.

General CAMPBELL. We had no other course.

Mr. COURTNEY. I understand that. I just wanted to be sure as to who made the reference.

Mr. HARDY. GAO made the reference of these cases to Justice?

General CAMPBELL. Yes, sir.

Mr. HARDY. That is \$4.6 or \$7 million in which the Navy couldn't do any work on.

Do I understand there is one contract involving \$9 million, in which they are in the process of trying to get back a little something through services?

Mr. BAILEY. Well, we know that they have recovered some of that amount through services rendered by the contractor.

The latest information we have is that this will not be more than about 20 percent—is that right? We have no idea really how much is involved. But it is not the full amount of \$9 million, by any means.

Mr. GAVIN. What kind of a transaction is that; anyway?

Mr. BAILEY. Well, this particular case, Mr. Gavin, involved the conversion of a construction contract, from a cost-type contract to a fixed-price-type contract.

Mr. GAVIN. Well, they owe the Navy, or assume they owe the Navy so much. And the Navy, instead of getting the money, enters into some sort of a contractual arrangement to have certain work done for them?

Mr. BAILEY. By change orders to the contract, they have been getting services from the contractor which the contractor is doing without additional charges in those areas where we feel the excess pricing was involved.

Mr. KITCHIN. These services are not running in line with the recent article in the U.S. News & World Report to the extent that some of these services rendered are getting into the preposterous stage, where the ordinary laborer is making \$500 a week and your electricians and plumbers \$900 a week salary? That type of service is not rendered in connection with the recoveries?

Mr. BAILEY. No sir; I would say not. No, sir.

Mr. HÉBERT. Mr. Hardy.

Mr. HARDY. The thing I think we need to know most about this Navy situation is what actually they are doing in connection with this \$9 million—this one contract involving \$9 million overcharges. Because if you add the 4.6 which you sent to Justice and the 2.5 which they have collected, and the \$9 million on the other one contract, you

come up with a figure which approximates the amount which the Air Force has recovered, percentage-wise.

Mr. BAILEY. Yes, sir.

Mr. HARDY. But unless you know—the big chunk of this is this \$9 million. And unless we have some pretty good indication of what they are actually doing with that, we don't really know much about what the story is.

Mr. HÉBERT. I think the Navy will be the best witness on that.

General CAMPBELL. That is correct. The Navy will have to testify on that.

Mr. HÉBERT. The Navy will be the best witness on that.

Mr. COURTNEY. I have no further questions.

Mr. Chairman, this completes the questioning. And thanks to the Comptroller and his staff for the information which is supplied.

Now, Mr. Chairman, we had in pursuance of this general area of inquiry—we had projected, and we will have from the Comptroller General, a discussion of sole-source procurement, which is a substantial part of the negotiated procurement being effected in the Department, with some recommendations and observations which he will make in that area.

It is a subject which is separate from this present subject which deals with pricing and which is the review which was promised some years ago, or 2 years ago, of the very proceedings that we are discussing here this morning.

Two years ago the committee promised that it would review this; that is, the actions taken to cover the excessive pricings. This is that review.

The second phase of it, dealing with sole-source procurement, is a separate subject in itself, and it is directed toward post-statutory action in that regard.

But it is a subject standing by itself, and would be confusing if it were introduced here.

Now we had—we have listed the witnesses in the order. And we have underestimated, or rather overestimated the time that would be consumed this morning.

So tomorrow we have the Department of Air Force discussing its procedure, and following that the Navy, and that would complete the review which was prepared on the 28 contracts that were under consideration.

Mr. HÉBERT. Any further questions by members of the committee?

Mr. Norblad?

Mr. NORBLAD. No.

Mr. HÉBERT. Mr. Gavin?

Mr. GAVIN. I have none.

Mr. HÉBERT. Mr. Hardy?

Mr. HARDY. No, that is all.

Mr. HÉBERT. Mr. Kitchin?

Mr. KITCHIN. No.

Mr. HÉBERT. Thank you, again, very much, Mr. Campbell.

General CAMPBELL. Thank you, Mr. Chairman.

Mr. HÉBERT. The committee will stand recessed until 10 o'clock tomorrow morning.

(Whereupon, at 11:10 a.m., the subcommittee adjourned to 10 a.m., Friday, April 28, 1961.)

OVERPRICING OF GOVERNMENT CONTRACTS

FRIDAY, APRIL 28, 1961

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE FOR SPECIAL INVESTIGATIONS,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. F. Edward Hébert, chairman of the subcommittee, presiding.

Mr. HÉBERT. The committee will be in order.

Mr. Courtney, you may proceed.

Mr. COURTNEY. Mr. Chairman, continuing the review of actions with respect to the overcharges considered at the last Congress, we have this morning the Honorable Joseph Imrie, the Assistant Secretary of the Air Force for Materiel. Mr. Racusin and Colonel Lee and Major Boland and Colonel Dreiseszun, of the staff, who will speak to the subject of the Air Force recoveries which were discussed earlier by the Comptroller General, and specifics as to future programs.

Mr. Secretary, we are ready when you are.

Mr. HÉBERT. Do you have a prepared statement, Mr. Secretary?

Secretary IMRIE. I do, sir.

Mr. HÉBERT. You may proceed.

Secretary IMRIE. Thank you.

I appreciate the opportunity of appearing before this committee in order to relate the concern and actions taken by the Air Force in the area of effectiveness of contract pricing.

Although I have only recently assumed the duties of Assistant Secretary of the Air Force, I was quickly made aware of the stress being placed by Secretary Zuckert and his top military and civilian aides on the need for obtaining regularly increasing efficiency and economy in procurement and logistics management.

There is an additional point in this connection. I personally, and I have learned recently my Air Force colleagues, are appreciative of the constructive value of the review function performed by the General Accounting Office.

Both of these views are to the point of the increased complexity—and cost—of space age weapon systems and related logistics tasks. Despite this, we people connected with the Air Force materiel endeavor continue to recognize our responsibility for maintaining the most effective business practices available to us.

To reach this objective, both the Air Force and the industrial complex on which it relies, must efficiently manage the complex multi-billion dollar Air Force materiel at the proper time, and at a reasonable cost. So far as I have been able to determine, the Air Force has

underscored its responsibility in this regard and has taken intensive and determined action to increase its efficiency in the the management of its resources. I do not imply, however, that we may not make further improvements and that we are not seeking to do so.

It is pertinent to highlight some of the Air Force activity pertinent to this hearing.

In testimony last year before the parent committee of your subcommittee, in connection with the review of procurement practices pursuant to section 4, Public Law 86-89, and before the Committee on Appropriations, House of Representatives, the Air Force stated that a vigorous campaign was underway to improve its contracting processes, to reduce costs, and to strengthen its management. The testimony at that time concerned primarily improved procurement policies and procedures, laying the necessary groundwork with industry, and the establishment of certain programs designed to make significant improvements in Air Force procurement. While considerable progress has been made toward improvement, at that time specific instances were not available to demonstrate improvement in the contract process or in the reduction of procurement costs.

On December 31, 1960, however, a detailed Air Force report was filed with the Department of Defense which listed substantial cost reductions and examples of improved procurement practices. A copy of the Air Force portion of the report is on the table before you for any use the committee may desire to make of it. The illustrations cited by the Air Force and by private industry were taken from the records of current contract actions. They represent our typical joint efforts to reduce procurement costs.

Specifically, the report demonstrates the improved quality of negotiations; increased competition by expanding the number of potential sources in areas which require negotiated contracts where advertised competitive bidding is impossible; more effective subcontract management; use of value engineering as a tool to reduce costs; and increased use of more reliable plans and specifications. In addition, it shows how manufacturing methods, purchasing techniques, cost estimating procedures, and financial cost controls have been improved; examples of more effective control of overhead costs; labor-saving techniques; improvements in plant methods and processes; inventory reductions; greater utilization of electronic data processing equipment; and many other techniques which are being followed in achieving cost reductions in every practicable way.

Another aspect of our work deserves comment. This relates to internal audit. Two years ago the Air Force advised your subcommittee that greater support would be provided by the Auditor General in the field of procurement. Such increased support has been furnished, including an allocation of additional contract audit spaces which occurred, incidentally, during a time of overall reduction in the Air Force. As a measure of the increase which has taken place in the audit review of cost proposals, in fiscal year 1956 the Auditor General reviewed \$3¼ billion of proposals; in fiscal year 1960, this was increased to \$11.7 billion. In fiscal year 1956, the Auditor General issued 172 price proposal reports to our procurement personnel. In fiscal year 1960, this has risen to 5,460. Subcontracts under Air Force

audit review have expanded from \$2.2 billion in fiscal year 1956 to \$6.1 billion in fiscal year 1960. The result of this team effort by audit and procurement was a downward negotiation of the costs proposed by industry by some \$520 million during the period January through October 1960. This increased support by the Auditor General in the procurement field is enabling us to look at cost data earlier in the life of contracts and the results of that earlier look is taken into consideration at the award of follow-on business.

The effectiveness of our procurement and contract management involve the activities of numerous individuals at all echelons of decision and supervision. The effectiveness of our program in this, as in any endeavor, depends upon the competence, skill, and initiative of individual persons. A major effort has been made to improve the qualifications of procurement personnel. This evolves from a training program conducted as a joint endeavor between the Air Force Institute of Technology and the Ohio State University. There are eight courses in procurement and three in production. The procurement courses include the following: principles of pricing, principles of buying, principles of contract administration, advanced pricing, advanced buying, advanced contract administration, industrial property administration and advanced base procurement. In the last 18 months, over 1,500 procurement people have been graduated from these courses. Our current plans call for approximately 1,000 individuals a year to be scheduled through this schooling.

The Air Force has utilized the contract audit data received from the Comptroller General of the United States. The seriousness of the General Accounting Office reports is acknowledged so that they certainly contribute to the measures being taken within the Air Force toward materiel improvement. This should lead to a minimum recurrence of deficiencies similar to those disclosed in the reports. In each case where a GAO report has indicated inefficiencies, the matter has been reviewed from a policy and procedural standpoint, as well as calling specific attention of buying activities to the report with a view toward precluding repetition.

Inevitably, mistakes and errors in judgment are made by the Air Force as well as industry. We cannot legislate or regulate judgment. Mistakes and errors can never be eliminated completely, but as they are discovered, our policies and procedures are reviewed to determine if weaknesses exist and to take necessary corrective action.

Furthermore, we are attempting to anticipate our own weaknesses. These things are a continuing effort to which all people concerned with Air Force procurement at all echelons are devoting their energies.

I have outlined for you some of the significant steps we have taken in our continuing efforts to bring about improvements in our contracting processes. We are convinced that large dollar savings have been effected.

In closing, I think it appropriate to cite the observation of the Comptroller General in a report issued only last week, and I quote:

Our recent examinations confirm * * * that a wide variety of actions are being taken by the Air Force to improve contract pricing. The Air Force has been responsive to the findings disclosed by our examinations and has initiated

action to provide more effective instructions and price-evaluation techniques for use by its contracting officials.

This, I submit, is the best evidence of our constructive efforts to improve our procurement actions and to work cooperatively with the Office of the Comptroller General.

This concludes my prepared statement. I have with me, however, Mr. Aaron Racusin, who is my Deputy for Procurement; Col. Abraham Dreiseszun, from the Air Staff, and Col. Robert E. Lee, from the Logistics Command, who will try to answer with me any questions that you may have.

Mr. HÉBERT. Thank you very much, Mr. Secretary.

I may say on behalf of the committee that your first appearance before the committee has been very refreshing.

Secretary IMRIE. Thank you, sir.

Mr. HÉBERT. And I hope you set the pattern for the next few years we will be together here.

Secretary IMRIE. I share that hope.

Mr. HÉBERT. Because we are very pleasant people until we have to get unpleasant. [Applause.]

I want to comment also on the statement that you made in connection with these improvements which you have listed, and make the observation that when the committee was at the Wright-Patterson Air Force Base, when General Anderson first took command, I went down there and spent 2 days with him. We certainly, after our leaving there, we felt a new freshness in the approach of the Air Force as related to procurement in that area. I think General Anderson set about making these new recommendations almost immediately, and as a result of subsequent hearings there came about the adoption by the Defense Department of the so-called certificate which vouches for the authenticity and accuracy of prices on the part of the contractor.

Now I have been very much intrigued by this school that you spoke of. Tell me something about that and when was that started? I would like to hear more about it.

Secretary IMRIE. Aaron, if you will.

Mr. RACUSIN. Well, the school that is presently conducted, Mr. Chairman, at the Air Force Institute of Technology at Wright-Patterson has included in its curriculum these courses that we just described.

Mr. HÉBERT. When was it started?

Colonel LEE. In 1955.

Mr. HÉBERT. We never heard very much about it until now.

Mr. RACUSIN. We had mentioned it, Mr. Chairman, in passing.

Mr. HÉBERT. In passing.

Mr. RACUSIN. Yes, sir. We now have, as we have indicated in the Secretary's statement, pretty much firmed up the number of students that are going through this course, at about 1,000 a year.

Mr. HÉBERT. These are civilian or military students?

Mr. RACUSIN. Both.

Mr. HÉBERT. Both civilian and military?

Mr. RACUSIN. Yes, sir.

Mr. HÉBERT. How are they selected?

Colonel LEE. They are selected by the people they work for in the field, on the basis of their being able to progress at the time after they have been hired. They are sent in first to the basic schools and then to the advanced schools.

Mr. HÉBERT. Now they attend the university as students?

Colonel LEE. We call it—it is the Air Force School of Logistics, run at Wright-Patterson, in conjunction with—

Mr. HÉBERT. It is run at Wright-Patterson?

Colonel LEE. Yes, sir.

Mr. HÉBERT. At Ohio State?

Colonel LEE. In conjunction with Ohio State. We have a contract with Ohio State. They provide some of the instructors and we provide some of the instructors.

Mr. HÉBERT. What is the cost of operating the school?

Colonel LEE. Sir, I don't know, but we can get it for you.

Mr. HÉBERT. Well, we would like to have that for the record.

(The information referred to is as follows:)

Following is in response to questions raised at the hearings on April 28:

PART I. REGARDING QUESTION ON COST OF OPERATION OF SCHOOL

1. Fiscal year 1961 overall contract:

A. 472 weeks of instruction, \$612,300.

B. Production and procurement—204 weeks, \$252,100.

C. Advanced logistics course and other—262 weeks, \$360,100.

D. Average cost \$1,240 per classroom week or \$45 to \$50 per student week.

2. Courses involved in procurement and production (from 3 to 8 weeks in length).

A. Principles of pricing.

B. Principles of buying.

C. Principles of contract administration.

D. Advanced pricing.

E. Advanced buying.

F. Advanced contract administration.

G. Industrial property administration.

H. Advanced base procurement.

I. Production management seminar.

J. Production analysis.

K. Aerospace metals and manufacturing processes.

3. The above cost figures include all detail such as course research, books, and reproduction connected with the school but does not include per diem and travel of the students.

4. Approximately 1,000 procurement and production people attend per year and are so programed through 1964.

5. AFLC-USAF and industry personnel are also utilized as instructors. This is on a no cost basis. In fact one of the main reasons the school is located where it is, is to make available AFLC staff procurement and production personnel as instructors for special courses.

Secretary IMBIE. I might point out, sir, that I have not yet had a chance to visit with the school and the Ohio University people, but intend to do so very shortly.

Mr. HÉBERT. I think it is a trend certainly in the right direction, Mr. Secretary. Because through the years that we have had people up here from all of the branches of the services, we found that the real grasp of the intricate and complex art of negotiating contracts has

been left too many times to inferior people, without adequate training in that area.

(Secretary IMRIE nods.)

Mr. HÉBERT. We recognize the fact that the salary is low and this is one of the things that causes us a great deal of concern. Particularly if you have a civilian sitting on one side of the table making \$6,000 a year, and obviously a man from industry making \$40,000, it doesn't take too much deduction to find out who is going to come out on the top.

Except the man with the \$6,000 is a dedicated individual. And we recognize the fact that the services lose these people very rapidly.

Secretary IMRIE. Yes.

Mr. HÉBERT. Have you found that you are retaining them in the service now, since you have accelerated the school program?

Colonel LEE. I think most of the people that go through the school—I think our rate is about—I don't think it has affected too much our rate of reduction.

Secretary IMRIE. I would guess it is constant.

I would hazard a guess, sir, that the risk of mortality, if you train these people well, is likely to be higher, because they are of more value to industry. So it may be that for those who desire turnover, as individuals—their service is liable to be more fleeting than otherwise.

Mr. HÉBERT. We are paying to put ourselves out of business.

Secretary IMRIE. That is exactly right. But I see no alternative.

Mr. RACUSIN. But for the reasons you indicated, Mr. Chairman, that is precisely why we feel we have to give some upgrading in professional scales for our negotiators.

Mr. HÉBERT. Even though we do price ourselves out of business by increasing the competence of these individuals, at least they are in Government.

Mr. RACUSIN. Precisely.

Mr. HÉBERT. I think they can save us some money.

Mr. RACUSIN. Yes, sir.

Mr. HÉBERT. Which would more than compensate for the price that it costs to conduct the school.

Mr. RACUSIN. Yes, sir.

Mr. HÉBERT. Now, Mr. Courtney, what were the figures yesterday on the collections of the Air Force?

Mr. COURTNEY. 81 and a possible 89 percent.

Mr. HÉBERT. Outstanding is how much in dollars?

Mr. COURTNEY. In dollars it was something less than \$3 million, I think, outstanding.

Mr. HÉBERT. Do you care to comment on that? As a matter of fact, I am going to ask you to comment.

Secretary IMRIE. Well, sir, we have additional recoveries scheduled, in the amount of some \$4 million, I believe.

Mr. RACUSIN. That is correct.

Secretary IMRIE. Which are in effect, but which happened at a time after the closing of the GAO statistical sequence.

Mr. HÉBERT. Wait—let me get my figures right in my mind—\$3 million is out.

Colonel LEE. \$7.8 million.

Mr. HÉBERT. Oh, \$7.8 million.

Secretary IMRIE. \$7.8 million.

Mr. COURTNEY. I have on page 3 of the Comptroller's tabulation, on page 3 of his statement, if you are looking for the quick reference.

Now, Mr. Chairman, may I interrupt right here so this record may be complete.

In the hearings under the contract study required by Public Law 89, a different set of figures were introduced, more comprehensive and extending over a number of years.

I think it would be appropriate at this time, Mr. Chairman, if that table should be included in this record at this time.

Mr. HÉBERT. Do you have the table?

Mr. COURTNEY. I have it.

Mr. HÉBERT. Without objection, the table will be included.

(The table is as follows:)

OVERPRICING OF GOVERNMENT CONTRACTS

Summary of selected Air Force contracts and subcontracts in which fair and reasonable prices were not negotiated, June 1, 1959

	Excessive target costs and other cost estimates disclosed by GAO examinations						Unreasonably high prices negotiated without adequate consideration of available information	
	Contract price	Contem- plated profit	Estimated costs nego- tiated	Excessive estimated costs identi- fied by GAO	Excess cost to the Gov- ernment	Recoveries	Contract price	Actual cost incurred
Fixed-price incentive contracts:								
McDonnell Aircraft Corp.	\$102,460,000	\$8,460,000	\$94,000,000	\$5,193,000	\$1,596,000			
Boeing Airplane Co.	193,109,000	14,304,000	178,805,000	3,023,000	1,398,000	\$187,000		
Lockheed Aircraft Corp.	198,893,000	15,224,000	183,669,000	4,111,000	1,251,000	1,250,000		
General Precision Laboratory, Inc.	22,547,000	2,050,000	20,497,000	300,000	130,000			
Total	517,009,000	40,038,000	476,971,000	14,827,000	4,305,000	1,437,000		
Firm fixed-price contracts and purchase orders:								
The Cessna Aircraft Co.	6,325,000	575,000	5,750,000	243,000	68,000		\$6,325,000	\$4,621,000
Rheem Manufacturing Co.	609,000	95,000	514,000	178,000	178,000			
Friden, Inc.	2,198,000	618,000	1,581,000	446,000	446,000	446,000	768,000	616,000
Arco Manufacturing Corp., Crosley Division	15,400,000	369,000	15,031,000	1,134,000	1,134,000	1,134,000	985,000	518,000
Menasco Manufacturing Co.								
Avtron Manufacturing, Inc.						62,000	29,100,000	23,200,000
General Motors Corp., AC Spark Plug Division						750,000	693,000	410,000
The Firestone Tire & Rubber Co.							7,800,000	5,995,000
Goodyear Aircraft Corp., Arizona Division	7,381,000	1,311,000	6,070,000	165,000	165,000	165,000	11,824,000	8,746,000
Lambert Engineering Co.				44,000	44,000			
Total	31,914,000	2,968,000	28,946,000	2,210,000	2,035,000	2,675,000	1,187,000	715,000
Grand total	548,923,000	43,006,000	505,917,000	17,037,000	6,340,000	4,112,000	58,682,000	44,821,000

Mr. HÉBERT. Now let's get these figures right that we are talking about.

Secretary IMRIE. Well, as I understand the figures, Mr. Chairman—and we have gone over these in some detail—reported by the GAO as findings as of the 27th of April, there was \$41,074,000.

Mr. COURTNEY. Yes.

Secretary IMRIE. Of which the Air Force had at that time obtained adjustments or recovered \$33,255,000.

Then, as Mr. Campbell reported yesterday, there was an additional Air Force recovery of \$3,400,000, which brought the total adjustment or recovery on behalf of the Air Force up to \$36,657,000, again matched against the \$41 million original GAO figure.

Subsequent to the closeout, also, of these statistics, and probably—pardon me?

Mr. RACUSIN. Go ahead.

Secretary IMRIE. Subsequent to the closeout of the statistics and over and above Mr. Campbell's extra report as of yesterday, there is an additional \$705,000.

Mr. HÉBERT. Which has been recovered?

Secretary IMRIE. Which has been recovered.

Mr. HÉBERT. All right.

Secretary IMRIE. Now, over and above that, there are two cases which reside in the Justice Department—one for \$499,000 and one for \$1,350,000.

Mr. HÉBERT. You can't do a thing about that.

Mr. RACUSIN. That is correct.

Mr. HÉBERT. I say, you can't do anything about that.

Secretary IMRIE. No, sir.

Mr. HÉBERT. You are estopped.

Secretary IMRIE. Which are sort of beyond this.

Mr. HÉBERT. That is right.

Secretary IMRIE. And we hope recovery actions will be taken in the Justice Department.

So our recoveries are slightly more significant than the currently available statistics indicate.

Mr. HÉBERT. Still recoverable and out—what figure is that?

Secretary IMRIE. Well, I will have to do some arithmetic.

Mr. COURTNEY. About \$2 million.

Secretary IMRIE. About \$2 million.

Mr. HÉBERT. About \$2 million?

Secretary IMRIE. \$2.8 million.

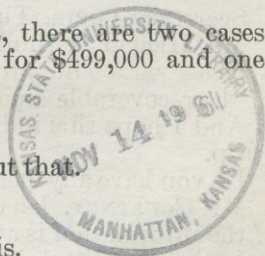
Mr. HÉBERT. What is the situation as related to that figure?

Mr. RACUSIN. Well, Mr. Chairman, may I point out that of that figure, for example, \$1,480,000 is attributable to a particular contract with General Motors Corp., on a 1955 contract.

Now we would like to point out that that year has already been renegotiated by the Renegotiation Board. Determination has been made as to excess profits in that year, an agreement reached, and settlement effected.

For that reason, among others, we feel we are not entitled to get an additional \$1,480,000. That has been already reviewed by the Board.

Mr. HÉBERT. You will agree with that. So that leaves you approximately one-half million dollars out.



Mr. RACUSIN. Now of that amount, there is a figure, for example, of \$343,000 on a contract with Boeing.

On this one I might say we have already effected recoveries of \$1,156,000, as against the GAO's claimed \$1,502,000. We haven't been without any recovery at all. But we are in disagreement with the GAO as to the remaining \$343,000, for the reason that we feel that the pricing that was used under the type of contract that was used for these spare parts do not provide us with a legal basis for effecting a recovery of this \$343,000. We are simply at issue with the GAO on that.

Mr. HÉBERT. So you considered to all intents and effects that you cleaned the slate?

Mr. RACUSIN. We feel that we recovered what we think we are entitled to, \$1,156,000, out of the \$1,502,000 claimed by the GAO.

Mr. HÉBERT. I think the Air Force is to be complimented on the effectiveness of its recovery program.

I again suggest to you that this committee is not super or hypercritical at all times. When a good job is done we unhesitatingly say it is a good job.

Mr. RACUSIN. Thank you.

Secretary IMRIE. Thank you.

Mr. HÉBERT. I think in this particular instance the Air Force has done a good job in pairing these figures, the amount actually recovered of the recoverable amount.

And I hope this indicates what the future will bring in the present setup.

Do you have any questions, Mr. Courtney?

Mr. COURTNEY. I have a few questions on the subject of the school, if the information is available here.

Is there a school for the judge advocates engaged in procurement practices separately from this school, or do the judge advocates participate and the legal people of your fraternity participate in this school program which you have just described?

Mr. RACUSIN. There is a separate school conducted by the Army, I understand, sir, at the University of Virginia, in Charlottesville.

Mr. COURTNEY. Yes, I am well aware of that, but I want to know what is the participation of the Air Force.

Mr. RACUSIN. My understanding is we are now sending our JAG people down there. I would like to check that. But my understanding is that whereas previously we have not, I think we have changed, Mr. Chairman. But I would like an opportunity to check that.

Secretary IMRIE. I think—excuse me, Aaron.

I think the colonel may address himself to that point, being a graduate of the Army JAG School.

Colonel DREISESZUN. I would just like to mention that as a member of the Air Force staff procurement policy organization, you might recall, Mr. Chairman, Colonel Tracy, who has appeared before this committee many times, did send each member of his staff—and I was one of them—to the Army JAG School at Charlottesville to undertake a procurement legal course. Each and every staff officer in our division over a period of 2 years did receive this course.

Mr. COURTNEY. Well, the question I had was directed to the fact that it was pretty general knowledge that the Judge Advocate of the

Air Force didn't favor extensive training or extended training of JAG personnel engaged in procurement.

Colonel DREISESZUN. No.

Mr. COURTNEY. That changed, however, and I was wondering, in numbers, what the input of this school was.

Mr. RACUSIN. We would have to get it for you.

Mr. COURTNEY. Would you supply that information?

Mr. RACUSIN. Yes, sir.

Secretary IMRIE. Yes, sir.

Mr. COURTNEY. And to be significant, it ought to be related to the number of JAG officers and civilians in legal capacities who are engaged in procurement, or giving procurement advice—those who have been trained and those who have not.

Would you be able to supply that information?

Mr. RACUSIN. I believe so. We will certainly try.

Mr. COURTNEY. In readable form.

Mr. RACUSIN. Yes, sir.

Secretary IMRIE. Yes, sir.

(The information is as follows:)

DEPARTMENT OF THE AIR FORCE,
HEADQUARTERS, U.S. AIR FORCE,
Washington, D.C.

Subject: Statement of judge advocate officer indoctrination in Air Force procurement matters.

To: AFMPP, Colonel Dreiseszun,

1. In accordance with your request of May 2, 1961, the following information is provided which may be used as a statement to be inserted in the attached subcommittee hearings.

2. While the Judge Advocate General's Department of the Air Force does not utilize the Army Judge Advocate General School at Charlottesville to train judge advocate officers in procurement law, it does have an active program whereby selected career judge advocate officers receive 2 weeks of concentrated indoctrination in procurement matters at Wright-Patterson Air Force Base, Ohio. This indoctrination is in addition to the on-the-job training provided judge advocate officers in those commands where volume procurement exists. To date 221 judge advocate officers have attended the procurement law indoctrination program which is conducted by highly capable officers assigned to Air Force Logistics Command (formerly AMC) who have specialized in procurement law. This arrangement has proven very satisfactory since it has resulted in the indoctrination of base judge advocate officers in base-level-type procurement problems, practices, and policies at minimal cost to the Government and has provided the Air Force with a source of judge advocate officers qualified to provide informed legal advice to contracting officers on legal problems arising from the award and administration of contracts.

3. In addition to the procurement indoctrination course mentioned above, the Judge Advocate General of the Air Force, by letters to staff judge advocates of major air commands, has stressed the importance of providing contracting officers with legal support on contract matters and the essentiality of maintaining an adequate procurement-type library. Air Force Manual 110-9 was issued on January 1, 1960, for the guidance and information of Air Force military and civilian personnel, particularly judge advocates, engaged in various phases of procurement. It is a comprehensive document and discusses in some detail procurement directives and policies. A copy of that manual is attached. Also, it should be pointed out that a revised edition will be ready for distribution by the end of fiscal year 1961.

4. The Air Force had, as of March 30, 1961, 1,231 judge advocate officers on active duty; of this number 221 career officers have received indoctrination in base procurement matters. Present plans call for the indoctrination of an additional 120 judge advocate officers during fiscal year 1962, thus raising the total to 341 judge advocate officers qualified in this area of the law. In addition, approximately 50 percent of the judge advocate officers assigned to Air

Force Logistics Command (105 judge advocates assigned as of April 30, 1961) and about 40 percent of those assigned to Air Force systems command (55 judge advocates assigned as of April 30, 1961) have specialized abilities, gained by experience and intensive on-the-job training, in procurement law.

WILLIAM H. LUMPKIN, *Colonel, U.S.A.F.,
Executive Office of The Judge Advocate General.*

Colonel DREISESZUN. Mr. Chairman.

Mr. HÉBERT. Yes, sir.

Colonel DREISESZUN. In view of your interest and Mr. Courtney's interest in our training program, I have a short outline of a price analysis course which I would like to make available to the committee. It is very short. If I may proceed to present that?

Mr. HÉBERT. Yes.

Colonel DREISESZUN. And this is from our prospectus at the Air Force Institute of Technology.

Students are price analysis with at least 6 months on-the-job training for the course in pricing.

The course lasts for a period of 8 weeks.

It includes a study of industrial cost estimating and cost control systems.

The Air Force policy and concepts of contracting, contract cost principles, the Auditor General role in pricing, analysis of materials, overhead costs, cost and volume relationships, analysis of engineering costs, pricing of research, and so on.

A major section of the course is devoted to techniques of negotiation. It covers the preparation for the negotiation session as well as the actual procedure leading to a contract.

Mr. HÉBERT. Now, is the committee to understand that this course, this 8-week course, is an all-confining course during that period of time? In other words, this is not an extracurricular activity while they are on the job?

Colonel DREISESZUN. No, sir. Full time.

Mr. HÉBERT. Full time?

Secretary IMRIE. This is a school in the strict sense of the word.

Mr. HÉBERT. A school in the strict sense of the word?

Secretary IMRIE. Yes, sir.

Mr. HÉBERT. They go to study, and they study. Are they given examinations?

Secretary IMRIE. Yes, sir.

Colonel LEE. Yes, sir.

Mr. HÉBERT. Or are they depended upon to absorb what they hear?

Secretary IMRIE. No.

Colonel LEE. They are given case studies. They are given examinations. Those students that are residents of Wright-Patterson are detailed to the school full time, as well as, of course, the people that come in from the field, being full time.

Secretary IMRIE. As I understand it, sir, they recognize osmosis, but they check to see the extent of it by examinations and other things.

Mr. HÉBERT. That is good. I wanted to know just what followup was made to these people, whether they just come there and sit in for the day?

Mr. RACUSIN. No, sir.

Mr. HÉBERT. Or are they supposed to go back over it and absorb it?

Mr. RACUSIN. Yes.

Mr. HÉBERT. There is more to it than their just being exposed to it?

Mr. RACUSIN. Oh, yes, sir.

Mr. HÉBERT. All right. Mr. Courtney.

Mr. COURTNEY. One further question, Mr. Chairman.

Referring back now to your reference, Mr. Secretary, to the increase in the use of audit and expanded audit activity, of number of audits which were available to negotiating personnel, on page 4: It was at one time stated to the committee that 324 vacancies, or auditors, rather, were to be added to the Air Force complement.

Mr. RACUSIN. 203, Mr. Courtney.

Mr. COURTNEY. 203.

Mr. RACUSIN. In 1959 we had appeared before this committee and we said 203 spaces were going to be added.

Mr. COURTNEY. And have they been added?

Mr. RACUSIN. They have, plus 50.

Mr. COURTNEY. Plus 50?

Mr. RACUSIN. Yes, sir. And we now have on board, as of April 15, 1,271 auditors engaged in contract audit work.

Mr. COURTNEY. And that is reflected, of course, in the increased input?

Mr. RACUSIN. Yes, sir.

Mr. COURTNEY. Of service and their availability of information?

Mr. RACUSIN. Yes, sir.

Mr. HÉBERT. And I think the figure as reflected of downgrading the original cost is—

Mr. RACUSIN. \$520 million.

Mr. HÉBERT. \$520 million?

Mr. RACUSIN. In 10 months.

Mr. HÉBERT. In 10 months?

Mr. RACUSIN. Yes, sir, in 10 months' time.

Mr. COURTNEY. Now a further question on that subject with reference to the grading of these personnel who have been trained. What if any change has been made in the general level of civil service grades? Let's stick to that for the moment. This seemed to be one of the stumbling blocks.

Mr. RACUSIN. I don't know, sir, at this moment. The average grade you mean of the auditors?

Mr. COURTNEY. Whether or not as a result of this training program, the improvement in the abilities and the equipment of the negotiators and other people and personnel who handle this in such manner—whether or not that has been recognized by increased civil service grades and ratings?

Secretary IMRIE. I am afraid we are not prepared, sir, but we will certainly—

Mr. COURTNEY. I would suggest, then, Mr. Secretary, so long as we are making this record, it might be appropriate, if you have significant figures of that kind—

Mr. RACUSIN. We will certainly check.

Mr. COURTNEY. That they be supplied for the record.

Secretary IMRIE. We understand the question.

Mr. RACUSIN. Yes.

(The information is as follows:)

Regarding question as to whether grade structure is increased after schooling the following is submitted:

1. The primary purpose of the Logistics Education Center is to broaden the technical knowledge and overall capability of Air Force employees, which will bring about increased effectiveness in their existing assignments. Participants are selected for the training on the basis of:

A. Need for training;

B. The extent to which employees' knowledges, skills, attitudes, or performance are likely to be improved by training;

C. The length of time the employee will be available for continued Government service;

D. The employee's interest in improving his capability.

2. The training provided does enhance career progression and promotions indirectly, in that performance is an important factor in selection for promotion.

3. Salaries paid to employees who complete the training depend upon the position held and the grade established for the position. As responsibilities increase which justify higher grades, salaries are increased accordingly.

Mr. COURTNEY. Mr. Chairman, those were the only questions that I had. Accepting this one additional question with reference to the relationship between the subcontractors, some of whom were on this list, and for the Air Force in the matter of effecting settlements.

I understand, or have been told, there is a sprinkling of people here who simply refuse to pay, for their own reasons, or refuse to adjust the differences.

Now the question I have is this: Since the Air Force has control over the approval of subcontractors, \$25,000 and over, and I believe is required to answer it, whether or not the recalcitrants on this list are still enjoying the benefits of being subcontractors for the Air Force while relying on their legal rights?

Mr. RACUSIN. Well, Mr. Courtney, you talk about the recalcitrants. Of the list, as I recall—

Mr. COURTNEY. That is my word.

Mr. RACUSIN. Yes, I say your use of the word "recalcitrants".

In reviewing the list rapidly, for example, Rheem Manufacturing Co. does not only involve a subcontractor, but a subsubcontractor.

Mr. COURTNEY. Yes.

Mr. RACUSIN. And there we have contended that actually there was a fair deal negotiated all around on that. It was a firm fixed price subsubcontractor. We were relying on the purchasing system of the subcontractor. We felt that it was done fairly.

There perhaps might be some error in retrospect as to the extent of analysis done on that. We think it has been corrected.

But in general, I would say there is not that recalcitrance that you seem to indicate that would warrant us refusing to do business with these subcontractors. That has been my understanding of it.

Secretary IMRIE. (Aside to Mr. Racusin.)

Mr. RACUSIN. Well, the Secretary reminds me: With respect to the J. A. Maurer—M-a-u-r-e-r—

Mr. COURTNEY. That is on this list.

Secretary IMRIE. Yes.

Mr. RACUSIN. Yes. That was a subcontractor. Therefore we have been following that to such a degree—

Colonel DREISESZUN. Schedule C.

Mr. RACUSIN. That North American, prime contractor, has initiated court action against the Maurer Co. to try to effect some kind of a recoupment.

Secretary IMRIE. This was a specific case.

Mr. RACUSIN. Yes.

Secretary IMRIE. So it has gone to the courts.

Mr. RACUSIN. Yes.

But generally speaking, I don't think there is existing that recalcitrance that would warrant us saying "You are on a list and we will not do business with you."

Mr. COURTNEY. Anyway, the subs are not privileged to disagree and still continue to enjoy the fat.

Mr. RACUSIN. No, sir.

Mr. COURTNEY. Those are the only questions I had, Mr. Chairman.

Mr. HÉBERT. Mr. Gavin?

Mr. GAVIN. I have no questions.

Mr. HÉBERT. Mr. Norblad?

Mr. NORBLAD. No.

Mr. HÉBERT. Thank you again, Mr. Secretary, and your staff.

Secretary IMRIE. Thank you, sir, and gentlemen.

Mr. HÉBERT. I again express the hope that this is not the flower that only blooms in the spring. [Laughter.]

Secretary IMRIE. I have a fervent hope in that direction, Mr. Chairman.

Mr. RACUSIN. Mr. Hébert, you always tell us you follow up, so we expect to hear.

Mr. HÉBERT. We will.

Mr. RACUSIN. Thank you very much.

Mr. HÉBERT. The committee will be in order.

Mr. COURTNEY. Mr. Chairman, for the Navy Department we have Vice Adm. G. F. Beardsley, the Chief of Navy Material, who is here representing the Navy Department.

And Admiral, you might want to introduce your staff and those that are expected to or may speak in the course of the inquiry.

Admiral BEARDSLEY. Yes, sir.

Mr. Katz, from the Bureau of Yards and Docks.

Captain Church, from the Bureau of Yards and Docks.

Mr. Jones, from my office, Office of Navy Material.

Mr. Weatherly, from the Bureau of Ships.

Mr. Tassin, from the Bureau of Ships.

Captain Wells, from the Bureau of Ships.

Mr. HÉBERT. Well, you come fortified, Admiral.

Admiral BEARDSLEY. And Admiral Schoech, from the Bureau of Naval Weapons.

Mr. HÉBERT. Admiral, I will say to you as I said to the Air Force. This, of course, again, is a typical follow-up of this committee. We don't like to make things difficult. When we bring them before the committee, we want to know what is happening.

In this particular case, as a result of hearings 2 years ago these figures were given to us, and your appearance here this morning is to find out what the Navy has done or not done about it.

I understand you have a prepared statement.

Admiral BEARDSLEY. Yes, sir.

Mr. HÉBERT. You may proceed.

Admiral BEARDSLEY. Mr. Chairman and members of the committee, I am Vice Adm. George F. Beardsley, since July 1960, Chief of Naval Material, and for 2 years prior to that the Deputy Comptroller of the Navy.

The biography of Vice Adm. George F. Beardsley is as follows:)

BIOGRAPHY OF VICE ADM. GEORGE F. BEARDSLEY, U.S. NAVY

George Francis Beardsley was born in Arlington Heights, Ill., on October 26, 1907, son of Wallace B. and Adelaide (Hawkes) Beardsley. He attended Arlington Heights Township High School and Lewis Institute, Chicago, Ill., before entering the U.S. Naval Academy, Annapolis, Md., from his native State in 1925. As a midshipman, he participated in lacrosse and class football. Graduated and commissioned ensign on June 8, 1929, he subsequently attained the rank of captain, to date from March 30, 1945. His selection for the rank of rear admiral was approved by the President on July 25, 1955, his date of rank January 1, 1956. His date of rank to vice admiral is July 1, 1960.

Following graduation from the Naval Academy in 1929, he was assigned to the arresting gear division aboard the U.S.S. *Lexington*. While aboard that aircraft carrier, he had detached duty under instruction in connection with preliminary flight training at the Naval Air Station, San Diego, Calif. Detached from the *Lexington* in August 1930, he reported for flight training at the Naval Air Station, Pensacola, Fla. Designated naval aviator in January 1931, he remained at the Pensacola Air Station until April of that year, when he joined Scouting Squadron 2-B, aboard the U.S.S. *Saratoga*. In 1932, he transferred to Fighting Squadron 5-B, based aboard U.S.S. *Lexington*.

Between June 1934 and the spring of 1936, he served as material and personnel officer in the assembly and repair department at the Naval Air Station, San Diego, Calif., after which he reported for instruction in aeronautical engineering at the Postgraduate School, Annapolis, Md. He continued the course during 1938 and 1939 at the California Institute of Technology at Pasadena, where he received the degree of master of science. In July 1939 he reported for duty as senior aviator with the aviation unit aboard the U.S.S. *San Francisco*.

Returning to the United States in December 1940, he had duty as production control officer in the assembly and repair department at the Naval Air Station, Jacksonville, Fla. He remained there until November 1942, where he joined the staff of commander, Air Force, U.S. Pacific Fleet. For meritorious service * * * as assistant to the material officer and the fleet aircraft maintenance officer on the staff of commander, Air Force, Pacific Fleet, during the period September 1942 to December 1944 * * * he received a letter of commendation, with authorization to wear the Commendation Ribbon, from the commander in chief, U.S. Pacific Fleet. The citation further states:

"With outstanding ability and administrative skill, he aided in promoting and maintaining the high state of material readiness of our carriers, aircraft tenders, and technical aviation material * * *."

Ordered to return to the United States, he reported in January 1945 as officer in charge of the Bureau of Aeronautics, maintenance representative officer, Western District, with headquarters at the Naval Air Station, San Diego, Calif. He remained there until December 1945, after which he had service as Director of the Fiscal Division in the Bureau of Aeronautics, Navy Department, Washington, D.C.

In June 1949, he became Director of the Naval Air Experimental Station at the Naval Air Material Center, Philadelphia, Pa. Later, he assumed duty as manager of the Naval Aircraft Factory there, and remained in that assignment until August 1951. Again ordered to the Bureau of Aeronautics, Navy Department, he served for the next 3 years as Director of the Production Division. From July 1954 to September 1955 he was overhaul and repair officer at the Naval Air Station, Alameda, Calif., after which he was assigned as Assistant Chief of the Bureau of Aeronautics for Procurement, Navy Department. On February 1, 1956, he reported as Assistant and on May 29, 1958, became Deputy Comptroller of the Navy, Navy Department. In May 1960 he was ordered to duty as Chief of Naval Material, Navy Department, his present assignment. In this assignment, Vice Admiral Beardsley is responsible for the formulation of the Navy's procurement contracting and inspection, production, and supply program policies.

In addition to the Commendation Ribbon, Vice Admiral Beardsley has the American Defense Service Medal, American Campaign Medal, Asiatic-Pacific Campaign Medal, World War II Victory Medal, and the National Defense Service Medal.

Married to the former Grace Cruce Willmetts of San Diego, Calif., Vice Admiral Beardsley has three children, Irene A., George F. Jr., and Robert C. Beardsley.

Admiral BEARDSLEY. I appreciate this opportunity to appear before your committee today in connection with certain reports of the General Accounting Office.

Since the details of the 14 cases submitted to your committee in 1959 have been discussed previously, I would like to submit for the record a résumé on each of the cases. Tab A. That is attached.

(The data is as follows:)

Index and summary of the "14 cases"

Contractor name	GAO case No.	Bureau involved	Alleged excess cost to Government
Aircraft Radio Corp.	B-133174	Weapons	\$75,000
Bell Helicopter Co.	B-118726	do	230,475
Birdsboro Armormat, Inc.	B-118762	Ships	1 213,300
Chance-Vought Aircraft, Inc.	B-118778	Weapons	726,000
Collins Radio Co.	B-125016	do	177,500
Electric Products Co.	B-133210	Ships	None
General Motors Corp.	B-133007	do	928,621
Lambert Engineering Co.	B-132942	Weapons	None
Librascope, Inc.	B-133131	do	12,675
McDonnell Aircraft Corp.	B-132936	do	2,756,500
Philco Corp.	B-132995	do	29,200
Westinghouse Electric Corp.	B-132963	do	933,463
Special Case No. 1.	B-132922	do	4,419,000
Special Case No. 2.	B-133133	Ships	43,000
Total			10,544,734

Contractor name	Recommended recovery by GAO	Recovery made	Additional anticipated recovery
Aircraft Radio Corp.	\$75,000	\$38,000	
Bell Helicopter Co.	230,475	230,475	
Birdsboro Armormat, Inc.			
Chance-Vought Aircraft, Inc.	726,000	252,000	
Collins Radio Co.	177,500	137,773	
Electric Products Co.	None		
General Motors Corp.	928,621	1,207,982	
Lambert Engineering Co.	None		
Librascope, Inc.	12,675	12,675	
McDonnell Aircraft Corp.	2,721,900	2,751,900	
Philco Corp.	29,200	6,951	
Westinghouse Electric Corp.	None		
Special Case No. 1.	² 4,419,000		\$4,419,000
Special Case No. 2.	None		88,100
Total	9,320,371	4,637,756	4,507,100

¹ \$184,600 of this amount under Army ordnance contract.

² In hands of Department of Justice for collection.

Contractor.—Aircraft Radio Corp. B-133174.

Contract No.—NOas 53-655-r.

GAO findings.—The GAO found that in pricing out spare parts under an existing contract, consideration was not given to a reduced cost which reasonably could be expected to result from combining the production of those spare parts with the production under another contract awarded 2 months earlier.

Alleged excess costs to the Government.—\$75,000.

Navy position.—The Navy concurs in the position taken by the GAO but does not agree in the amount of the alleged excess cost to the Government.

Specific case action.—The two contracts in question were negotiated by different individuals, neither of them having knowledge of the other contract. Since the contracts were not in any way tied together, the risks assumed by the contractor, particularly in the case of termination of one and not terminating the other, were greater than had quantities been combined under one contract. On those grounds, and the fact that the contractor had no legal obligation to make any refund, Navy was able to negotiate a refund of only \$38,000.

Specific action.—Negotiations concluded for the recovery of \$38,000 less the applicable income tax.

Contractor.—Bell Helicopter Corp. B-118726.

Contract No.—NOa 1100 and NOa 5068 (superseded by contract NOa 5850).

GAO findings.—In their examination of rental payments made by the Bell Helicopter Corp. under contract NOa 5850, the GAO found that the company was \$239,475 in arrears.

Navy position.—The Navy agreed with the findings of the GAO.

Specific action.—Negotiations for payment of this rental were in progress at the time of the preliminary GAO report and were consummated prior to the **final report**. The entire amount of past due rentals were collected and the contract was appropriately amended to provide for future payments for the use of the facilities on commercial work.

Contractor.—Birdsboro Armocast, Inc. B-118762.

GOA allegations.—This report deals with findings by the GAO which relate to both the Navy and the Department of the Army—Ordnance Corps. That portion applicable to the Navy concerns the leasing of Government-owned facilities and the requirement that the contractor carry insurance on these facilities.

The GOA found that Government facilities were leased by the Navy to Birdsboro Armocast Inc., a subcontractor to Chrysler under an Army Ordnance Corps contract; that Army allowed profits on the rental costs to both the prime and the subcontractor resulting in an excess cost to the Government of \$184,600. In addition, the lease agreement required the contractor to carry fire and extended coverage insurance on the Government-owned facilities resulting in a cost to the Government of \$28,700.

Navy position.—With respect to the profit on rental costs on Government facilities which costs are included in production for the Government, the Assistant Secretary of Defense (S. & L.) addressed himself to this problem in his letter dated March 11, 1960, to the Comptroller General in connection with this case. This letter states in part that—

“* * * while extraordinary financial, facility assistance is furnished by the Government there should be a resultant diminution of profit; nevertheless, it does not follow that no profit should be allowed where substantial rental is paid to the Government for facilities.”

The allowance of the profit in this instance is considered to be appropriate under the above-stated policy and no recovery was attempted.

With respect to insurance in facilities as a general policy, ASPR (10-602.2) has been revised to provide that, generally, wherever more than 75 percent of the total productive capacity of Government facilities leased to a contractor will be used for a substantial period of time in the performance of Government contracts and the insurance costs are significant, or whenever it is deemed to be in the best interest of the Government, the lessee will be relieved from liability of loss or damage to the facilities and the requirements for carrying insurance on such facilities.

Recovery made.—No recovery was made by Navy of the alleged excess cost to the Government. The facilities and any leasing thereof were taken over by the Army Ordnance Corps and Navy has no knowledge of present leasing arrangements. The other matters in the report were related to Army Ordnance Corps matters.

Specific case action.—Inasmuch as the policy statement quoted above was in connection with this case, it could be considered “Specific Case Action.”

Contractor.—Chance-Vought Aircraft, Inc. B-118778.

Contract No.—NOas 54-319-i and NOas 51-643-i.

GAO allegations.—The GAO report alleges that (i) the negotiated target cost of contract NOas 54-319-(i) was excessive by \$1,200,000 which resulted in an excessive cost of \$474,000 to the Government and (ii) in the final redetermination of contracts NOas 54-319-(i) and NOas 51-643-(i), estimated costs to complete were excessive by \$252,000 but which amount, after disclosure by the GAO, was excluded in the final contract price.

Alleged excess cost to the Government.—\$726,000.

Navy position.—The Navy has taken the position that the target cost established for contract NOas 54-319 was not excessive as alleged by the GAO and has submitted a detailed analysis to the GAO in support of that position. That the estimated cost to complete the runout portion of contract NOas 54-319 and NOas 51-643 was excessive was acknowledged by both the Navy and the contractor prior to final pricing of the contracts and credit for the \$252,000 in question was received in the final pricing of the contracts.

Specific action.—Recovered \$252,000 of the alleged excess cost to the Government.

Contractor.—Collins Radio Co. B-125016.

Contract No.—NOas 51-1155 and NOas 51-285.

GAO allegation.—In this case the GAO found that:

(a) The target cost of contract NOas 51-1155 was overstated about \$750,000 for a major subcontract. Under the pricing provision of the contracts their overstatement could result in an excess cost to the Government of \$157,000.

(b) Costs claimed by the contractor under NOas 51-285 included tooling costs of \$20,000 not allocable to the contract.

Alleged excess cost to the Government.—\$177,000.

Navy position.—The Navy agrees to the findings of the GAO and took action for recovery.

Specific action.—GAO recommended the adjustment of the target cost under NOas 51-1155. Navy counsel determined that we had no legal right to adjust the negotiated target cost but agreement was reached with the contractor to negotiate a final price on a basis of actual costs. This resulted in a recovery of \$117,773 of the potential \$157,000 excess cost to the Government. In addition, the \$20,000 tooling cost was removed from the proposal at the time of repricing contract NOas 51-285. Total recovery, \$137,773.

Contractor.—Electric Products Co. B-133210.

Contract No.—NObs-68074.

GAO allegation.—The GAO found that in the negotiation of the subject contract, Navy accepted, without substantial change, the contractor's proposed price and awarded the contract on a firm fixed-price basis although firm drawings, specification, effective competition, and prior cost experience were not available for evaluation of the proposals. The costs incurred by the contractor in the performance of the contract were substantially less than the estimated costs resulting in a high ratio of profit. The GAO made no recommendation for recovery of any of the excess profits but recommended that Navy procurement directives be amended to provide more specific criteria to be followed in reviewing and analyzing contractor's price proposals.

Navy position.—The Navy accepts the GAO criticism recognizing that—

(1) A closer analysis of cost probably would have revealed that the price was excessive, and

(2) Looking at the case in retrospect, realizes that another type of contract would have been more appropriate. Both of these areas have been covered by amplification of instructions in the ASPR and in training courses.

Contractor.—General Motors Corp., Cleveland Diesel Division. B-133007.

Contracts.—NObs-59603, NObs-59628, NObs-59629, NObs-59766, and NObs-59842.

GAO allegation.—That, due to inadequate evaluation of contractor proposals, excessive contract price was negotiated and excessive ratio of profit was allowed on subcontract costs.

Alleged excessive cost to the Government.—\$928,621.

Navy position.—The subject contracts were a part of a series of eight contracts totaling about \$118,700,000 and which were performed over a period of about 6 years immediately following the Korean situation. While it is true that the contractor realizes a profit ratio on this program slightly higher than the anticipated profit, the risks of pricing during the period were likewise somewhat above normal. When the GAO audit report was brought to the attention of the contractor, it made a voluntary refund of \$690,000 and later negotiations with the company resulted in a further voluntary refund of \$572,982.17. The latter refund was the unexpended portion of a reserve for guarantee that had been established but which was not mandatorily refundable to the Navy. With respect to the profit ratio on subcontracting, the ratio allowed on the overall contract was in line with the contractor's historical profit ratio pattern for the type of work covered by these contracts.

Specific action taken.—The contractor made two refunds applicable to this series of contracts totaling \$1,207,982 or \$279,361 in excess of the alleged overpayment.

Contractor.—Lambert Engineering Co. B-132942.

Contract No.—Various subcontracts with Air Force and Navy primes.

GAO allegation.—The GAO alleged that prices proposed by the subcontractor were generally accepted by the prime contractors without price or cost analysis or comparison with prior cost experience even though there was no competition, Lambert being a sole source of supply. As a result, inadequate recognition was given in the subcontract prices to declining costs due to production experience gained and, therefore, close pricing was not achieved. The GAO made four recommendations, that is—

(1) That Navy contracting officials be instructed to exercise closer supervision over prime contractors' subcontracting activities to assure that (a) sufficient cost information is obtained from the subcontractors to enable the prime contractors to ascertain the reasonableness of proposed prices and (b) the appropriate type of contract is used.

(2) That, in those instances where a subcontractor fails to furnish adequate cost information to provide a satisfactory basis for negotiation of a fair and reasonable price and will not agree to provisions for subsequent price adjustment, the matter be called promptly to the attention of top officials of the Department of the Navy for consideration and appropriate action.

(3) That the Department of Defense consider the feasibility of (a) determining the total known requirements for sole source items and (b) furnishing this information to interested officials of the contracting agencies, prime contractors, and suppliers for use in planning production, estimating costs, and evaluating proposed prices.

(4) That the Department of Defense give consideration to the merits of assigning to a single military department the responsibility for coordinating procurement of each such item under a master contract with the supplier, with prime contractors purchasing and obtaining delivery of these items at prices and under terms of a master contract.

Navy position.—The Navy subscribes to the first two recommendations made by the GAO. Policy direction and instructions in the ASPR have been amplified to cover these two areas. With respect to the last two recommendations, the Director for Procurement Policy, Office of the Assistant Secretary of Defense (S. & L.) addressed a letter to the Comptroller General on February 17, 1959, rejecting the recommendation as being impractical.

Specific action.—None.

Contractor.—Librascope, Inc. B-133131.

Contract No.—Various.

GAO allegation.—The GAO found that \$13,100 expenses incurred by the contractor in connection with the exhibition of a commercial product was included in its overhead and as a result \$12,675 thereof was allocated to Government contracts. They also took exception to the type of contracts employed, recommending that more attention be given to this area.

Navy position.—The Navy accepts the finding of the GAO with respect to the inadmissibility of the costs in connection with the exhibition of a commercial product. Also the Navy recognizes the importance of the selection of the proper type of contract. The GAO's findings in this regard, however, were based upon information available after the completion of the contracts in ques-

tion whereas the decision as to the type of contract that is to be used must be made at the time of award when the ultimate result is not discernible. Nevertheless, our instructions in this area have been amplified and the matter is given attention in our training courses.

Specific action.—Full recovery of the \$12,675 excess cost was made.

Contractor.—McDonnell Aircraft Corp., B-132936.

Contract number.—NOas 53-204 and NOy(R) 60218.

GAO allegations.—(a) The GAO found the the Navy, in establishing a firm price for contract NOas 53-204 utilized cost data without adequate evaluation or verification thereof which included duplicate costs in the amount of \$2,596,900; (b) termination claim for partial termination included costs in the amount of \$125,000 not allocable to the terminated portion of the contract; (c) profit was allowed on rental paid for use of Government facilities; (d) contract for rent of Government facilities required the contractor to carry insurance on the facilities.

Alleged excess cost to the Government.—

(a) Duplicated costs.....	\$2, 596, 900
(b) Overstatement, termination claim.....	125, 000
(c) Profit on rentals.....	30, 400
(d) Insurance on rentals.....	4, 200
Total.....	2, 756, 500

Navy position.—The Navy position with respect to the four GAO findings are as follows:

(a) Navy agrees there was a duplication of costs in the amount of \$2,596,900.

(b) Navy agrees that there were costs included in the termination claim which were subsequently determined to be not allocable. These costs were estimated by the GAO to be approximately \$125,000.

(c) With respect to the Navy position on the leasing of Government facilities, and profit on those rental costs, see the *Birdsboro Armorcast, Inc.* case, B-118762. With respect to profit on rental costs for leasing of Government facilities, BuWeps and McDonnell, by agreement, exclude such costs from profit computations.

(d) With respect to the GAO position that insurance should not be carried on the facilities in question. At the time the lease in question was entered into its terms and conditions were in accordance with Public Law 364 and the then existing regulations and provided the Corporation options to renew on those terms and conditions to July 1, 1999. The contractor has refused to agree to the elimination of the insurance provision and consequently the recommendation of the GAO cannot be complied with. Insofar as Navy's general policy with regard to insurance on Government-owned facilities leasing to contractors is concerned, see the *Birdsboro Armorcast, Inc.* case, B-118762 and ASPR 13-602.2.

Specific action.—In connection with (a) above, a recovery of the total amount of \$2,596,900 has been made. With respect to (b) above, in the negotiation of the termination claim, a reduction of \$155,000 or \$30,000 more than the overstated amount as alleged by the GAO was made.

Contractor.—Philco Corp., B-132995.

Contract number.—NOas 56-719-F.

GAO allegation.—(a) The GAO found that in the redetermination of a subcontract, the prime contractor accepted costs totaling \$29,200 which were improperly charged to the contract.

(b) That refunds of about \$1,400,000 which were due to the Government as a result of the redetermination of subcontract prices were delayed for an extended period of time.

Alleged excess cost to the Government.—\$29,200.

Navy position.—Of the alleged excess cost to the Government, \$6,951 represented costs for tooling, which was specifically excluded by the term of the subcontract. Agreement for the recovery of this amount has been reached with

the contractor and a refund has been made. There is no legal or contractual right for making demand for the balance, which represents the cost of material in excess of contract performance requirements, and no recovery will be made.

Specific action.—Recovery of \$6,951. With respect to (b) above, contract clauses have been revised to reduce to a minimum the possibility of excess payments to contractors or subcontractors pending the establishment of firm prices under a contract or subcontract.

Contractor.—Westinghouse Electric Corp., B-132963.

Contract number.—NOas 52-384.

GAO allegation.—Contract price found to be excessive in relation to actual costs incurred under the contract. GAO alleged that Westinghouse was in possession of final costs whereas Navy, at the time of negotiations, had cost information only through 40-percent completion and estimates made at that point for the runout portion of the contract. GAO alleged excess costs of \$933,463 to the Government.

Navy position.—The final price under the contract was negotiated in accordance with the contract terms; i.e., actual costs incurred through 40 percent of completion and estimates for completion although it is admitted that the contractor had available to him practically all cost information through contract completion. Since there was no legal or contractual right to require refund by the contractor, no recovery was made. The GAO did recommend revision of our contract clause to provide for submission of the latest available cost data by contractors, and this has been done.

Specific action.—A series of meetings was held with the contractor resulting in agreements concerning their methods and the timeliness for submission of cost data required for the redetermination of contracts.

Contractor.—Special case No. 1, B-132922.

Contract number.—NOrd (z)11214, (z)14615, (z)15578, (z)16693, and 17073.

GAO allegation.—In various proposals made to the Department of the Navy for the purpose of establishing contract prices, the contractor misstated its actual costs, and in addition overstated its estimates of cost to be incurred. These and other related deficiencies resulted in overpayment to the contractor of approximately \$4,419,000. Due to the criminal implications in the case, it was turned over to the Department of Justice for their handling; and Navy has been precluded from carrying on any discussions of the case or negotiations for recovery with the contractor.

Alleged excess cost to the Government.—\$4,419,000.

Navy position.—Navy has not been able to establish a firm position on this case since we have been prohibited by the Department of Justice from discussing the case, making audits, or carrying on any negotiations for recovery. However, substantial recovery of the above-stated amount is anticipated.

Specific action.—None, for reasons stated in paragraph above.

Contractor.—Special case No. 2. B-133133.

Contract No.—NObsr 64825.

GAO allegation.—That in negotiating a firm fixed-price contract the Navy negotiator did not review the contractor's prior cost experience for the same equipment but instead, relied on the contractor's representations as to costs.

Navy position.—Although Navy incorporated a "most favored customer" clause in the contract which should have assured a price no less favorable than had previously been given the Air Force for the same equipment, Navy agrees that inadequate analysis of costs was made and that the price was excessive as alleged by the GAO.

Specific case action.—The case having been turned over to the Department of Justice by the GAO and Navy precluded from taking action for recovery, Navy presented their findings to the Department of Justice which in turn forwarded the case to the U.S. attorney, New York, N.Y. for prosecution. Demands for \$88,100 has been made.

Current status of recovery of excess costs reported by the GAO on 14 Navy contracts

Total reported as excess-----	\$10,544,734
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STATUS OF TOTAL AMOUNT

Recovery to date-----	4,637,756
Referred to Department of Justice, recovery anticipated-----	4,507,100
Costs determined not to be excess-----	474,000
Alleged excess costs under Army Ordnance contracts-----	184,600
Amount not recoverable due to contractual provisions-----	1,019,012
Amount not recovered in negotiations-----	76,727

Total-----	10,899,195
Recoveries through negotiation over the GAO recommended amount-----	354,461

Total-----	10,544,734
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Admiral BEARDSLEY. I will summarize the status of the recoveries under the 14 cases and then review briefly for you recent progress in improving Navy procurement policies and practices.

The 14 cases previously reviewed involved Navy procurements over a period of 6 years, during which time the Navy awarded contracts exceeding \$40 billion. The General Accounting Office has alleged that the Government has paid excess costs of \$10.5 million and has recommended recovery of \$9.3 million. Recovery has been accomplished to the extent of \$4,637,756 which includes an amount of \$309,361 in excess of the specific items recommended for recovery by the General Accounting Office. Approximately \$4.5 million is under legal review by the Department of Justice and consequently the Navy is precluded from seeking direct recovery.

Approximately \$1.7 million has not been recovered for the various reasons set forth in the briefs covering the individual cases (tab A).

We recognize the need for stringently effective and economical procurement, and I assure you that we are doing our utmost to effect the necessary improvements. Required revisions in our policies and procedures have been accomplished, and I believe it is recognized generally at this time that our written policies and procedures are adequate. Effective implementation is the goal we seek.

In order to achieve this implementation, a change of emphasis has been applied in the Navy with respect to procurement and contracting matters. This change in emphasis includes more exacting reviews before selecting the contract type; use of contract types other than cost-plus-fixed-fee wherever possible; developing greater competition in those instances where currently we are doing business with a sole source or with limited competition; adopting stiffer negotiation positions; greater use of incentive provisions; less use of and earlier conversion of letter contracts; earlier conclusion of price redetermination actions; and emphasis on tighter ceilings on incentive and redeterminable contracts. This change of emphasis is directed toward fixing responsibility upon contractors more promptly in order to assure acceptance by them of risk for return and to instill definite incentives for cost reduction and improved performance.

The prenegotiation review and clearance procedure which we explained to your committee at our previous hearings has proven highly satisfactory. Better negotiation planning has been achieved and substantial reductions in contractors' proposals have been realized as a

result of a better understanding of the procurement objectives and coordination of team effort. We have strengthened the contract clearance branch in my office in order to more closely monitor procurement planning, competition, and pricing. Independent audits and technical price analyses are being obtained and used more effectively by procurement personnel in contract negotiations. We are demanding more efficient performance by our prime contractors and are more carefully examining their make-or-buy programs and subcontracting operations. We have emphasized the value analysis program and established practical controls over the procurement of engineering drawings and other data.

To secure effective implementation of our procurement policies, we have reemphasized the applicability of the Armed Services Procurement Regulation to all personnel concerned with the procurement process including engineering, technical, requirements planning, supply, maintenance, inspection, and audit personnel. We have also greatly expanded our procurement training program, with particular attention being given in the courses to the methods of achieving better pricing as the result of more thorough cost analysis. In addition, we have instituted a course specially designed to achieve better procurement management by technical personnel. A total of 1,825 personnel associated with procurement have completed training or refresher courses during the past 2 years.

In view of your interest, Mr. Chairman, I have another enclosure which I will give you, which gives the details of our courses, the subject matter, and the attendance at each course.

Mr. HÉBERT. We will ask you about that later on.

Admiral BEARDSLEY. Yes, sir.

In conclusion, I want to reiterate to this committee that there exists in the Navy a strong consciousness of the need for conserving our defense dollars. "All hands" are participating in the Navy's program to achieve cost savings in procurement operations. We are constantly seeking the most efficient ways to buy more and better hardware with every dollar appropriated to the Navy. We realize that this is a tremendous challenge, but we are confident that our plans will accomplish desired results. As always, we will welcome any assistance from your committee.

Mr. Chairman, at this time I would like to read an addendum. My prepared statement did not include specific comments with regard to the two new cases to which reference is made in schedule E of the Comptroller General's report since these cases had not been specifically identified at the time of its preparation. I have with me personnel able to respond to such questions as you may have concerning them.

I would like also to point out that with regard to case B-133007 the Comptroller General indicates an excess amount in the price of \$929,000. We have actually recovered \$1,207,982. In connection with case B-118762, the Comptroller General indicated an excess cost of \$213,000. This amount represents profit and insurance cost paid by Army Ordnance under its production contract with General Motors Corp. in connection with facilities leased by the Navy to a subcontractor, Birdsboro Armormat. It would seem to me that the basic responsibility for recovery of this amount should not rest with the Navy.

In view of your overall interest in the total recoveries, I will summarize now both the original 14 cases and the 2 additional cases.

The General Accounting Office has recommended recovery of \$19,891,000.

We have recovered to date \$4.6 million.

We have in the Justice Department \$4½ million, which we can't do anything about at this time.

In connection with the Spanish bases contract, we have actually used \$5.1 million and we anticipate using the \$6.8 million in that contract.

Assuming that we recover funds now tied up in those cases before the Justice Department, and we can use the full \$6.8 million in the Spanish bases case, we will have recovered or used \$15,844,000, or roughly 79½ or 80 percent of the funds.

This completes my statement, Mr. Chairman.

I have representatives of the procuring activities with me today. They are prepared to discuss the individual reports or answer any questions you desire. I thank you sincerely for this opportunity.

Mr. HÉBERT. Admiral, I am particularly interested in the case which I refer to as the \$9 million case. I would like to have some explanation of that situation.

Admiral BEARDSLEY. Captain Church.

Mr. HÉBERT. Yes, Captain.

Captain CHURCH. Mr. Chairman, I am Captain Church, the Assistant Chief of the Bureau of Yards and Docks for Construction. And I am here to explain the alleged increase in cost to the Government resulting from the conversion of the Spanish bases construction contract, NOY 83333, from a cost-plus-fixed-fee basis to a fixed price basis.

Mr. HÉBERT. What is NOY 83333?

Captain CHURCH. That is the number that we have given to the contract, sir, the consecutive number as we go through our contract procedures which we assign to each contract as it comes up. That just happens to be that number.

Mr. KATZ. The "N" indicates Navy. The "Y" indicates Yards and Docks. That is purely our filing system.

Captain CHURCH. The GAO has stated that there are excess costs to the Government in the neighborhood of \$9,400,000 resulting from this conversion.

These costs are essentially composed of a \$2,600,000 allowance for profit and contingencies which was over the allowed profit on the cost-plus-fixed-fee basis, and some \$6,800,000 allowed in excess of reasonable cost expectancies for administrative expenses.

Without going into detail on the philosophy of contracting, I believe it is safe to claim that the allowance for profit and contingency on a lump-sum risk basis contract is bound to be greater than on a cost-plus-fixed-fee basis, where the Government accepts all the risk.

It is the Navy's contention that the \$2,600,000 allowed for increased fees was fully justified as an increased profit allowance from 2 to 6 percent in return for contractor's assumption of risk.

I shall therefore confine my remarks to the remaining alleged excess cost of \$6,800,000.

At this point I should like to emphasize that the Navy was somewhat captive in this negotiation.

Mr. HÉBERT. Somewhat what, sir?

Captain CHURCH. Captive.

This was not a negotiation for a new work, or a new selection of a contractor or group of contractors. We were forced to negotiate.

We wanted to negotiate, frankly, but we had to negotiate with the joint venture that already had the cost-plus-fixed-fee contract in Spain.

Either we accepted the best proposal we could negotiate with the joint venture or we continued on a fee basis for the remainder of the contract, with the attendant prospect that the contract would drag out unduly.

In coming to final agreement with the contractor for the conversion, we were convinced that an equitable arrangement had been reached, considering the many intangibles facing an American contractor operating in a foreign land with foreign labor.

It became apparent shortly after conversion that many of these intangibles, such as delivery of material, early adjudication of subcontract claims, and most of all fantastically good weather, were all working in the contractor's favor.

At that time the Navy initiated the practice, with the concurrence of the contractor, of only giving additional work on the basis of reduced or no overhead in order to recover any possible excess attributable to developments favorable to the contractor subsequent to conversion.

The fact that these costs are being recovered is recognized by the GAO report to the Congress, dated December 30, 1960, and in Mr. Campbell's statement to the committee, in which he states that "Certain services are being received without reimbursement for the cost of their services."

Our records indicate that the excess overhead allowed has been reduced from the \$6,800,000 on June 30, 1958, the time of the conversion, to \$1,690,000 on April 1, 1961.

There is, therefore, an indicated recovery of \$5,110,000 to date.

We are continuing to follow up on this contract. And if on completion of the construction full recovery has not been achieved, necessary negotiations will be instituted with the contractor to ensure full recovery prior to contract closing.

I might say, sir, that we actually have some hope of recovering even a little more than the remaining \$1,690,000. But we can't fully—

Mr. HÉBERT. As I understand Mr. Campbell's testimony, Captain, it was: in the services, it amounted to, in round figures, around \$2 million. Now that is what it represents, on the difference between the \$2 million and the \$5 million, which you say you have recovered.

Mr. KATZ. An up-dating of the figure, sir.

Mr. Campbell's figures, I believe, ran to the end of 1959. We have carried our figures up to April 1, 1961.

Mr. HÉBERT. Then you are bringing us up to date.

Mr. KATZ. Yes, sir.

Mr. HÉBERT. Then you have recovered that much more?

Mr. KATZ. Yes, sir.

Captain CHURCH. Yes, sir.

Mr. HÉBERT. Now this is the Spanish contract. You still have construction in Spain?

Captain CHURCH. Yes, sir.

Mr. HÉBERT. Involving this particular contractor?

Captain CHURCH. They are in the fading days of their contract, sir.

Mr. HÉBERT. I know. We are familiar with the Spanish situation.

Captain CHURCH. The original work that they undertook is largely completed, and as you know, in use.

There are some closeout matters. There was some minor construction that was given to them recently. There is a disposal of the equipment, that is, the excess material, that is taking their time. There is the cleanup of the subcontractors' claims that are still outstanding. Also, some arrangements with the Spanish Government in regard to labor charges and things of that nature.

And we are confident that they will be completely out of Spain, this group, by the 1st of January of 1962, sir.

We are so confident that we are moving in now and setting up lump sum joint venture bidding by Spanish and American contractors for all future work.

Mr. HÉBERT. Any questions on this particular phase?

Mr. COURTNEY. Well, if I understand your statement correctly, Captain—let me clear it up for the record so at least I can understand it.

The \$9 million, in round figures, was an overhead and profit allowance in the lump sum, or was it not?

Captain CHURCH. The overhead allowance in the lump sum was in the neighborhood of \$17 million, sir, in which the GAO claimed \$9 million was excess.

Mr. COURTNEY. That is right.

Captain CHURCH. Yes, sir.

Mr. COURTNEY. So that figure, then, represents an item known as overhead and profit, which was selected out as being excess?

Captain CHURCH. Yes, sir.

Mr. COURTNEY. All right.

Now then, the recovery of which you speak comes from the award of additional work?

Captain CHURCH. Yes, sir.

Mr. COURTNEY. For which the contractor normally would be entitled to both overhead and profit, but which he did not take or was not given?

Captain CHURCH. The contractor received a profit allowance but only a minimal overhead allowance.

Mr. COURTNEY. And the total of that amounts to four—

Captain CHURCH. \$5,110,000 as of now.

Mr. COURTNEY. As of now?

Captain CHURCH. Yes, sir.

Mr. COURTNEY. Now the projected work for the future—I want to understand it.

The projected work for the future will entail, of course, or will it entail, overhead and profit, which will again be paid out of this so-called excess fund or reduce the excess fund?

Captain CHURCH. Yes, sir.

Mr. COURTNEY. Is that it?

Captain CHURCH. Any additional work that they will come out with—

Mr. GAVIN. Additional work they get or additional work they do.
Captain CHURCH. They have to complete now.

Mr. COURTNEY. Additional work that is to be completed?

Captain CHURCH. To be completed, yes, sir.

Mr. COURTNEY. Before the contractor is moved out, the prime contractor, or the joint venture is moved out——

Captain CHURCH. Yes, sir.

Mr. COURTNEY. There will be sufficient to recover, in your opinion, the excess that might have occurred had the contract been terminated at the time of the GAO examination, had it ended?

Captain CHURCH. Yes, sir, we feel it will.

In fact, I have two sets of figures, as I guess we can all get, sir, which I struggled with last night.

Mr. HÉBERT. Now, not two sets of books? [Laughter.]

Mr. COURTNEY. Well, he is an experienced contractor. He is bound to have two sets. [Further laughter.]

Captain CHURCH. One of these sets indicates that we have already recovered more than the \$6,800,000. But I did not——

Mr. HÉBERT. Whose set of books?

Captain CHURCH. That is our other set, sir. [Laughter.] But which I did not present to this committee. Because I want to keep the heat on the contractors, to get back as much as we can of this alleged excess.

Mr. GAVIN. What type of work was this \$6.8 million?

Captain CHURCH. Beg your pardon, sir?

Mr. GAVIN. What type of work was this \$6.8 million?

Captain CHURCH. That was the administrative overhead, of keeping people in Spain, that is, the employees of the contractor that were required to stay, to supervise the Spanish people, on these 31 sites that we were building all over Spain.

It covers their travel cost, their return to the States, and all of those items, sir.

Admiral BEARDSLEY. I think he meant the job.

(Mr. HÉBERT, confers with Mr. Gavin.)

Mr. HÉBERT. Have you any further questions?

Mr. GAVIN. No.

Mr. HÉBERT. Mr. Norblad?

Mr. NORBLAD. No.

Mr. HÉBERT. Any further questions on this subject?

Mr. COURTNEY. Not on the Spanish bases.

I just wanted to be sure we understand what was happening with reference to that subject, and what the nature of the excess was.

Now with reference to the other contracts that have been spoken of in here by the General Accounting Office and are contained in your tabulation, Admiral: the figure comes down now, assuming that all goes well, to \$10 million, I take it, not recovered?

Admiral BEARDSLEY. Well, if you assume that the GAO will recommend this recovery of \$19,891,000—and that is using the full amount for the Spanish bases case of \$9 million.

Mr. COURTNEY. Well, I was deducting that.

Admiral BEARDSLEY. I see.

Mr. COURTNEY. So what would be left over would be in the neighborhood of \$10 million; is that correct?

Mr. JONES. The thing, Mr. Courtney—

Mr. COURTNEY. Well, \$9 million.

Admiral BEARDSLEY. \$9,320,000, of which we have recovered \$4,637,000, and we have 4½ tied up in Justice Department.

Mr. COURTNEY. Tied up in the Justice Department.

Admiral BEARDSLEY. And we anticipate we will be able to get most of that figure.

Mr. COURTNEY. That is right.

Mr. HÉBERT. And which leaves what figure unaccountable?

Mr. JONES. The way we have figured it, basically, is that there is 4.6 which we have recovered, 4.5 which is in the hands of the Justice Department—

Mr. HÉBERT. Yes.

Mr. JONES. And 6.7, or 6.8 which we hope to get back completely in the Spanish base case, which makes a total of 15.8.

Now, if you assume further that our contracting was handled properly in Spain, then the 2.5 which is the difference between the CPPF no-risk contract and the profit that was paid on the fixed price contract is appropriate.

That would bring the total recovered to 18.3, out of a total of 19.89.

Admiral BEARDSLEY. About \$1.7 million, Mr. Courtney.

Mr. HÉBERT. What is happening to the difference now? What are you doing about that difference?

Assume your figures in contrast to the GAO figures, you still have unrecovered \$1.7 million.

Admiral BEARDSLEY. About \$1.7 million, Mr. Chairman.

Mr. HÉBERT. What is being done about that?

Admiral BEARDSLEY. For various reasons, we do not think this can be recovered. Either we have not been able to recover it in negotiations or it can't be recovered.

Mr. HÉBERT. Why can't it be recovered?

Admiral BEARDSLEY. Well each case is a little different. You would have to go to each case to examine why, sir.

Mr. HÉBERT. How many cases are involved?

Admiral BEARDSLEY. About four.

Mr. JONES. The major case is the one with Westinghouse, which amounts to a total of \$933,000.

Mr. HÉBERT. Is that prior to price fixing or after price fixing?
[Laughter.]

Mr. JONES. This was after price fixing—

Mr. HÉBERT. After price fixing.

Mr. JONES. It was after sufficient additional information had been accumulated, post facto, that this was determined.

But the situation is basically this, sir. The contract was a redeterminable contract, at a particular point in time. When the redetermination was finally completed it was considerably subsequent to that time.

As a consequence, the GAO determined that information was available at that point which would have permitted us, had we used it, to come up with a figure which would have been \$933,000 less.

Now as a matter of fact, it was legally determined that we did not have a right to that information.

Nevertheless, I understand that the Westinghouse people did go part way, but not all the way.

And after a thorough examination by the Bureau of Weapons and a discussion among people topside, it was felt that we did not really have the right to go back and ask for this recovery.

So that would take care of the largest portion of the amount which we have not recovered.

Mr. HÉBERT. Now in the area of price fixing, has the Navy investigated to find out to what extent it has been victimized on this price-fixing racket, and what efforts are being made to recover?

Admiral BEARDSLEY. We are working with the Department of Defense and the Justice Department, collecting information for Justice Department use.

Mr. HÉBERT. You are collecting information?

Admiral BEARDSLEY. Yes, sir.

Mr. HÉBERT. In that area and intend to prosecute it further?

Admiral BEARDSLEY. We will turn it over to the Justice Department, yes, sir.

Mr. HÉBERT. You will turn it over to the Justice Department for collection?

Admiral BEARDSLEY. Yes, sir.

Mr. HÉBERT. But you are determining now exactly how far the Navy was victimized by this?

Admiral BEARDSLEY. The Justice Department is giving us the area, that is, the types of items we should look at.

We have been negotiating through the Defense Department, with the whole Defense Department working on this. Then we will go out and give the Justice Department all the information they ask for.

Yes, sir; it is in process right now.

Mr. HÉBERT. Good.

Any further questions on this, John?

Mr. COURTNEY. I have one question on that subject: whether or not the, and I use the word, recalcitrants, not as a word of art but as a word of description, are still enjoying the benefits of contracting with the Navy, and if so, to what degree?

Mr. JONES. Mr. Courtney, I would reply to that pretty much the way that Aaron Racusin commented with regard to the Air Force.

If in a particular instance there is what might be classified as a recalcitrant, this information is furnished to higher authority and appropriate action is taken.

I can say in one particular instance a very strong letter was written by the Under Secretary of the Navy to a substantial company indicating that unless they corrected their methods we would have to stop doing business with them. He was that severe.

Mr. COURTNEY. Now I am puzzled by one question, or one word, again, Admiral, in your statement, on the second page, where you speak of "Greater use of incentive provisions."

This is always an intriguing subject before this committee. I am wondering what you had in mind.

Admiral BEARDSLEY. You want to talk to that?

Mr. JONES. Mr. Courtney, I think this goes to details of incentive with regard to cost saving, incentive with regard to performance, and incentive with regard to delivery.

I would like to say that many of the contracts which have been criticized in the past of the incentive type have been those where the target had not been appropriately established because the information available had not been properly used.

We feel that we have taken steps by the use of audit, by our pre-negotiation clearance, by the training of our people and by taking what we think are other progressive steps, to largely overcome this deficiency, and that our use of incentive contracts at this point is a proper contractual means.

Now as you know, we have gone a little bit beyond the bill which Mr. Vinson proposed last year and which I understand Mr. Hébert is proposing this year with regard to the incentive contract where you will have an arrangement that if the information furnished is deficient we will be able to reprice.

The Department of Defense has agreed that in the case of any fixed-price, negotiated contract over \$100,000, we will have this right.

Mr. COURTNEY. And that is a contractual provision, is that right?

Mr. JONES. Yes, sir.

Mr. HÉBERT. Excuse me, John.

That is, if the proposed negotiation bill becomes law, you will have this opportunity?

Mr. JONES. No, sir. We have this as a provision in the contract now.

Mr. HÉBERT. I see.

Mr. JONES. And we would have the contractual right to require the contractor to make an adjustment.

Previously we were asking for a voluntary refund, as you know. This is what we have been doing in the cases we are talking about.

But now we will have a contractual right where it is determined that the information furnished was false, misleading, or so deficient that the contractor should have known it was deficient when he furnished it.

Mr. HÉBERT. Well, don't you use the certificate?

Mr. JONES. Yes, sir, but the certificate is a certificate of information furnished when the contract is negotiated. This is the certificate which says that the information is current, complete and accurate, and it refers at the bottom of the certificate to the Penal Code with regard to improper statements.

Mr. HÉBERT. Now do you have an auditing system, such as the Air Force indicated?

Mr. JONES. Yes, sir, we do.

Mr. HÉBERT. How many auditors do you have?

Mr. JONES. I don't know the exact number. I understand they have been increased to some extent.

And the amount of time which is being spent by our auditors, particularly on the proposal of the contractor, the initial proposal, has increased by $2\frac{1}{2}$ to 3 times.

Admiral BEARDSLEY. That is right.

Mr. HÉBERT. You don't know numerically the figure?

Admiral BEARDSLEY. It is about 600 or 700, sir. I can correct that for the record.

Mr. HÉBERT. I would like that furnished, for the record, in contract auditors.

Admiral BEARDSLEY. Yes, sir.
(The information is as follows:)

Civilian contract audit personnel (professional) as of Mar. 31, 1961

Grade	Number	Grade	Number
GS-15-----	6	GS-9-----	94
GS-14-----	28	GS-7-----	32
GS-13-----	78		
GS-12-----	144	Total-----	655
GS-11-----	273		

Mr. HÉBERT. And you found their system, through their presence and examination, has indicated a downgrade of the original price proposals?

Admiral BEARDSLEY. Absolutely, sir.

Mr. JONES. Yes.

Mr. COURTNEY. Could you—having had the format established by the Air Force here, would it be possible for you to supply corresponding figures, if they are available without too much difficulty, which would be significant, showing the actions of the Navy on increased audit and increased effectiveness of audit?

Admiral BEARDSLEY. Yes, sir.

Mr. COURTNEY. This was the subject, you remember, of 2 years ago. (The information is as follows:)

USE OF NAVY AUDIT IN PROCUREMENT

The Navy audit program continues to be of great assistance to us in our efforts to operate more effectively and efficiently in the procurement area. The Assistant Comptroller, Audit recognizes the internal audit of procurement in the bureaus and offices of the Navy Department as one of his most important responsibilities. In recent months, several steps have been taken to improve the effectiveness of procurement audit. The departmental audits have been re-directed toward procurement and today 21 auditors are assigned to review and evaluate the material procurement program of the major bureaus. This review includes an appraisal of requirements determination and inventory management.

The contract audit staff is now being utilized to a greater degree by contracting officers for initial pricing studies related to the evaluation of contractor's cost statements submitted as part of their pricing proposals. Increased emphasis has also been placed on the use of contract auditors as members of the procurement team to assist Navy contracting officers in the negotiation of reasonable prices.

This increased use of contract audit as a pricing aid and as an integral part of the procurement team has resulted in substantial benefit to the Navy. In fiscal year 1956 Navy contract auditors reviewed \$852 million of contractors' proposals; in fiscal year 1960 this was increased to \$3½ billion. In fiscal year 1956 the Navy audit organization issued 145 advisory accounting reports on contractors' pricing proposals for use by procurement personnel, in fiscal year 1960 this had risen to 1,926. As a result of this greatly increased use of audit as a pricing aid, recommended downward revisions in contractors' proposals in fiscal year 1960 amounted to \$162.5 million compared to the 38 million in fiscal year 1956. Such use of contract audit assistance is continuing. For the first 6 months of fiscal year 1961 the Navy audit organization issued 1,374 advisory accounting reports on \$2 billion of contractors' proposals, and recommended cost reductions in the amount of \$126 million.

This effort has required additional men. In the initial pricing review area direct man-hours expended rose from approximately 7,000 in fiscal year 1956 to 154,000 in fiscal year 1960. Specific data are shown below:

Use of audit as a pricing aid

Fiscal year	Number of reviews	Amount reviewed	Recommended reductions in procurement	Man-hours expended
1956-----	145	\$852,551,000	\$38,013,000	6,983
1960-----	1,926	3,494,600,000	162,548,000	154,185
1st half 1961-----	1,374	1,999,260,000	126,209,000	92,224

Mr. COURTNEY. Now just one final question. With reference to the school for training of personnel, where and how is it conducted?

Admiral BEARDSLEY. Yes, sir.

Mr. COURTNEY. Do you have the information?

Admiral BEARDSLEY. I will give you a copy here.

Mr. COURTNEY. And this may go in the record?

Admiral BEARDSLEY. Yes, sir.

Mr. HÉBERT. It will go in the record at this point.

Mr. COURTNEY. It will go in the record at this point, Mr. Chairman. (The information referred to is as follows:)

OFFICE OF NAVAL MATERIAL PROCUREMENT TRAINING

Summary of course statistics

Course title	Students completing courses in fiscal—		
	1960	1961	1962
Navy property administration-----	0	114	0
Navy contract terminations-----	0	0	100
Navy procurement course-----	260	321	300
Procurement management for technical personnel-----	161	911	1,000
Advanced price analysis-----	0	0	150
Navy price analysis-----	0	497	150
Art and technique of negotiation-----	0	100	300
Contract administration-----	0	0	200
Total-----	421	1,943	2,200

NAVY PROPERTY ADMINISTRATION COURSE

a. *Content.*—The course covers the following:

- (1) Principles of accounting applicable to the administration of Government property.
- (2) Principles of industrial organization and management.
- (3) Communications and reports writing; methods and techniques.
- (4) Principles of Navy contracting applicable to the administration of Government contracts.
- (5) Principles and methods of industrial inventory management.
- (6) Stockroom and storage practices.
- (7) Scrap and salvage practices and procedures.
- (8) Metalworking machines and metalworking processes.

- (9) Management of the maintenance function.
- (10) Administration of a research and development program as applicable to the administration of Government property.
- (11) Application of statistical methods to property administration.
- (12) Usage analysis.
- (13) Plant trip.
- (14) Navy property administration procedures and techniques.
- b. Attendance.*—Persons assigned as field Navy property administrators, their supervisors, and a limited number of Bureau personnel whose primary responsibilities are in property administration.
- c. Length of course.*—Three weeks.
- d. Location.*—The Ohio State University, Columbus, Ohio.
- e. Scheduling.*—Concentrated (meeting every workday of the week) classes only.

NAVY CONTRACT TERMINATIONS COURSE

- a. Content.*—The course will review laws, regulations, directives, philosophy, history, procedures, and practices of contract termination. The work of the student will include evening reading of reference books, special text, cases, daily quizzes and final exam, classroom discussions, and case study.
- b. Attendance.*—Contract terminations specialists, contract negotiators and administrators.
- c. Length of course.*—One week.
- d. Location.*—Washington, D.C., and the field.
- e. Scheduling.*—Classes in the field will be concentrated (meeting every day of the week). Washington classes will be concentrated and/or distributed (meeting every other or every seventh day) as indicated by requirements.

NAVY PROCUREMENT COURSE

- a. Content.*—The course covers the fundamental aspects of Navy procurement essential to proficiency in the negotiation and administration of contracts including procurement laws, regulations, policies, philosophies, and practices. The course will be a continuation of the present Navy procurement course with no significant change in length or content.
- b. Attendance.*—All responsible persons directly involved in procurement.
- c. Length of course.*—Three weeks. A thorough study of the course has been made to see whether or not it could be shortened to 2 weeks. It was found that shortening the course would result in a failure to meet the objectives of the course; important material would be skipped and/or the material presented would not be understood and absorbed because of insufficient time spent on it.
- d. Location.*—Washington, D.C.
- e. Scheduling.*—Both concentrated (meeting every day each week) and distributed (meeting every other or every seventh day) classes will be given. Other methods of distributing classes are being studied.

PROCUREMENT MANAGEMENT FOR TECHNICAL PERSONNEL

- a. Nature of course.*—This course is a continuation of the existing procurement management for technical personnel course. The course trains technical personnel in the rules, regulations, and philosophies of Navy procurement. The purpose of the course is to improve the coordination between requirements people and purchasing people.
- b. Attendance.*—Engineers, technical, and planning personnel whose work is close to the procurement function, who generate requisitions, specifications, or plans that will result in procurements, and whose training in this course will facilitate the Navy's procurement of supplies and services.
- c. Length of course.*—One week.
- d. Location.*—Washington, D.C., and the field.
- e. Scheduling.*—Concentrated classes (meeting every day each week) will be held in the field. Washington, D.C., classes will be both concentrated and distributed (meeting every other day or every seventh day).

ADVANCED PRICE ANALYSIS

- a. Content.*—This course will provide training to improve the pricing of procurements made by experienced journeymen procurement personnel. To accomplish this, research will be performed to ascertain the areas in which problems

and weaknesses are found, what solutions have been developed for these problems, and whether or not training will result in improvement. Research will be conducted with journeymen procurement personnel, supervisors, management review groups, contract clearance analysts, auditors, and the Army, Air Force, Small Business Administration, General Accounting Office. This course will not deal with the fundamentals of pricing and will not develop the more involved procedures of price analysis. The course will take up in order of importance the major current problems in pricing isolated by the research. It is believed that some of these problems will include the pricing of contract modifications, the development of make or buy decisions, the acquisition of pricing information, negotiations with noncooperative contractors, price evaluation of competitive proposals with varying Government furnished facilities, materials cost evaluation using sampling procedures and field reports, and presentation of cost data for contract clearance.

b. Attendance.—Experienced departmental procurement journeymen and other qualified procurement personnel.

c. Length of course.—Ten days.

d. Location.—Washington, D.C., and the field.

e. Scheduling.—Classes will be distributed to the maximum extent. However, concentrated classes will be held where necessary.

NAVY PRICE ANALYSIS COURSE

a. Content.—This course methodically covers all fundamental elements of price analysis and will be a continuation of the existing course in the same subject.

b. Attendance.—Persons who negotiate or review new procurements and contract modifications and those who assist in these negotiations through the collection and analysis of information useful in pricing.

c. Length of course.—Two weeks.

d. Location.—Washington, D.C., and the field.

e. Scheduling.—Only concentrated classes (meeting every day each week) will be conducted.

NAVY ART AND TECHNIQUE OF NEGOTIATION COURSE

a. Content.—It will be a continuation of the existing course in the same subject. The course covers the theory and practice of how to plan and conduct face-to-face negotiations.

b. Attendance.—All persons who conduct contract negotiations and their supervisors.

c. Length of course.—One week.

d. Location.—Washington, D.C., and field.

e. Scheduling.—Both concentrated classes (meeting every day for a week) and distributed classes (meeting every other or every seventh day) will be held in Washington, D.C., and the field.

NAVY CONTRACT ADMINISTRATION COURSE

a. Content.—This course will be conducted in the same fashion as the present Navy procurement course and will methodically cover the fundamental laws, regulations, and procedures of contract administration and the solution of contract administration problems. Special emphasis will be given to changes and developments in the subject during the past 3 years. Some of the subjects to be included are listed below:

- Planning for contract administration
- Delegation of contracting officer's authority
- Preaward and other surveys
- Approval of subcontracts
- Administration of performance provisions
- Navy contractor experience list
- Administration of cost reimbursement contracts
- Administration of patents, royalties, and copyrights
- Administration of financial assistance
- Administration of property
- Expediting contractor performance
- Overtime, extra-shift, and multishift work
- Terminations, redistribution, and disposal

Security provisions
Inspection and acceptance
Transportation
Supplemental agreements
Equitable adjustments
Time of delivery and performance

b. Attendance.—Contract administrators and negotiators.

c. Location.—Washington, D.C., and the field.

d. Scheduling.—Both concentrated and distributed classes will be held in Washington, D.C., and the field.

Admiral BEARDSLEY. I will—

Mr. COURTNEY. Admiral, if you will just highlight it.

Admiral BEARDSLEY. Mr. Chairman, during fiscal year 1960 we conducted two basic training programs. One, a basic procurement course, that is for procurement personnel.

And we conducted another one on procurement management for technical personnel.

Procurement isn't just a responsibility of the contracting officer. You have to get a high-level competency of everybody involved in procurement.

In these two courses we trained a total of 421 officers and civilians during 1960.

Mr. HÉBERT. Now, these are full-time courses?

Admiral BEARDSLEY. Yes, sir; full time. They are 1 week or 3 weeks, depending on the course.

The people go there. They have to take examinations. They study until 10 or 11 at night, and if you want to talk to any who completed these courses, you will hear their complaints about hours. They are away from their jobs and work day and night.

Mr. HÉBERT. They don't get overtime?

Admiral BEARDSLEY. No, sir. [Laughter.]

In 1961, this fiscal year, we have increased the two courses to a total of five courses.

We have a course in Navy property administration. This is capital property in the contractors' plants.

We have the same course in Navy procurement.

And we have stepped up the attendance of the technical personnel considerably.

We have set up a new course in Navy price analysis. We will have trained 497 individuals during fiscal year 1961 in this course.

And we have a brandnew course, the art and technique of negotiation, for our very top level people.

This year we will have trained under our procurement training program 1,943 officers and civilians.

And our plans for next year are to increase our courses to seven.

We will have a Navy contract termination course, which we haven't had for some years. And we will continue the same course in Navy procurement.

We will step up our attendance to 1,000 technical personnel who will attend the Navy procurement management for technical personnel course. That is a short, 1-week course.

We will have an advanced course in price analysis. This will cover more advanced techniques of price analysis. We conduct the basic course in price analysis for lower level people. We will conduct the

art-and-technique-of-negotiation course for an increased number of people.

And we are going to set up a new course in contract administration, that is managing the contract. And we hope to train a total of 2,200 people next year under our procurement training program.

These courses are conducted at various places in the United States. Some of them right here in Washington. And we have teams that go around to the various locations to save people traveling here.

This is in addition to the various training programs including seminars that the bureaus have conducted themselves.

Mr. HÉBERT. What is your mortality rate in that area? Do you find it difficult to retain the people?

Admiral BEARDSLEY. I would have to find out whether it has been changed very much. Of course, it has been high in the past and there is one thing that happened that I think will change that.

Recently the Civil Service Commission has set up standards at the grade 13 level. Previously you couldn't have a grade 13 negotiator without supervisory responsibility. They have now established a standard so we could have a grade 13 level of negotiator. And this means, I think, we can take some people out of supervision, some top people, and put them in negotiation. This should retain more people there, and improve our handling of negotiations. I am sure that will do that. And that is brand new.

Mr. COURTNEY. That is brand new?

Admiral BEARDSLEY. Brand new.

Mr. COURTNEY. I think on the last rundown that was taken of personnel, the highest grade was GS-12, and there were very few of them.

Admiral BEARDSLEY. When we go into this, we will have GS-13's.

Mr. JONES. Mr. Courtney, the GS-12 is what we call a journeyman negotiator.

We did have GS-13 negotiators, but they had to have supervisory responsibility. It was a sprinkling.

As the Admiral says, now we have an arrangement where you can have a 13 without supervisory responsibility and without the need for negotiating on an interagency basis.

We feel these standards have been made much more flexible.

There is also an opportunity under the standard to assign responsibility and authority to the extent that we can get grades even beyond 13.

Mr. COURTNEY. Even beyond 13?

Mr. JONES. Yes.

Mr. HÉBERT. What is the salary of a 13?

Mr. JONES. It is in the neighborhood of \$10,000 to \$11,000, Mr. Hébert.

Mr. COURTNEY. Anyway, there has been some improvement in that field so far as the personnel and the attraction of the thing is concerned.

Admiral BEARDSLEY. Yes, sir.

Mr. COURTNEY. Now, with reference to the legal advice, of course, you have in the Navy the general counsel system, and you also have the Judge Advocate system.

Are you familiar, or could any of you advise us whether or not you have special schools similar to the Army school?

Admiral BEARDSLEY. The Navy has sent both lawyers and procurement personnel to the Army's course.

I might add that in the last 3 weeks the Defense Department has started an active study to coordinate all our procurement training programs among the three services. This is a very active program and I am absolutely certain we are going to end up with greater cross-fertilization of ideas in the use of standard procurement training programs.

This should save training costs and actually improve the cross-fertilization in our ideas. And this is a very active study.

Mr. COURTNEY. Well, Mr. Chairman, that completes the roundup and the questioning relating to the review of the hearings in 1959.

Mr. HÉBERT. Any questions, Mr. Gavin?

Mr. GAVIN. I haven't any questions.

Mr. HÉBERT. Mr. Norblad?

Mr. NORBLAD. No.

Mr. HÉBERT. Thank you very much, Admiral.

I think the Navy has come in and "swabbed the deck" very effectively this morning.

Admiral BEARDSLEY. Thank you, sir.

Mr. HÉBERT. We will see you again when we get the next report from the GAO.

Admiral BEARDSLEY. Very well.

Mr. HÉBERT. The committee is recessed subject to the call of the Chair.

Admiral BEARDSLEY. Thank you very much.

Mr. COURTNEY. Right.

(Whereupon, at 11:13 a.m., the subcommittee was adjourned, to reconvene at the call of the Chair.)

