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# LOGISTIC SUPPORT IN THE VIETNAM ERA

AD877974

## MONOGRAPH 16

# PROCUREMENT AND PRODUCTION

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A REPORT
BY THE JOINT LOGISTICS REVIEW BOARD

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

SS
INSTALLATIONS AND LOGISTICS

18 DEC 1970

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As stated

PAUL H. RILEY
Deputy Assistant Secretary of Defense
(Supply, Maintenance & Services)

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# CHAPTER I

# INTRODUCTION

# CHAPTER I
# INTRODUCTION

1. BASIS FOR STUDY AND SIGNIFICANCE. The Joint Logistics Review Board examined the procurement and production function as specified under its Terms of Reference.[1] This function is an indispensible element of logistics. The Department of Defense employed 45,934 military and civilian procurement personnel in June 1967; 88 percent were in the professional-managerial category. These people awarded 15.2 million contracts having a value of $44.6 billion in fiscal year 1967, the peak year. Procurement and production's responsiveness to military supply needs are basic to the success of any military campaign. Despite how critically an item of supply or service is needed, the requiring activity must wait until the item comes off the production line or until the service is accomplished. In FY 65 the Department of Defense procurement program was $28 billion. In FY 66 the procurement program reached $38.2 billion, representing an increase of 36 percent in 1 year.[2] This rapid buildup was caused by the steep escalation of the Vietnam conflict and was necessary to provide the munitions, aircraft, aircraft-maintenance, military clothing, food, medicine, and the thousands of other line items of supplies required to support fighting forces in Vietnam and to maintain and train forces in other parts of the world.

a. Definition. The functional area in this monograph is procurement and production or, more descriptively, procurement and surveillance of production. The Armed Services Procurement Regulation defines these terms as follows:

> "Procurement includes purchasing, renting, leasing, or otherwise obtaining supplies or services. It also includes all functions that pertain to the obtaining of supplies and services, including description but not determination of requirements, selection and solicitation of sources, preparation and award of contract, and all phases of contract administration."[3]

> "Production Surveillance refers to that part of Government contract administration directed toward (i) identifying the degree of progress made by a contractor in meeting his contract delivery or performance schedule, and (ii) identifying factors which may delay delivery or performance. It includes, among other things the review and analysis by the Government of a contractor's performance plans, schedules, controls and industrial processes."[4]

b. Requirements Determination. The procurement function is separated from the requirements determination process. The requirements activity submitting the purchase request is held responsible for referring all applicable specifications, plans, or drawings. If these detailed plans are not available, the requirements activity provides a purchase description or statement of work that adequately specifies all the essential features of the requested product or service. In brief, the requirements activity is responsible for determining what it wants, how much it wants, and when and where it wants it. The procurement activity is responsible for fulfilling this need through the astute application of the laws, regulations, and procedures governing military procurement. It is the objective of procurement to buy what is needed at reasonable prices for delivery when and where it is needed.

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[1]Office of the Secretary of Defense, Memorandum, subject: Joint Logistics Review Board (JLRB), 17 February 1969.
[2]Office of the Secretary of Defense, Military Prime Contracts Awards and Subcontract Payments of Commitments, July 1967 to June 1968, p. 7.
[3]Department of Defense, Armed Services Procurement Regulation, 1 January 1969, par. 1-201.13.
[4]Ibid., par. 25-101.1.

c. Economic Environment. The economic environment in which the Vietnam conflict has been fought is unique in U.S. history.

(1) The deepening involvement of the United States in Vietnam has caused defense spending to rise sharply. Overall national defense expenditures went from $49.6 billion in FY 65 to an estimated $79.8 billion in FY 69. Yet, at the peak of the buildup, defense outlays represented slightly less than 10 percent of the gross national product. The American economy continued to move ahead, attaining the lowest rate of unemployment and the highest rate of industrial utilization achieved on any sustained basis since the Korean War. However, soaring interest rates, accelerated prices, and a shrinking surplus in international trade accompanied this progress.

(2) In the Vietnam era, the Government has not invested as heavily in new facilities as in the past. During World War II and the Korean conflict, for example, the Army and Navy spent approximately $11 billion on the purchase and construction of new Government-owned facilities. The expansion necessary in Vietnam was met by the reactivation of Government plants and by private industry. The Government provided for industry assistance through progress payments, advance payments, guaranteed loans, and the use of Government-owned equipment.

d. Procurement and Production Environment. Political, economic, and internal constraints had a decided effect on the operation of the procurement and production portion of the overall logistic effort. The most significant of these concepts postulated that the war in Vietnam would be completed within 1 year and would be so planned and funded; that the war would be fought and funded in the way least expensive to the American people; and that a 12-month tour would be utilized in Vietnam. This policy, when coupled with the 2-year enlistment for draftees, had the effect of increasing individual outfitting requirements at a rate far beyond planned mobilization requirements.

(1) Procurement Program Expansion. In FY 65 the Department of Defense Procurement program was $28 billion. In FY 66 the procurement program rose to $38.2 billion. The peak came in FY 67 when total procurement reached $44.6 billion. This period of escalation followed a period of 3 years in which the Department of Defense emphasized a program of "Reduction of Inventories... Buy Only What You Need" accompanied by vigorous budget controls. As a result, mobilization reserves and inventories were low, and the Services had to turn to the production lines of American industry to satisfy the critical need for supplies and equipment to support Southeast Asia. This occurred at a time when the production capacity of the United States was at an extremely high peak because of the great demand for civilian goods and services. The volatile increase in DOD production requirements saturated industry in some critical areas. This was particularly noticeable in clothing and textiles, quality forgings and extrusions, communications equipment, semiconductors, electron tubes, integrated circuits, aircraft bomb lugs, landing field matting, dual hardness armor, ball bearings, and certain high temperature alloys. As a result, lead times often exceeded tolerable limits when requirements were most critical. The shortages of these as well as other items caused various levels of DOD management to establish lists of intensively managed items with accompanying staffs to track and expedite delivery to the user.

(2) Organizational Changes. The environment in which procurement and production personnel were operating was changing in basic concepts, organizations, policies, and procedures. The concept of providing integrated management of the procurement and distribution of common supplies and the performance of related services, initially instituted under the Services' Single Manager Program, was fully realized with the establishment of the Defense Supply Agency (DSA) in October 1961. In July 1965 a major change in the DSA organizational structure took place with the consolidation of the Defense Clothing and Textile Supply Center, the Defense Medical Supply Center, and the Defense Subsistence Supply Center into the Defense Personnel Support Center. Also, the concept of having one DOD organization to provide contract administration services for the three military departments and DSA had been directed in 1964. In early 1965 the services and DSA were consolidating their field contract administration offices into the Defense Contract Administration Services (DCAS). In 1962 the logistic missions of the Army Technical Services were merged into the Army Materiel Command (AMC). As late as early 1965,

AMC was still involved in some realignment of its organizational structure. Of major importance was the phasing out of the procurement district organizations which had provided almost all of the AMC procuring contracting officer (PCO) and administrative contracting officer (ACO) capability. This change necessitated the very rapid assimilation of a greatly increased PCO function by AMC commodity commands. In early 1966 the Navy Department disestablished its bureau system and created the Navy Material Command (NMC) and subordinate systems commands. In May 1967 the Marine Corps combined the supply support responsibilities of the east and west coast complexes into a single USMC Inventory Control Point. The Air Force was also involved in reorganization during the Vietnam era. Specifically it phased out four of its nine Air Materiel Areas during the June 1966 through July 1969 period. The inventory management for which the four were previously responsible was distributed among the remaining five areas.

(3) Policies and Procedures

(a) The Armed Services Procurement Regulation (ASPR) is the basic procurement regulation within the Department of Defense. It prescribes uniform policies and procedures for the military departments and DSA, and provides direction and guidance for complying with pertinent statutes, executive orders, and the regulations of other agencies. It covers policies, practices, and procedures in many areas, such as the appointment of contracting officers, formal advertising, negotiation, pricing, types of contracts, contract clauses, and contract cost principles. The ASPR is issued by the Assistant Secretary of Defense (I&L) after consultation with the materiel secretaries of the three military departments.

(b) Owing to the peculiarity of the environment of the Vietnam era, changes were necessary in operating policies and procedures, some based on new concepts, some based on modifications of existing policies and procedures, and other resulting from a renewed emphasis on compliance with existing policies and procedures. An example of a new concept was the weighted guidelines method of establishing profit objectives for negotiated contracts. An example of a modification of an existing procedure was in foreign purchases which, because of the gold flow problem, resulted in changes in the evaluation procedures under the Balance of Payments Program. The renewed emphasis on enforcement of the Truth in Negotiation Act and competitive contracting exemplify the last type of change.

(c) During this period, there was a reluctance to use letter contracts and to provide Government-owned facilities as a means of speeding up procurements and cutting down production lead times. In addition, there was a drive to reduce the use of cost-plus-fixed-fee contracts. The emphasis on maintaining ancillary programs such as value engineering, breakout, equal opportunity, cost reduction, cost and price analysis, and small business set asides resulted in additional workload at a time of a tremendous increase in procurement actions.

(4) Funding and Requirements Turbulence

(a) A final but highly significant aspect of the environmental picture was the continuous fluctuation of requirements which severely impacted procurement by necessitating changes in solicitations, resolicitations, and the execution of several contracts where one would have sufficed.

(b) In the fall of 1964 the Department of Defense was operating within a relatively austere peacetime budget. Consequently, the procurement of goods to satisfy the ballooning Vietnam requirements were considered in three increments: goods that could be purchased within available funds; buys that would be deferred until receipt of supplemental funds; and purchases that would be deferred until the new fiscal year. Although this approach was initiated because of budgetary constraints, it continued throughout the Vietnam escalation and resulted in increased procurement costs. During this same time frame a major DOD management objective was to prevent accumulation of huge stockpiles of excess equipment and supplies that would require disposition at the end of the conflict. This caused additional turbulence in the areas of funding and requirements.

2. STUDY OBJECTIVES. The objective of this study was to identify the strengths and weaknesses in the procurement and production function during the Vietnam era, to analyze those strengths and weaknesses and determine lessons learned, and to make recommendations to prevent those weaknesses from recurring in future conflicts and to perpetuate the strengths.

3. SCOPE. This monograph addresses the procurement and production activities during the time period of the Vietnam era, 1 January 1965 to the present. It covers those procurement and production activities from the receipt of a validated purchase request by the procurement activity to the delivery of the end item to the destination specified in the contract documents.

4. ORGANIZATION OF MONOGRAPH. Those subjects affecting priority systems, the placement of contracts, the administrative actions necessary to effect delivery of items, and the procurement personnel resources were reviewed. Descriptions of the areas studied are given in the following paragraphs.

a. Priority Systems. The National Priorities and Defense Materials System was reviewed to see if it accomplished its two purposes: (1) to give priorities to deliveries of national defense research and development, production, and construction contracts and orders over nonrated (commercial) contracts and orders; and (2) to ensure timely deliveries of supporting materials, subassemblies, and components for national defense contracts and orders at the expense of nonrated contracts and orders. This review also included the effects of the Military Urgency List and the Uniform Materiel Movement and Issue Priority System on support in Southeast Asia.

b. Contract Placement. With the escalation of the Vietnam conflict, the production lead times of some critical items increased. This increase took place during a period when the items were critically needed. Contract placement was the key element in acquiring the needed items. Contract placement is the process of entering into agreements for the procurement of supplies or services. It includes all functions that relate to the procurement of supplies and services, including description but not determination of requirements, selection and solicitation of sources, and preparation and award of contract. The procurement organization for accomplishing this function was examined, as well as the policies and procedures governing its performance and the management controls imposed. This examination included a study of requirements turbulence to determine its impact on timely contract placement. The procurement reviews and approvals required by management at higher levels and their effect on procurement responsiveness were also studied.

c. Contract Administration. Contract administration includes all those actions that are accomplished for the benefit of the Government and are necessary to the performance of a contract in support of a buying organization. Once the contract has been placed with industry, there is a need by the requiring activity for knowledge of the contractors' production status, for production surveillance of the contractors' management systems and procedures, and for status reporting, including timely reports of slippages in contract schedules. The areas of major importance which represent 80 percent of the contract administration service efforts are production status reporting, production surveillance, pre-award contract actions, and quality assurance. The results of the DOD quality assurance program were analyzed to determine: (1) if the Government established adequate contractual quality requirements; (2) if the contractor controlled product quality and offered to the Government, for acceptance, only those supplies and services that conform to contractual requirements and, when required, maintained and furnished substantiating evidence of this conformance; and (3) if the Government ascertained that contractual requirements had been complied with prior to acceptance of the supplies or services.

d. Personnel. The quality, quantity, and retainability of procurement and production personnel were analyzed to determine the adequacy of response of the procurement-production requirements generated during the Vietnam era. Also, the actions taken by commanders and activities to meet the increased procurement workload were reviewed to determine continued and future applicability.

e. Functional Areas Not Studied. Functional areas not studied are weapon systems acquisitions (e.g., the C-5A and the Sheridan tank) and their contractual techniques; certain aspects

of contract administration (payment of invoices, property administration, subcontracting reviews and approvals, and industrial security); procurement methods (formal advertisement versus negotiation); and pricing techniques. As stated in the preceding paragraphs, the focus of this monograph study was on areas that have had a major influence on the procurement-production response to the Vietnam effort. The weapon systems procurements generally have not been instituted in response to the Vietnam buildup requirements, and they already have been subjected to reviews by other Government levels. No significant developments in the remaining areas have been caused by the Vietnam buildup or can be regarded as a singular strength or weakness.

# CHAPTER II

# PRIORITY SYSTEMS

# CHAPTER II
# PRIORITY SYSTEMS

## 1. INTRODUCTION

a. This chapter discusses the National Priorities and Defense Materials System and the Military Urgencies System. The relationship of the Priority Systems to the procurement and production function is developed, emphasizing their use and effectiveness during the buildup and continuing support of SE Asia. The Priority Systems were in existence with essentially up-to-date instructions at the start of the SE Asia buildup.

b. The National Priorities and Defense Materials System in effect at the start of the SE Asia buildup was a simplified system which has continued throughout the period of this study, the longest period of priorities in U.S. history. It reflected the national policy with respect to the use of priorities and allocations authority. The experience of World War II and the Korean conflict has shown that converting industry from peacetime to wartime objectives can be a time-consuming task. Despite the experience gained in World War II when the United States entered the Korean conflict in mid-1950, it again took a year for the National Production Authority to install and make effective a modified version of the Controlled Materials Plan to direct the flow of products and materials into programs essential to the successful consummation of that effort. This was accomplished under authority provided in the Defense Production Act of 1950.

c. When the Korean conflict ended in mid-1953 there was finally an awareness of the need for improving our preparedness position for industrial mobilization to meet any future emergency. The renewal of the Defense Production Act in 1953 reflected the concern of Congress, the executive branch of the Government, and industry for achieving a continuing state of readiness for effective mobilization, and the maintenance of a system in being to meet defense requirements.

d. The National Priorities and Defense Materials System (effective July 1965) is a greatly simplified version of the Controlled Materials Plan which existed during the Korean conflict. This system, limited in its operation to defense and defense-related programs, has been in continuous operation since July 1, 1953. The policy for the Vietn buildup was presented to the Joint Committee on Defense Production by the Secretary of Commerce on October 4, 1965.

> "The basic principles of our priorities and allocations system have in recent months been re-examined in the light of our current military and economic situation, and in my judgment, our present system is adequate....
>
> "Congress has wisely continued the authority which enables us to direct the flow of materials to meet the needs of national defense. It is the Government's policy to impose civilian industrial controls only if no other method of meeting defense needs is available to us. We will not, except as a last resort, move to a system of expanded controls similar to those necessary in past years, such as during the Korean emergency. We have a flexible and dynamic economy which permits a great degree of substitution and resourcefulness in meeting defense needs and civilian sector needs of 195 million people. As a matter of policy, we seek to avoid restricting the normal operation of our economy. At the same time, we always stand ready to do what is necessary to meet our defense commitments at home and abroad."[1]

e. When the President first directed increased participation in the Vietnam conflict, the nation believed victory would be soon at hand. Thus, there was little opposition to the national

[1] U.S. Congress, 16th Annual Report of the Joint Committee on Defense Production, January 1967, p. 170.

policy that the U.S. would not, except as a last resort, move to a system of expanded controls, and would avoid restricting the normal operation of U.S. economy. This policy lacked urgency and overrode the priority for production of materials necessary for support of SE Asia. To compound the problem, there were indications that many new prime contractors and a majority of their subcontractors lacked knowledge of the systems and how to exercise them. The increased and accelerated military procurement was superimposed upon the highest rate of industrial activity ever achieved, and broadened the impact of priorities on the industrial economy. The use of priority rating became vital to delivery of end items in situations such as competing military and civilian orders for a specialized type of product or material, conflicting priority orders on the supplier's schedule, or inadequate facilities to produce the required product or material.

## 2. OPERATIONS OF NATIONAL PRIORITIES AND DEFENSE MATERIALS SYSTEM

a. General. The priorities and allocations system consists essentially of two closely related systems: (1) the Defense Materials System (DMS) governed by the Business and Defense Services Administration (BDSA), DMS Regulation 1; and (2) the Priorities System governed by BDSA Regulation 2. The DMS ensures preferential treatment of DOD orders and timely delivery in the procurement of controlled materials (steel, copper, aluminum, and nickel alloys) and other materials, products, and components containing these materials for DOD programs. The Priorities System under BDSA Regulation 2 is used in support of DOD procuring activities and contractors who have difficulty in placing contracts and purchase orders, or in obtaining required delivery of materials (other than controlled materials), components, or equipment in time to meet their production or construction schedules.

b. Use by the Department of Defense and Defense-Related Agencies

(1) Under the rules and regulations of the National Priorities and Defense Materials System, the Business and Defense Services Administration (BDSA) has delegated to the Secretary of Defense and the Chairman of the Atomic Energy Commission three main priorities and allocations authorities:

Rating contracts and orders with DX or DO.

Assigning the right to apply the DX or DO ratings for capital equipment.

Allocating steel, copper, aluminum, and nickel alloys for class A products.

The Secretary of Defense has delegated these powers to the Assistant Secretary of Defense (Installations and Logistics). These powers, in turn, have been delegated by the Assistant Secretary of Defense (I&L) to Secretaries of the Army, Navy, Air Force, Director of the Defense Supply Agency, Defense Communications Agency, and the Defense Atomic Support Agency.

(2) Certain other agencies with programs approved by the Office of Emergency Preparedness (OEP) operate under letter delegations from the Assistant Secretary of Defense (I&L). These approved programs and their administering agencies are:

| | |
|---|---|
| Space Programs | National Aeronautics and Space Administration |
| Civil Air Carrier Program<br>Airline Maintenance, Repair and Operating Supplies Program<br>Air Navigational Aid Program | Federal Aviation Agency (under Department of Transportation) |
| Stores Depot Program | General Services Administration |

(3) Written delegations authorizing the use of these priorities powers are made to the contracting officers in the military departments, Defense Supply Agency, and the other agencies mentioned above. Since 1959, it has been mandatory that the procuring contracting officers

(PCOs) rate all their contracts and orders, with a few minor limitations imposed on DOD by Business and Defense Services Administration. Examples of these limitations for which ratings cannot be used are:

Civilian items procured for resale in post or base exchanges.

Food or petroleum products, except packaging containers and chemicals for processing such products.

Services per se.

Construction equipment procured for use in the United States Army Civil Works programs.

Contracts and orders under $500 (DOD requires rating; BDSA does not require rating, but recommends it to contractors).

c. Application

(1) All military procurements, except those listed above, must include the priorities and allocations clause, and must be assigned a priority rating by the procuring activity. A DX or DO rating is assigned to a contract to identify it as a defense rated order, and to establish the degree of its precedence over civilian and nonrated government orders for execution and delivery. The rating consists of a prefix (DX or DO) plus a program identification symbol. Program identification symbols are contained in DOD Instruction 4410.1, Priorities and Allocations Manual. All program symbols carry an equal degree of preference when preceded by the prefix DO; for example, DO-A-1 does not take preference over DO-C-2. The same rule applies to program symbols with the DX prefix. DX symbols represent a higher degree of preference and are assigned to programs of the highest national priority identified in Enclosure 1, Department of Defense Master Urgency list, to DOD Instruction S-4410.3 (see paragraph 3 of this chapter).

(2) Defense contractors having rated contracts or rated purchase orders must extend the priority rating to acquire products and materials (other than controlled materials) needed to fill the rated order. If controlled materials are also needed for this purpose, the contractor must place Authorized Controlled Material (ACM) orders to acquire such materials. Defense contractors must extend the rating to their direct subcontractors, vendors, and suppliers, who, in turn, must extend it to their suppliers.

(3) All rated orders must be accepted except under the following conditions:

The prospective purchaser is unwilling or unable to meet the vendor's regularly established prices or terms of sale or payment.

The rated order is for a product or service not usually made or performed by the supplier.

The rated order is for a product or material made or acquired by the supplier solely for his own use.

Filling the rated order would stop or interrupt the supplier's operations during the subsequent 60 days, causing a substantial loss of total production or a substantial delay in operations.

The rated order is placed by a person who produces the same product or performs the same service as that ordered.

(4) If a supplier refuses to accept a rated order, he must, upon written request of the prospective customer, give his reasons promptly in writing.

(5) Whenever inadequate response to solicitations is encountered, rated contracts and purchase orders or Authorized Controlled Material Orders may be placed on selected suppliers. Therefore, when there are no bids or proposals received as a result of a solicitation, or if the bids or proposals received do not cover the entire requirement, normal procurement procedures are followed in attempting to locate sources to the extent permitted by the exigencies of the procurement. (The Defense Production Act of 1953, as amended, does not require industry to bid, but does require industry to produce.) If such efforts are unsuccessful, and it is determined that the procurement must be accomplished, then rated orders in the form of rated contracts, rated purchase orders, or Authorized Controlled Material Orders are presented to one or more selected suppliers or manufacturers qualified to produce the item or material. This is accomplished by a cover letter signed by the contracting officer, citing the requirements of Defense Production Act and BDSA Regulation 2, and requesting timely acceptance thereof by the contractor. The letter also requests that any reasons for rejection be promptly furnished in writing, as required by the BDSA Regulation. Rated orders are placed pursuant to appropriate negotiation authority. Contracts and purchase orders must contain the following information in addition to normal contractual requirements to qualify for a valid rated order.

DO or DX rating on contract or purchase orders as appropriate.

DMS allotment number on Authorized Controlled Material Orders.

Certification "Certified for National Defense Use Under DMS Regulation 1 or BDSA Regulation 2."

Delivery schedule.

Signature.

(6) Rated orders or Authorized Controlled Material Orders which are rejected by suppliers are forwarded to the Business and Defense Services Administration on BDSA Form 138 through channels. The DOD offices listed below are authorized to review, sign, and forward these applications to Business and Defense Services Administration.

Deputy Chief of Staff, Logistics, U.S. Army

Army Materiel Command, U.S. Army

Office of Chief of Engineers, U.S. Army

Naval Material Command, U.S. Navy

Deputy Chief of Staff, Systems and Logistics, U.S. Air Force

Defense Supply Agency, DOD

Deputy Assistant Secretary of Defense for Materiel Requirements (DASD (I&L)), DOD.

d. Priorities Assistance for Defense Programs

(1) When all rated contracts and orders have been placed and accepted, a contractor should have at his disposal all materials, including contractor material and components, for timely manufacture and delivery of the contract item. He should have placed supporting contracts, orders, and Authorized Controlled Material Orders (ACMO), as well as those of his suppliers, in accordance with BDSA rules. These rules require that DX and DO rated contracts and orders delay nonrated or commercial orders if necessary and that if conflicts arise within DX and DO rated orders, DX overrides DO. If orders were received in both the DX and DO groups on the same date, the order with the earliest delivery date is given preference.

(2) A change in need due to combat support required by the procuring activity may necessitate earlier deliveries, or the contractor might discover a bottleneck or breakdown in the delivery date on his contracts from suppliers. A Special Assistance Program, operating since 1950, is designed for these situations and can legally change the delivery dates established under the Business and Defense Services Administration rules and regulations. Under this program a procuring activity or contractor may file for special assistance to break temporary bottleneck situations to keep DX or DO rated business on schedule or to request aid for timely order placement. A standard BDSA application, BDSAF-138, is used by all defense agencies and their contractors. This application is usually filed by the contractor with the nearest local Contract Administration Service office. In this case the BDSAF-138 will be validated by a production representative of that local office and forwarded as follows:

(a) Air Force. All A-1 (aircraft) program cases to Joint Aeronautical Materials Activity, Wright-Patterson Air Force Base, Ohio, 45433; all others (A-2 through C-9) to Wright-Patterson Air Force Base, ATTN: ASD Dayton, Ohio 45433.

(b) Army. All A-1 (aircraft) program cases to U.S. Army Aviation Materiel Command (AVCOM), Attn: AMSAV-PRD, 12th and Spruce Streets, St. Louis, Missouri 63102; all others (A-2 through C-9) to the procuring activity from which the contractor received his contract(s).

(c) Navy. All A-1 (aircraft) program cases to Joint Aeronautical Material Activity, Wright-Patterson Air Force Base, Ohio 45433. All others to the procuring activity from which the contractor received his contract. If the procuring activity cannot be identified, forward to Headquarters, Naval Material Command (Code MAT 0256.2), Washington, D.C. 20360.

(d) DSA. All cases to the applicable DSA Supply Center.

(e) NASA. All program cases to the procuring center from which the contractor received his contract. If the center cannot be identified, forward to NASA Headquarters, Attn: Procurement Office (KMD), Washington, D.C. 20346.

(3) The activity responsible for priorities assistance or BDSA will attempt to expedite the deliveries or correct the bottleneck situation by negotiation with the supplier, locating other sources of supply, or by other means. If the BDSAF-138 is originated by a procuring activity he will validate and forward through channels to the activity list in paragraph 2c(6).

(4) OASD (I&L) monitors the Special Assistance Program for the entire DOD and related defense agencies. If conflicts occur with other rated orders when the appropriate industry divisions of BDSA check the request with the suppliers, the conflicts are referred to OASD (I&L) for resolution. Representatives from the military departments or defense agencies involved in the conflict are called in and the OASD (I&L) tries to resolve the conflict by validating need dates, reducing needs to bare minimum, and determining the urgency of the programs involved at that time. Then BDSA, using its priorities powers, directs the supplier to deliver in accordance with the needed delivery date or with a sequence of delivery dates, as the case may be, as recommended by OASD (I&L). BDSA provides special assistance in such cases by one of the following methods:

Arrangement of improved delivery dates by informal agreement with the supplier.

Issuance of a DX rating if appropriate.

Issuance of a directive requiring the supplier to produce or deliver the specified item by a specified date.

Order board scheduling (plant production or delivery scheduling).

(5) A directive issued by a BDSA takes precedence over all other preferential orders, depending on the terms of the directive.

(6) The key to success of the Special Assistance Program is the prompt request for assistance whenever the promised delivery date of materials, components, or subassemblies is too late to permit maintenance of the required production schedule. In order for the priority assistance to be meaningful and useful, BDSA Form 138 must be prepared properly, and should isolate the specific production bottleneck item and meet the following criteria:

The item being expedited is actually the item causing the difficulty.

The item is required to support current production or construction requirements rather than inventory replenishment.

No substitute item or alternate source is available.

The required delivery date cited in the contract/purchase order is realistic (a defense program delay will result if the date is not met).

(7) A contractor may obtain ratings to acquire timely deliveries of capital equipment, including production, scientific and technical equipment to be privately owned, primarily needed to produce rated business. The procedure is to file a DOD Form 691 with the nearest Contract Administration Services (CAS) office. Need for such equipment will be validated by a production representative from that local office and the application will be forwarded by that CAS office to the procuring contracting officers (PCOs) having jurisdiction over the contracts. These officers have been delegated the authority to assign a contractor the right to apply a DX or DO rating on his purchase order to obtain such equipment if it is necessary to perform DX or DO rated contracts and if similar equipment is not available in his plant.

e. Compliance With National Priorities and Defense Materials System. Any Government representative becoming aware of the lack of performance on the part of contractors, within criteria discussed in the preceding paragraphs, should report the acts to the administration contracting officer or the procuring contracting officer. If there is evidence of nonadherence to provisions of the National Priorities and Defense Materials System of the Department of Commerce (Business and Defense Services Administration), the procuring contracting officer will submit the case to the ASD (I&L) for appropriate action. As required by the Priorities and Allocations Manual (DOD Instruction 4410.1) only BDSA, Department of Commerce, can enforce contractor compliance with its regulations.

f. Order Board Scheduling. Even if all suppliers comply with the legal system, conflicts within the system sometimes occur. Resolution is a responsibility of the Government. BDSA regulations require suppliers to accept DO rated orders according to the date received and, if possible, to deliver in accordance with dates specified by the customer. In scheduling production accordingly, some items of a less critical nature may be produced in advance of immediate requirements, while more critical items, ordered subsequently, remain in short supply. These conflicts may be resolved at the production scheduling level. The DOD will not reschedule production; BDSA must take the necessary action for changing production schedules which require deviation from the rules of acceptance of orders and delivery sequence. This is sometimes accomplished, in simple cases, by a directive to the producer from BDSA authorizing changes in precedence of orders. In more complicated cases, BDSA actually authorizes a Government team to run the order board for particular bottleneck pieces of equipment within a contractor's plant.

g. Summary of Support for Southeast Asia FY 65 Through FY 68

(1) The effectiveness of the priorities and allocations program for support of SE Asia was tested prior to and during the buildup in SE Asia. During the year ending August 1965, the DOD processed to BDSA of the Department of Commerce 613 cases requesting special assistance (BDSAF Form 138) to obtain materials, components, and production equipment to fulfill

military contracts.[2] The continuing buildup resulted in 3,513 special assistance cases[3] to be processed to BDSA by DOD by the end of August 1966. In the following year ending August 1967, DOD processed 4,105 special assistance cases[4] to BDSA, and in the following year, 1,240 cases.[5] The large volume of special assistance cases processed to BDSA to fulfill military contracts is an index of the difficulty experienced by procurement activities in obtaining support for South Vietnam. Considering the large number of contracts being placed by DOD contracting officers for support of SE Asia, 3,000 to 4,000 special assistance cases may not seem excessive; however, this increase was twelvefold over the 1964 and early 1965 time frame and procurement dollars did not quite double.

(2) Special assistance is properly requested of BDSA whenever all efforts of the procuring contracting officer, the administrative contracting officer, representatives of the Services, and the Assistant Secretary of Defense (I&L) fail to produce a workable solution to the problem. By far the greatest percentage of cases are solved by the contracting officers of the Services and do not have to be processed to BDSA as official assistance cases. A sample of the magnitude of these cases is shown in Table 1. Special assistance requests generated by DOD and contractors having production or delivery difficulties were resolved in the majority of cases by the Joint Aeronautical Materials Activity (JAMAC), Wright-Patterson AFB.

TABLE 1

SAMPLING OF SPECIAL ASSISTANCE CASES RESOLUTION

| Program | CY 66 | CY 67 | CY 68 (Jan.) CY 69 (June) |
|---|---|---|---|
| | Cases Submitted | | |
| A-1 Aircraft | | | |
| Navy | 766 | 298 | 190 |
| Air Force | 654 | 579 | 200 |
| Army | 538 | 153 | 72 |
| A-2 through C-9 Aircraft | | | |
| Air Force | 824 | 487 | 272 |
| Total[1] | 2,782 | 1,517 | 734 |
| | Cases Forwarded to BDSA | | |
| A-1 Aircraft | | | |
| Navy | 86 (11%) | 36 (12%) | 22 (11%) |
| Air Force | 160 (24%) | 138 (24%) | 24 (12%) |
| Army | 45 (9%) | 25 (16%) | 10 (12%) |
| A-2 through C-9 Aircraft | | | |
| Air Force | 116 (14%) | 110 (22%) | 32 (11%) |
| Total[2] | 407 (15%) | 390 (20%) | 88 (12%) |

[1]Total cases submitted for CY 66-69: 5033
[2]Total cases forwarded to BDSA for CY 66-69: 885 (17%)

[2]U.S. Congress, 15th Annual Report of the Joint Committee on Defense Production, January 1966, p. 259.
[3]U.S. Congress, 16th Annual Report of the Joint Committee on Defense Production, January 1967, p. 219.
[4]U.S. Congress, 17th Annual Report of the Joint Committee on Defense Production, January 1968, p. 238.
[5]U.S. Congress, 18th Annual Report of the Joint Committee on Defense Production, January 1969, p. 229.

(3) Accepting these records as a representative sample, it is apparent that less than one out of five cases reached BDSA for directive action, indicating that reliance upon contractors to give voluntary, although legally mandatory, production preference to military orders during a period of high military and high civilian demand for limited production capacity without specific Government controls did not work in many cases. Suppliers, when told that a BDSAF-138 was being processed, arranged to meet or improve military contract deliveries in four out of five instances. The percentage of successful resolutions of assistance cases forwarded to the BDSA for action on improved deliveries cannot be obtained on an overall basis, as records were not kept by BDSA, the Services, or DOD. However, a few special studies were made, such as the UH-1 helicopter priority situation. A total of 195 special assistance cases were forwarded to BDSA during the period of January through August 1966. An analysis of the quality of special assistance is as follows:

100 cases (51 percent) were delivered on schedule or deliveries were improved timewise, from 50 to 90 percent.

87 cases (45 percent) resulted in improved deliveries, timewise, from 0 to 50 percent.

8 cases (4 percent) were not improved.

(4) The military departments and the Director of the Defense Supply Agency indicated that the responsiveness of the Business and Defense Services Administration was excellent in processing the priorities assistance and in solving production priority problems. The Defense Production Act of 1953, as amended, and the legal authority of BDSA under the Department of Commerce has never been challenged in court. This early 1966 period was characterized by an ever increasing production lead time in industry. Lead times for some of the basics of new manufacture increased tremendously. From August 1965 to October 1966, production lead times for machine parts had increased by 200 percent; bearings by 180 percent; and aluminum castings, forgings, and shapes by 170 percent. Production lead time had increased even for on-going programs; for example, production lead time for F/RF-4 aircraft spares increased to 100 percent in a 6-month period, and some parts were up 300 percent. During this period the defense portion of the gross national product was less than 10 percent. Other action taken to improve this apparent implementation weakness within the Services, DSA, and contractors is described in the following paragraphs.

(a) DOD, the Department of Commerce, and the Contract Administration Service established a joint defense materials system and priorities training program during the second quarter of CY 66. Contractors and suppliers, and particularly new subcontractors, working on national defense contracts were impressed with the mandatory nature of the use of industrial priority rating and allotments. The attendance exceeded 30,000 from all levels of industry and government.[6]

1. Although the procedures contained in the Defense Production Act were in effect all during the Korean and Vietnam conflicts, they existed without emphasis. The national industrial economy was generally able to supply the reduced defense needs at the requested rate without recourse to priorities assistance. Prime contractors often did not extend the ratings on their orders down through their chain of suppliers because there was no apparent need to do so, and lead times were short. The surge of defense orders required to support the buildup in Vietnam found the system suddenly needed, but despite its obvious availability, many people in both Government and industry who were responsible for its functioning were unfamiliar with its provisions and unskilled in its applications.

2. As a result of information obtained by DOD at the training programs, it was determined that much needed to be accomplished within the Department of Defense, associated agencies, BDSA, and industry. Two specific areas of need were additional education effort

[6] U.S. Congress, 18th Annual Report of the Joint Committee on Defense Production, January 1967, p. 218.

on priorities and allocations within industry, the Department of Defense, and associated agencies; and adequate personnel support for proper manning of the offices responsible for priorities and allocation functions. A request to take action in these areas was forwarded by DOD to Service Secretaries by a memorandum dated 27 June 1966.[7] The effect of this action clearly indicated that the command emphasis that followed in both areas (education and staffing) made the existing system work successfully.

(b) The Assistant Secretary of Defense (I&L) established a short-cut special assistance procedure for use by the military departments, DSA, and other defense agencies by a memorandum dated 17 August 1965,[8] whereby, for urgent SE Asia cases, BDSA would accept telephonic requests from the seven designated Washington offices and action would be initiated immediately. However, such requests must be supported with the submission of BDSAF-138 applications as soon as possible after such requests were made.

(c) BDSA issued amendment 2 to DMS regulation I, establishing the K-1 program identification symbol for the General Services Administration Stores depot programs.

(d) ASD (I&L) memorandum dated 1 March 1966[9] reaffirmed the mandatory use of DX and DO ratings on all invitations-for-bid for defense and defense related material to enable those contractors bidding to plan on the use of the privileges afforded by ratings in obtaining timely resource support, a DX rating if the program was approved by the President as one of highest national priority, and if not, a DO rating. If the response to invitations-for-bid was inadequate, procuring contracting officers would serve rated orders to those contractors deemed capable of producing the items required.

(e) ASD (I&L) memorandum dated 13 August 1965 to the Services and DSA stated the required delivery date on the contract or purchase order was the interface between the DX and DO industrial rating system and not a Uniform Material Movement and Issue Priority System (UMMIPS) priority, which was being used by ordering activities in some cases.

(f) An ASD (I&L) instruction was issued to require adequate staffs throughout DOD for utilization of and education for the priorities and allocation function.[10]

1. As indicated in the preceding paragraphs, considerable effort was expended by DOD and BDSA to implement the policies and procedures of the National Priorities and Defense Materials System for support of SE Asia. Although it is recognized that such a system could not solve all the problems, especially those involving unanticipated situations, the framework of the system should have taken care of a larger percentage. Procurement delivery dates are delayed if prime defense industry contractors, subcontractors, and DOD procuring activities are not familiar with or do not utilize the system. There were many indications (expanding lead times, the success of special assistance actions) that some suppliers shifted commercial work ahead of defense rated work.

2. The basic supplier is expected to provide satisfying service to his sustaining commercial customers, but it is also clearly incumbent upon the Government to meet military requirements promptly. This could be accomplished if BDSA and the contract administration and inspection agencies were required to at least spot-check contractors holding defense business on a routine basis to see that priorities established by DX/DO ratings are being fully implemented, complied with, and understood. The BDSA and Contract Administration Services have the responsibility to educate defense contractors in the workings of the system to prevent

[7] Assistant Secretary of Defense (Installations and Logistics), Memorandum, subject: Priorities Assistance for South Vietnam Procurement, 17 August 1965.

[8] Assistant Secretary of Defense (Installations and Logistics), Memorandum, subject: Adequate Staffing for Priorities Assistance, 27 June 1966.

[9] Assistant Secretary of Defense (Installations and Logistics), Memorandum, subject: Mandatory Use of Industrial Preference Ratings and Allotments (DX&DO), 1 March 1966.

[10] Assistant Secretary of Defense (Installations and Logistics), Memorandum, subject: Misapplication of the Uniform Materiel Movement and Issue Priority System (UMMIPS), 13 August 1965.

the need for crash programs undertaken during emergencies. Basic to improving and effecting a continuing education program is a need for improving the present National Priorities and Defense Materials System regulations, orders, and procedures as issued by the Business and Defense Administration and DOD, OASD (I&L). These regulations are complex, particularly for the uninitiated. The BDSA regulations and amendments need refining and should be indexed. Department of Defense Instruction 4410.1 (Priorities and Allocations Manual) needs simplification and updating. As now written, these directives require astute study and interpretation; simplification and clarification would promote greater understanding of the National Priorities and Defense Materials System within industry and Government.

3. The Contract Administration Services presently lack authority to audit all production records of contractors, subcontractors, or suppliers when processing a request for special assistance. Their responsibility extends only to reporting (through channels) compliance problems to BDSA. This agency has retained an authority to enforce compliance by industry, except for the authority which they delegated to ASD (I&L) for certain aircraft plants, which was redelegated to the Joint Aeronautical Materials Activity (JAMAC) at Wright-Patterson AFB, Dayton, Ohio. BDSA did not make compliance audits on a regular basis during this period because they felt that the volume of requests for priority assistance did not warrant such action. However, review disclosed that BDSA did not have the information on the total number of requests submitted to or by the Department of Defense for special priority assistance, only those forwarded for ultimate action by them. The Department of Defense should collect this information and make BDSA fully aware of the total of production priority and delivery problems, especially during emergency or contingency situations.

h. Production Priority Problems

(1) The production support needed from industry to provide the material necessary for SE Asia was compounded by an entirely different situation than was faced during previous contingencies. The plant utilization rate was the highest in U.S. history for civilian demands, and an increasing substantive military demand for industrial production capacity. At the same time, civilian demand for industrial production capacity was increasing and competing with military demand for the available limited production capacity. This competition resulted in increased production lead times. (Chapter IV of this monograph discusses examples and effect.)

(2) This situation required BDSA, on advice from ASD (I&L), to take complete order boards (plant production or delivery schedules) for various manufacturers and reschedule them to suit the needs of DOD. This resulted in a sequence of delivery being directed for certain communications equipment, semiconductors, aluminum extrusions for aircraft landing field matting, aircraft quality forgings, seamless aluminum, all commercial capacity for 2-4-5T, a principal ingredient of "Orange" (a herbicide), electron tubes, bomb lugs, electronic and mechanical counters, aircraft landing gear assemblies and components, armor plate and certain high temperature alloys.[11]

(3) The ASD (I&L) and military departments continually helped industry in obtaining deliveries of contractor-owned capital equipment for use in rated contracts by assigning appropriate industrial priority ratings. For example, during the 6-month period from July to December 1966, 2861 capital equipment rating cases were processed with a value of $915 million for support of contracts involving Vietnam. As recommended by DOD, BDSA revised its priority regulations to allow domestic refined copper to flow on rated orders, continued quarterly set-aside of primary nickel, controlled distribution of nickel and ferro-nickel to ensure flow for rated orders and distributed order boards (plant production schedules) of struck brass mills and wire mills to assist procuring agencies and contractors in placing orders in nonstruck mills.

(4) During the copper strike in 1967 and the aluminum strike in 1968, ASD (I&L) established and issued procedures to be followed by defense contractors in securing prompt assistance for resolving bottlenecks regarding the products needed to fill rated orders.

[11] Ibid., p. 11.

(5) Production conflicts continued to mount from late 1965. Procuring activities concentrated on ensuring the use of the National Priorities and Defense Materials System to the maximum extent within the framework of the national policy that civilian controls would not be imposed.

(6) In late 1965, the Office of the Secretary of Defense increased its participation in attempting to eliminate selected production bottlenecks. A Special Assistance Office under ASD (I&L) was established with responsibilities involving ground and air munitions, aircraft procurement resolution, and expediting and selected communications-electronics material requirements. This office is now the Deputy Assistant Secretary (Materiel) ASD (I&L) and is still in being.

(7) In addition to the production conflicts discussed above, the Services also experienced a conflict between the production of new end items versus the production of spares items. In a number of instances, spares support schedules were slipped while production schedules for new end items were met. Aircraft spares and engines were two areas of major concern.

(8) The Services found that requirements for landing gear and landing gear parts for installation on new production aircraft were being satisfied by subcontractors ahead of service requirements for spares needed to support the deployed aircraft. The same situation was found on spares support needed for T-53 engines being utilized in SE Asia.

(9) On 9 September 1966, the Secretary of Defense notified the Service Secretaries and the Chairman of the Joint Chiefs of Staff that if both new production and spares support production could not be met, priority should be given to the latter. He emphasized that all efforts should be made to resolve such problems before resorting to new production cutbacks. This approach laid the ground work for making allocations between new and support production by establishing a case basis for review to ensure that new production was not unnecessarily cut back.[12]

3. MILITARY URGENCIES SYSTEM

a. Authority. Authority for recommendation of systems, programs, or items of procurement to be selected for DX (Brick Bat) ratings by the Secretary of Defense is contained in BDSA Delegation 1 as amended May 31, 1968. The DX (Brick Bat) program contained in the Master Urgency List must be approved by the Office of Emergency Preparedness and the President of the United States.

b. General Description

(1) The DOD Master Urgency List is contained in DOD Instruction 4410.3 which is updated annually, or more often if required. ASD (I&L) maintains the classified DOD Master Urgency List, which contains programs of highest national urgency (DX - Brick Bat); programs of highest DOD urgency (DO - Cue Cap); and other important DOD and Canadian military programs. This list is used for three main purposes within the Government as follows:

To inform the procuring contracting officers of those contracts and orders which must be rated DX (DOD procuring contracting officers have to know those contracts and orders which must be rated DX and those which must be rated DO).

As internal guidance for utilization of in-house resources on a first-things-first basis.

To resolve conflicts for production resources in the Special Assistance Program (BDSAF-138) which was discussed previously.

[12]Secretary of Defense, Memorandum, subject: Policy for SE Asia Spares Program, 9 September 1966.

(2) The systems, programs, or items included in the DX (Brick Bat) category are of the highest national priority; they are equal and above all items of DO ratings or categories. Other items contained in the Master Urgency List (Cue-Cap) are of the highest DOD urgency as directed by the Secretary of Defense and listed within the Master Urgency List in descending sequence of urgency. To keep the DX category meaningful and effective, not more than 25 percent of the dollar value of total rateable procurement of DOD and the participants will be included therein for any given fiscal year. Although accomplished during the 1965-69 period, it was most difficult to stay within the 25 percent dollar value limitation placed on the presidentially approved DX programs as compared to total dollar value of DX and DO rated programs during calendar years 1966 and 1967. In staying within the 25 percent dollar limitation, the validity and effectiveness of the DX rating was retained as meaningful and a sought-after tool to expedite top national priority programs. The Master Urgency List is used in assigning priority ratings to rateable military and Atomic Energy Commission (AEC), National Aeronautics and Space Administration (NASA) and Federal Aviation Agency (FAA) procurements and as a guide in resolving production resource conflicts between competing procurement programs on a first-things-first basis. It is disseminated to field office levels so that such conflicts can be resolved at the lowest possible levels.

c. Application to South Vietnam Procurement

(1) The Military Urgencies System assumed a greater role as support for South Vietnam increased. The DOD Master Urgency List was slow to react to the SE Asia buildup initially, with only three amendments issued from February 27, 1965 through May 11, 1966. This slowness to react to this contingency probably stems from the inflexible procedure followed to obtain changes to the Master Urgency List and the 25 percent limitation described previously. An item, to be included as a DX (Brick Bat) item in the Master Urgency List, must be submitted separately to ASD (I&L) by the Secretary of the Military Department. After coordination with OSD offices, the Joint Chiefs of Staff, and other military departments, a memorandum summarizing the positions of all elements is submitted to the Secretary of Defense by the ASD (I&L). If considered of sufficient importance for inclusion in the top National Urgencies Category, the Secretary of Defense forwards it with a recommendation to the President for approval. The items for the balance of the DOD Master Urgency List (DO - Cue-Cap) are submitted by the Assistant Secretaries for Installation and Logistics of the military departments annually. After coordination and review by OSD, JCS, and military departments, items approved for inclusion in the DO (Cue-Cap) list are submitted to the Secretary of Defense for his approval prior to inclusion in the Master Urgency List.

(2) In the July through December 1966 period, six amendments were issued to the Master Urgency List, with many of the changes concerned with direct support for SE Asia. During April through July 1967, five amendments were issued. Items needed for support of SE Asia appeared in great numbers especially where production priority was needed, and first-things-first for support of combat troops was delineated. The five amendments during the May through December 1968 period continued to reflect needed support for SE Asia.

(3) At the start of the SE Asia buildup, DOD had in effect a successful and widely disseminated program of military urgencies. In fact, it may have been too effective in allocating the 25 percent dollar limitation for DX programs, thereby having no dollar reserve to be immediately allocated to the contingency needs of SE Asia. This lack of flexibility caused the Master Urgencies List to be slow in reacting to urgent SE Asia requirements.

(4) To provide support to forces deployed to combat areas in future contingencies, DOD should establish a new policy for obtaining and using DX ratings during peacetime. This policy should reduce the use of DX ratings to zero, if feasible, and thereby reserve the DX rating for support of emergency or contingency situations. Considering the expanding gross national product ($934.3 billion in CY 69) of which total rateable procurements comprised only 6 percent in 1969, the U.S. should be able to reduce both its troop strength in South Vietnam and its military budget, and meet all U.S. rateable procurements with realistic schedules. In order to keep the assignment of a DX program rating a meaningful and useful tool when actually needed, the Services should closely scrutinize future nominations for the Brick-Bat category (DX) of the

Master Urgency List. This would be accomplished by requiring future nominations to meet the following conditions:

Vital to the national security.

Critical from a time standpoint (schedules must be telescoped drastically).

Experiencing difficulties in obtaining timely deliveries of the necessary supporting resources.

Experiencing demonstratable slippages as a result of DO program rating use.

(5) The Services must be aware of the fact that DX program ratings can automatically delay DO programs. Industry may delay DO rated programs without first delaying their nonrated or commercial orders as required under the regulations unless our procurement and contract administration personnel are abreast of the situation. Such personnel should constantly advise the contractors of the provisions of the Defense Production Act and should also be knowledgeable of the contractors' capabilities to produce the contract items.

## 4. CONCLUSIONS, OBSERVATIONS, AND RECOMMENDATIONS

### a. Conclusions

(1) A simplified National Priorities and Defense Materials System, a version of the Controlled Materials Plan in effect during the Korean War, was in being at the start of the buildup for SE Asia. This system was limited in operation to defense and defense related programs. Since the system had been in effect continuously since 1 July 1953, the United States was better equipped to meet its military commitment in SE Asia than in previous conflicts (paragraphs 1, 2g, 3a, and 3b).

(2) With the surge of defense orders in 1965-69 required to support the buildup in SE Asia, the National Priorities and Defense Materials System was suddenly needed. Despite its obvious availability, however, many people responsible for its functioning in both Government and industry were unfamiliar with its provisions and unskilled in its application. The National Priorities and Defense Materials System regulations, orders, and procedures now in effect are complex and are not generally known and understood (paragraphs 2g and 2h).

(3) DX/DO ratings were not fully implemented or rigidly complied with.

b. Observation. There is a need to ensure that priorities established by DX/DO ratings are fully implemented, complied with, and understood by those individuals involved in both Government and industry. One method involves spot checks on a routine basis conducted by BDSA through the Department of Commerce field offices and by the DOD contract administration and inspection agencies.

c. Recommendations. The Board recommends that:

(1) OSD endorse the continuation of the National Priorities and Defense Materials System as an administrative means of promptly mobilizing the industrial resources of the country for limited or general war (PP-1) (conclusion (1)).

(2) OSD and the Business and Defense Services Administration:

(a) Rewrite the basic BDSA regulations and DOD Instruction 4410.1 (Priorities and Allocations Manual) in laymen's terms to simplify and clarify procedures and promote greater understanding of the National Priorities and Defense Materials System within industry and the Government (PP-2) (conclusion (2)).

(b) Provide for an education effort within the Department of Defense and industry on priorities and allocations (PP-2) (conclusion (2)).

# CHAPTER III

# CONTRACT PLACEMENT

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# CONTRACT PLACEMENT

## 1. INTRODUCTION

a. The contract placement function of the procurement mission of the Services and the Defense Supply Agency (DSA) is reviewed in this chapter. The approach has been a broad overview of those areas considered to have been significant in influencing the response of the contract placement function in support of the Vietnam operation. The procurement functional organizations and significant changes thereto, the policies, review and approval procedures, and requirements turbulence were reviewed to determine the impact on timely placement of contracts.

b. Contract placement is the process of entering into agreements for the procurement of supplies and services. The timely placement of contracts during the buildup and continuing support of SE Asia was essential to meet the military's supply needs. In support of SE Asia, the Services and the Defense Supply Agency generally responded with speed and flexibility in providing timely contract placement. However, this accomplishment was at the expense of optimum efficiency and economy in many instances.

c. The support of the Vietnam conflict placed tremendous demands on the procurement function of the Services and the Defense Supply Agency and required the rapid placement of a greatly increased number of contracts. During this period there was a rapid expansion of the Department of Defense procurement program. This program escalated from $28 billion in FY 65 to $38.2 billion in FY 66, an increase of 36 percent. The peak of $44.6 billion was reached in FY 67 and declined slightly to $43.8 billion in FY 68 and $42.0 billion in FY 69. The placement of this greatly expanded program was conducted within a business-as-usual atmosphere. It was also during this period that concern developed on the procurement process. Procurement was to be effected by formally advertised means when possible; if negotiated procurement was to be utilized, it must be on a competitive basis. As a result of this concern, rigid administrative controls were established which required advanced high-level approval of significant sole source procurements. In the initial phase of the expansion of the procurement program for SE Asia with its need for timely contract placement, there was a tightening rather than a relaxing of precontract controls. Additionally, procurement activities were continually confronted with requirements turbulence resulting from program and funding changes.

2. PROCUREMENT ORGANIZATION AND FUNCTIONAL RESPONSIBILITIES. The Armed Services Procurement Regulation (ASPR) is the basic procurement regulation within the Department of Defense (DOD). It prescribes uniform policies and procedures for the military departments and the Defense Supply Agency, and provides direction and guidance for complying with pertinent statutes and Executive orders. The ASPR covers policies, practices, and procedures on many subjects, such as the appointment of contracting officers, formal advertising, negotiation, pricing, types of contracts, and contract clauses. The organizational structure and the functional responsibilities of the defense procurement organization, first within the Office of the Secretary of Defense and then within the military departments and DSA, are described in the following paragraphs.

a. DOD Organization. The procurement organization of the Department of Defense is established under the Assistant Secretary of Defense (Installations and Logistics). This office does no purchasing but does establish procurement policies and procedures for the entire Department. Within this office and under the chairmanship of a member of the staff of this office, the Armed Services Procurement Regulation Committee develops uniform procurement policies and procedures for issuance by the Assistant Secretary of Defense (I&L). This committee is

composed of representatives of the three military departments, the Defense Supply Agency, and the Office of the Assistant Secretary of Defense (I&L).

b. Army Organization

(1) Within the Department of the Army, the Secretary of the Army has delegated to the Assistant Secretary of the Army (I&L) the responsibility and authority for exercising supervision over procurement activities in general. The functions of procurement management are performed within the Materiel Acquisition Directorate and Procurement Policy and Review Directorate. These two directorates supervise and coordinate the execution of the procurement program and prepare implementing directives to carry out congressional acts and Department of Defense directives as well as policies established within the Department. The Directorate of Procurement Policy and Review provides the Army member to the ASPR Committee. The procurement channel flows directly from the Assistant Secretary (I&L) to the Head of Procuring Activity (HPA) of the Army major commands which have a procurement mission.

(2) The Army Materiel Command (AMC) is the Army's primary procuring activity and, in essence, is the Army's wholesale activity. The Command operates through eight subordinate commands. Seven are commodity commands that exercise integrated commodity management of assigned materiel including (a) design and development, (b) product, production, and maintenance engineering, (c) procurement and production, (d) industrial readiness planning, and (e) wholesale inventory management, stock and supply control. The other subordinate command is the U.S. Army Test and Evaluation Command, which is functional. The seven subordinate commodity commands are:

U.S. Army Weapons Command, Rock Island, Illinois

U.S. Army Munitions Command, Dover, New Jersey

U.S. Army Missile Command, Redstone Arsenal, Alabama

U.S. Army Electronics Command, Ft. Monmouth, New Jersey

U.S. Army Aviation Systems Command, St. Louis, Missouri

U.S. Army Tank-Automotive Command, Warren, Michigan

U.S. Army Mobility Equipment Command, St. Louis, Missouri.

Each of the subordinate commands acts as the Head of Procuring Activity (HPA).

(3) In addition, within AMC, five procurement agencies have been established outside the commodity commands and report directly to Headquarters, AMC. These activities are located in New York, Chicago, Cincinnati, Los Angeles, and San Francisco. They perform specialized procurement functions such as backup for overseas procurement agencies or as may be requested by commodity commands.

(4) The Army Chief of Engineers as HPA procures the Army's requirements for real property and construction. He is also responsible for the procurement of civil works involving flood control and aids to navigation. The Continental Army Command (CONARC), its five subordinate Zones of Interior Armies, and the Military District of Washington act as HPA in controlling the procurement operations of posts, camps, and stations within the continental United States. The Army's overseas commands have missions involving base support and local procurement similar to that of CONARC and are also HPAs.

c. Navy Organization

(1) Within the Department of the Navy, the Assistant Secretary of the Navy (Installations and Logistics) is authorized to act for and with the authority of the Secretary of the Navy

in providing direction, guidance, and supervision over all matters within the procurement area. The principal procurement staff element within the Assistant Secretary's Office is the Directorate for Procurement. This directorate provides the Navy member to the Armed Services Procurement Regulation Committee. The Chief of Naval Material through the Deputy Chief of Naval Material (Procurement and Production) is responsible for procurement management and review and for providing procurement policy and procedures to the subordinate Navy Systems Commands. For the Marine Corps, the procurement channel flows from the Assistant Secretary of the Navy (I&L) to the Commandant of the Marine Corps. The Commandant of the Marine Corps and each Navy Systems Command have been designated an HPA. In addition, the Aviation Supply Office under the Supply Systems Command has also been designated an HPA.

(2) The Navy's requirements for research, development, production, and deployment of assigned materiel are fulfilled by:

Naval Air Systems Command

Naval Ship Systems Command

Naval Ordnance Systems Command

Naval Electronics Systems Command.

Most contracts are awarded from the command headquarters located in Washington, D.C.

(3) The Naval Facilities Engineering Command is responsible for the procurement at all shore activities of public works, public utilities, and construction. This command is located in Washington, D.C. Most contracts by the Naval Facilities Engineering Command are awarded from this headquarters.

(4) The Supply Systems Command, in contrast, does no purchasing from headquarters (Washington, D.C.), but delegates contracting authority to field activities throughout the continental United States and overseas. The Supply Systems Command is responsible for the management of the Navy Field Purchase System which is organized to perform the following three types of procurements.

(a) System Support. This function consists of the purchase of supply system stocks to support existing weapons systems. The procurement operations are performed in the Navy's three Inventory Control Points: Aviation Supply Office, Electronics Supply Office and Ships Parts Control Center. These control points are responsible for the inventory management of assigned items within the Navy Supply System.

(b) Area Support. This function consists mainly of the purchase of nonstandard supplies and services such as janitorial service, maintenance activities, household effects, moving, tug and towing, and pilotage for naval activities within a geographical area. The procurement operations are performed by Navy purchasing offices and other such designated purchasing activities.

(c) Station Support. This function consists of the purchase of the requirements of a particular station. Some stations, such as the Naval Ordnance Plant, Louisville, Ky., have been given unlimited purchase authority when it has been determined that their mission is of prime importance. Many stations have only a $2,500 purchase authority. Requirements in excess of the $2,500 limit must be passed to the assigned area support activity for action.

(5) The procurement function within the Marine Corps is performed at both the headquarters and field activities. A considerable portion of the Marine Corps requirements is procured by other elements of the Naval Establishment as well as by the other military departments and DSA.

d. Air Force Organization

(1) As with the Army and Navy, the Assistant Secretary of the Air Force (Installations and Logistics) is authorized to act for and with the authority of the Secretary in providing direction, guidance, and supervision over all matters within the procurement area. The Deputy Chief of Staff (Systems and Logistics) and the Director of Procurement Policy in Air Force Headquarters are responsible for providing the major commands with broad policy and procedural guidance for resolving issues which go beyond major command jurisdiction, and for assessing command compliance with established policy and procedural guidance. The Directorate of Procurement Policy provides the Air Force member to the Armed Services Procurement Regulation Committee.

(2) The procurement channel flows from the Assistant Secretary of the Air Force (I&L) to the Deputy Chief of Staff (Systems and Logistics), to the Director of Procurement Policy, to the major commands, and then to subordinate elements. Each major command has been designated an HPA.

(3) Air Force procurement is reflected in two broad categories—central procurement and base procurement. Central procurement embraces weapon systems, ancillary equipment, and bulk or wholesale logistic support. Base procurement covers supplies and services required to operate the bases and to support tenant organizations. The bulk of central procurement is primarily the responsibility of the Air Force Systems Command (AFSC) and the Air Force Logistics Command (AFLC).

(4) The AFSC handles research, development, and production contracts for weapons systems and related equipment. The subordinate buying organizations of AFSC include the Aeronautical Systems Division, the Electronics Systems Division, and the Space and Missile Systems Office. The AFLC is responsible for logistic support of weapons systems after they enter the operational inventory. They also are responsible for bulk procurement of supplies and services required to support the Air Force mission. The AFLC operates through five subordinate Air Materiel Areas within CONUS and one overseas organization. The AFLC subordinate organizations are:

Oklahoma City Air Materiel Area

Ogden Air Materiel Area

San Antonio Air Materiel Area

Sacramento Air Materiel Area

Warner Robins Air Materiel Area

Air Procurement Region Far East.

e. DSA Organization

(1) Within the Defense Supply Agency (DSA), the Director, DSA, is in charge of procurement assigned to the Agency. The Executive Director, Procurement and Production, has been designated as principal staff advisor and assistant to the Director for the development and application of policy, plans, programs, and systems relating to the DSA procurement function. The directorate provides staff supervision for all DSA field procuring activities, exercises staff program direction over assigned programs, and provides the DSA member to the ASPR Committee.

(2) The procurement channel flows from the Director to the Executive Director (Procurement and Production) and then to the six supply centers.

(3) The procurement mission of DSA is that of wholesale supply support to the military services in the area of secondary items of supply rather than end items of weapons and equipment. The Agency provides commonly used material and repair parts for a large segment of the operating forces' arsenal. The Services retain responsibility for specifications and for research and development of DSA items.

(4) The procurement function is accomplished at six Defense Supply Centers. Five of these centers are responsible for all supply management functions such as procurement, distribution, requisition process, inventory, accountability, stock replenishment, and financial accounting. The sixth center is responsible only for procurement of fuel, petroleum products, and commercial petroleum services. The six Defense Supply Centers are:

Defense Personnel Support Center, Philadelphia, Pa.

Defense Electronics Supply Center, Dayton, Ohio

Defense Industrial Supply Center, Philadelphia, Pa.

Defense Construction Supply Center, Columbus, Ohio

Defense General Supply Center, Richmond, Va.

Defense Fuel Supply Center, Alexandria, Va.

Each supply center has been designated an HPA.

f. Organizational Changes. During the Vietnam era each military department and DSA underwent major reorganizations which relate to procurement.

(1) Army

(a) DOD Project 60, which assigned responsibility for contract administration primarily to the Defense Contract Administration Services was implemented in 1965. As a result, the Army Materiel Command (AMC) Procurement District Organizations which had provided a large portion of the procuring contracting officer (PCO) and administrative contracting officer (ACO) capability was phased out. This change necessitated a rapid assimilation of a greatly increased PCO function by the AMC commodity commands. At the outset of this reorganization, it appeared that the consolidation of the experienced contract personnel from the 11 districts with those at the commodity commands would be sufficient to accomplish the AMC contract work. However, in the attempt to relocate this experienced work force, a large number of the personnel were unwilling to move. With the recognition of the need to augment the contract execution capability of the commodity commands, it was decided to retain the contract execution function of five districts.

(b) Also in CY 66, three AMC major subordinate commands were established which were subordinate elements under the U.S. Army Mobility Command. These elements became the U.S. Army Mobility Equipment Command, Tank Automotive Command, and Aviation Command (later designated Aviation Systems Command). The procurement missions of these commands remained essentially the same. The U.S. Army Mobility Command was deactivated on 1 January 1967.

(2) Navy. Early in CY 66 the bureau system was disestablished and reorganized into the Naval Material Command (NMC) and six subordinate systems commands. The NMC replaced the Naval Material Support Establishment; the Ordnance Systems and Air Systems Commands replaced the Bureau of Naval Weapons; the Ship Systems and Electronic Systems Commands replaced the Bureau of Ships; Supply Systems Command replaced the Bureau of Supplies and Accounts; and the Facilities Engineering Command replaced the Bureau of Yards and Docks.

(3) Marine Corps. In May 1967 the Marine Corps consolidated the east and west coast procurement of secondary items at the Marine Corps Supply Activity, Philadelphia, Pa.

(4) Air Force. During the August 1965 to June 1967 period, four Air Materiel Areas (AMAs), (Rome, San Bernardino, Middletown, and Mobile) were deactivated. The procurement responsibilities of these AMAs were transferred to the remaining five AMAs. Effective 1 July 1969 each major command was designated HPA and came directly under Air Force Headquarters for policy and procedural guidance. Previously the major commands derived their procurement authority from the Air Force Logistics Command.

(5) Defense Supply Agency. Prior to the Vietnam buildup, DSA had two special purchasing offices (SPUR) located in San Francisco and New York for the purpose of responding to overseas requirements, particularly for non-FSN repair parts. Early in the Vietnam buildup the mission of these SPUR offices was relocated to the various DSA Centers. Also, in July 1965 the Defense Personnel Support Center was established in Philadelphia, Pennsylvania. This Center was a consolidation of the Defense Clothing and Textile Supply Center, Philadelphia, Pennsylvania; the Defense Medical Supply Center, Brooklyn, New York; and the Defense Subsistence Supply Center, Chicago, Illinois.

(6) The Department of Defense procurement organization existing at the beginning of the Vietnam era was adequate for its mission. The changes that occurred during the Vietnam era were evolutionary in nature and not directly related to problems generated during the conflict.

## 3. PROCUREMENT POLICY

### a. Background

(1) The Armed Services Procurement Regulation (ASPR) (authorized by Department of Defense Directive 4105.30, Armed Services Procurement Regulation, 11 March 1959) provides the basic policies and procedures for all purchases and contracts made by the Department of Defense for the procurement of supplies or services which obligate appropriated funds. It is designed to achieve maximum uniformity throughout the Department of Defense. Amendments generally are made through the Armed Services Procurement Regulation Committee (established by Department of Defense Instruction 5126.3, Armed Services Procurement Regulation Committee, 20 December 1961) which periodically publishes Defense Procurement Circulars (DPCs) and Revisions. The circulars provide a media for interim changes between publication of revisions. The DPCs are effective upon receipt unless otherwise indicated. For example, DPC #74 (dated 10 October 1969) provided for an effective date of 1 January 1970. The reason stated for the delayed effective date was "... to give purchasing offices time for local planning, training, and implementation." This is a commendable departure from the usual practice of having changes, major or minor, effective on receipt. Generally revisions are effective at all applicable echelons 90 days after the date of issuance, but compliance with changed paragraphs is authorized upon receipt except for effective dates otherwise indicated. Although revisions have an optional 90-day grace period, major policy changes are usually first promulgated in a DPC. The concept of delayed effective dates should be made applicable to all major policy changes to provide for training and implementation guides prior to the effective date in order to obtain as uniform an implementation as possible.

(2) Departments may deviate from ASPR provisions upon approval by the Assistant Secretary of Defense (Installation and Logistics) of a written request submitted through the ASPR Committee. One-time deviations (those affecting only one contract or procurement) may be authorized by a Department.

### b. Changes to ASPR

(1) Policy and procedural changes to ASPR are numerous. For example, when procurement personnel during CY 66 were coping with the Vietnam buildup, they also had to

assimilate substantive changes contained in six revisions and 13 DPCs to ASPR. The Summary of Findings of the Defense Procurement Management Review Program for CY 66 notes:

> "The impact of these policy changes on field personnel would be heavy in normal times, but when added to other factors, they often became extremely difficult to implement either quickly or effectively. With each new policy change, there is a need for some field orientation to insure that field contracting personnel understand what the new policy means and how it is going to be implemented. ... in 1966 there were also some new procurement concepts requiring sophisticated application and utilization by buying personnel. The experience of the review program has been that there is a noticeable time lag in the adequacy of the results when the field is implementing new changes to policy. Too often policy promulgators ingenuously expect immediate and effective implementation of numerous changes to procurement philosophy."

The problem of numerous changes is continuous. For instance, on 20 December 1968 DPC #65 was issued. Twelve days later on 1 January 1969 an entire new edition of ASPR was published. The next day, 2 January 1969, DPC #66 was published; on 31 January 1969 DPC #67 was promulgated. During CY 69 the changes to the new edition of ASPR consisted of 10 DPCs and 6 revisions.

(2) Method for Changes is Costly and Cumbersome. Not only are the changes to ASPR numerous, but the mechanics for their incorporation into the basic document are costly and their use is cumbersome. For example, Revision No. 3 listed 30 changes as being substantive and required the removal and insertion of over 200 pages in ASPR. Revision No. 4 contained 26 substantive changes and involved over 150 pages. There are over 50,000 subscribers to ASPR. The University of California, Los Angeles, subscribes to more than 1,500 copies. Assuming one copy per subscriber, Revision No. 3 as a whole involved the handling of over 10 million pages. The DPCs do not involve the physical removal of pages in ASPR and the insertion of new pages. Instead, DPCs require noting alongside the paragraph in the ASPR that this paragraph has been changed, and designating the DPC number applicable. When reading that particular paragraph, the reader must refer to the DPC to learn what the change involves. This is cumbersome. For example, paragraph 3-807.5 on Defective Cost or Pricing Data has been revised by DPCs 57, 66, and 74. A separate referral to each DPC is necessary to learn the current policy on that subject.

c. Assessment of ASPR Policy and Procedures

(1) Adequate for the Job. There was unanimous agreement among the procurement personnel of the Services that the ASPR was adequate to carry out the procurement functions during the Vietnam era Urgent procurements could be negotiated under the Public Exigency exception (10 U.S.C. 2304 (a) (2)) and these could be solicited orally. Where special circumstances existed in a procurement which may not be in accordance with ASPR, the Department at its discretion could have authorized a one-time deviation.

(2) ASPR is Unwieldy. The flexibility and comprehensiveness of ASPR were cited as strengths. However, comments from industry, the academic community, and testimony before congressional committees indicated the very comprehensiveness of ASPR makes it complex and unwieldy. Despite the policy of restricting Services implementations of the ASPR, such implementations are voluminous and not always consistent with each other. The various implementations and interpretations by the Departments generally produce a combined impact at one point—the Contractor.[1,2]

(3) Basic Procurement Policy. ASPR 3-102 requires that procurements shall be formally advertised if practicable and feasible even though conditions would otherwise permit the

[1] U.S. Congress, Government Procurement and Contracting (Part 7), Hearing before a Subcommittee (Military Operations) of the Committee on Government Operations, House of Representatives, H.R. 474, May 1969, p. 1754.

[2] U.S. Congress, Economics of Military Procurement (Part 1), Hearings before the Subcommittee on Economy in Government of the Joint Economic Committee, November 1968 and January 1969, p. 69.

negotiation of the contracts as an exception to 10 U.S.C. 2304 (a). This basic policy was established in simpler times for buying simpler weapons. Today, one weapons system contract can involve thousands of subcontractors and suppliers and require performance over several years at a cost of billions of dollars. Such a contract invariably is negotiated. In FY 65, 85 percent of all DOD contract awards were negotiated as exceptions to the basic policy of formal advertising. In FY 69, this figure was 89 percent.[3] Formal advertised procurement is very efficient for buying low-technology, standard items; but, for acquiring complex products, such as aircraft and ships, it has little or no relevance.[4] Recognizing this, the Secretary of Defense in a posture statement (1970-74) dated 15 January 1969 stated: "... The complexity of most military products is such that 'formal advertising' procedures simply cannot be made to work in the vast majority of cases."

(4) Increase Dollar Limit of Small Purchases From $2,500 to $10,000

(a) Small purchases are procurements for supplies and nonpersonal services which do not exceed $2,500 in price, and construction which does not exceed $2,000 in price. Such purchases must be by negotiation in accordance with 10 U.S.C. 2304 (a) (3). ASPR, Section III, Part 6, provides for simplified purchase procedures to be used in making small purchases, for example, oral solicitations, a one-page purchase order form (DD Form 1155), or a minimal amount of documentation of the procurement action. For purchases under $250, competition need not be secured.

(b) The use of simplified purchase procedures results in substantial reductions of procurement administrative lead time (PALT). For example, the PALT for clothing and textile contracts over $2,500 averaged over 60 days in FY 69, whereas the PALT for such contracts under $2,500 averaged less than 15 days, or 75 percent less. Another example is items bought by the Defense Industrial Supply Center, which averaged over 57 days PALT for contracts over $2,500 in FY 69 and less than 33 days for contracts under $2,500, or 42 percent less. In the case of items bought by the U.S. Army San Francisco Procurement Agency, Oakland, California, raising the dollar value of a small purchase to $10,000 would save the Government a considerable amount of documentation and at least 30-60 days in the processing time of a procurement. The savings in this area would be approximately 5 percent of the total amount of work processed by this Agency.[5] Therefore, reductions in PALT mean reductions in administrative costs. Data from the Defense Supply Agency[6] show that DSA Supply Centers take from 2.8 productive man-hours to 18.6 man-hours for each procurement line item awarded for contracts over $2,500. The average for all centers is 4.6 productive man-hours per procurement line item for FY 69. Whereas, for contracts under $2,500 productive man-hours range from 0.5 to 2.0 per procurement line item. The average for contracts under $2,500 for all centers is 1.2 productive man-hours per procurement line item, or a reduction of 74 percent.

(c) Such significant differentials have spurred attempts to extend the simplified purchase procedures to a greater number of purchase actions. For example, the General Accounting Office (GAO) approved the use of simplified purchase procedures on a test basis for public exigency purchases of $10,000 or less April 1966. In December 1967, GAO approved the use of the procedure indefinitely.[7] Also, the suggestion was made frequently to the Procurement-Production Team that procurements could be expedited, especially during an emergency period, by increasing the dollar limitations on small purchases from $2,500 to anywhere from $5,000 to $50,000. This, of course, would require amending 10 U.S.C. 2304 (a)(3).

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[3] Office of Secretary of Defense, Military Prime Contract Awards and Subcontract Payments or Commitments, July 1968-June 1969.

[4] Robert B. Hall, "The Armed Services Procurement Act of 1947 Should be Reformed," National Contract Management Journal, 3-No. 1, Spring 1969, pp. 1-23.

[5] Statement, U.S. Army San Francisco Procurement Agency, Oakland, California, to JLRB Procurement-Production Team, 2 October 1969.

[6] Key Management Data for FY 1969, Headquarters Defense Supply Agency, June 1969.

[7] Letter, Comptroller General of the United States to Chairman, ASPR Committee, 21 December 1967.

(d) The following data indicate the work-saving impact which would result if the dollar limit were increased to $10,000. In FY 69, of the 9,696,705 contract awards by the Department of Defense (excludes intragovernmental) 9,491,963 or 98 percent were for contracts for less than $10,000; however, the remaining 2 percent accounted for a little over 91 percent of the dollar value. Thus, the extension of the small purchase procedures to procurements of $10,000 or less would have extended these simplified procedures to 98 percent of all DOD contract awards in FY 69, but would have limited the procedures to less than 9 percent of the dollars involved (Table 2).

TABLE 2

DOD CONTRACT AWARDS—FY 69
(Excludes Intragovernmental Contracts)

| Award Category | Number | Percent | Value ($000) | Percent |
|---|---|---|---|---|
| Under $10,000 | 9,491,963 | 97.9 | 3,581,876 | 8.8 |
| $10,000 or more | 204,742 | 2.1 | 37,185,155 | 91.2 |
| Total | 9,696,705 | 100.0 | 40,767,031 | 100.0 |

Source: Military Prime Contract Awards and Subcontract Payments or Commitments, Office of Secretary of Defense, July 1968-June 1969.

(e) Further reductions in PALT and hence increases in responsiveness by procurement personnel could be obtained by increasing the dollar limit below which competition is not required. The present limit of $250 was set at least 10 years ago and its relevancy has been seriously eroded by inflation. Sufficient data are not readily available to carefully examine the proposition of increasing the limit.

## 4. REVIEW AND APPROVAL

### a. Background

(1) Determinations and Findings (D&Fs). D&Fs are documents which justify the use of the authority to:

Enter into contracts by negotiation.

Make advanced payments under negotiated contracts.

Determine the type of contract to be used.

Waive a requirement for cost or pricing data, and certification thereof.

D&Fs are required by statute (10 USC 2304 (a)) or procurement regulation and the level of approval authority varies accordingly from the Secretary of the Department to the HPA to the contracting officer. In FY 65, 41.4 percent of the dollar value of all contracts awarded by DOD required the prior approval of the Secretaries of the military departments; in FY 69, 38.7 percent required prior approval. The review of determinations and findings will be limited to the foregoing Secretarial D&Fs due to their importance.

(2) Contract Review. Every contract award is subject to either a pre-award or post-award review. The criteria for determining what will be reviewed are contained in the ASPR, departmental procurement regulations, and regulations issued by the procuring activities themselves. In addition, numerous procurement actions (for example, the decision to hold a pre-solicitation conference) are subject to reviews at a level higher than the contracting officer. The

review and approval process for both Secretarial D&Fs and of contracts prior to award consume procurement administrative lead time, are performed by the most skilled procurement personnel, and are administratively costly.

(3) Other Review and Approval Requirements. One of the basic procurement policies is that procurements should be competitive to the extent practicable. Prior to the Vietnam era a concerted effort was being made throughout DOD to increase the amount of procurements awarded on a competitive basis. As a result substantial progress was made, and competitive awards increased from 32.9 percent in 1961 to over 40 percent by July 1965. Because of the tremendous increase of procurements engendered by the buildup, there was concern that the progress made might slip. Therefore, on 20 July 1965, a memorandum from the Office of the Secretary of Defense was promulgated to the Secretaries of the Departments and the Director of DSA, which directed that:

> "... urgent requirements in support of Southeast Asia operations be carefully reviewed so as to avoid any unnecessary use of sole source procurement. To accomplish this purpose, the following approvals will be required:
>
> 1. Procurements of more than $1 million but not more than $10 million in which it is proposed to shift from a competitive to a noncompetitive basis will be approved in advance by the Assistant Secretary (Installations and Logistics) of the respective Military Department, or by the Director of the Defense Supply Agency. A copy of each approval action will be forwarded to the Assistant Secretary of Defense (Installations and Logistics).
>
> 2. Procurements of $10 million and over where it is proposed to shift from a competitive to a noncompetitive basis will be approved in advance by the Assistant Secretary of Defense (Installations and Logistics)."

The Services expanded on this control in their implementing directives. For example, the Army on 23 August 1965 issued a directive requiring the following presolicitation reviews and approvals:

| | |
|---|---|
| $10,000 to $25,000 | Level higher than Contracting Officer |
| $25,000 to $200,000 | Purchase Assignment Board review; approval level higher than Contracting Officer |
| $200,000 to $1,000,000 | Board review and HPA approval |
| Over $1,000,000 | Director P&P, AMC |

b. Status in CY 65

(1) In October 1965 the Assistant Secretary of Defense (I&L) constituted a Joint Service-DOD Procurement Management Review Team to determine the adequacies and shortcomings of present policies, procedures, and operations in review and approval of procurement actions.[8]

(2) Excerpts of the report of this team are quoted below and they illustrate the status of the review and approval program at the beginning of the Vietnam buildup:

> "The review and approval process in procurement is a ponderous effort that annually consumes many man-years of highly talented personnel. The review team found that philosophy, as well as the need for reviewing procurement actions, varies among the activities visited. At some activities, all proposed awards are reviewed because management wants to insure that errors are not made. At others, in an obvious over-reaction to Congressional and GAO inquiries there are many reviews of awards which could be made routinely by buyers....

[8] Department of Defense, Procurement Management Review of and Approval Procedures in Army, Navy, Air Force, Defense Supply Agency, February 1966.

"One conclusion of the Team is that in some cases the review and approval process is being used as a substitute for managing the procurement operation. As a result, indications are that since their work is reviewed by others many times before a contract is issued, they do not have to do as thorough a job as when their work is not subject to repetitive reviews....

"Reviews and approvals in the Defense Supply Agency (DSA) are not a significant problem. DSA has limited its pre-award reviews to a very small number of unusual buys and its post-award reviews to representative samples....

"Many reviews and approvals at both procurement and command levels are being made too late in the procurement cycle to have much effect on the proposed award. Even in the case of large dollar value procurements, buyers and contracting officers are often not aware of requirements for supplies and services until they receive a formal procurement request. By that time, because of a previously established requirements schedule, many fundamental procurement decisions have already been made—even though procurement personnel did not participate in an affirmation of what must be done. Because of pressing requirements, a reviewing authority may be constrained to make only the most imperative changes. The result is that the reviewing authority is actually compelled to ratify decisions already made—often by default....

"Secretarial D&Fs are a time-consuming review and approval problem. Navy D&F review and approval procedures are the most expeditious among the Services, but the Navy too can improve its processing time. In some cases—an average of 90 days is required to process a D&F from the activity to the secretary for signature. In the interim, no request for proposal can be issued. Any delay in the approval of a secretarial D&F lengthens the procurement cycle....

"R&D D&Fs in the Army and Air Force are being used as program control devices. As a result, they take longer to process than D&Fs for supply contracts....

"Each Service has a slightly different approach to higher echelon reviews on proposed awards. The Navy has a highly centralized Contract Appraisal group in Washington which reviews large dollar buys in great depth. The Army (AMC Headquarters) reviews only a selected sample group and generally makes no detailed pricing review. The Air Force has a slightly different approach, reviewing not quite as deeply as the Navy but much further than the Army....

"One purpose of the survey was to determine the desirability of more uniform review and approval procedures in the Services and DSA. The Team concluded that uniform procedures would be very difficult to promulgate and actually might not be desirable. Procedures of each Service are products of a long period of growth and reaction to its individual service needs. The Navy, for example, has a highly centralized procurement structure and awards 70 percent of its contract dollars in Washington. Because of this unique concentration, centralized high echelon review of proposed awards can be done more easily than in the Army or Air Force which do little actual contracting in Washington...."

(3) A constant theme throughout the report was that of excessive time required to get Secretarial D&Fs approved and the stringent approval requirements and the numerous levels of review for contracts. The usual procedure for processing a Secretarial D&F is for the contracting activity to draft the proposed D&F and send it through a very protracted review and approval process. Eventually, some 30 to 60 days later, it is signed by an Assistant Secretary of a Service and it becomes the authority to negotiate a contract. Before 1963, many contracting officers issued the Request for Proposals before the Secretarial D&F was signed. Thus the time spent in review and approval of the Secretarial D&Fs was not a delay to the award of a contract. In 1963, however, GAO ruled that the D&F must first be signed before a RFP may be issued. Since that time, waiting for approval of a Secretarial D&F has been a bothersome delay factor for contracting officers who are often under great pressure to award contracts in an expeditious manner.

(4) With respect to contract reviews and approvals the report states:

"It was noted that AMC had placed rather restrictive directions on the subordinate commands in regard to review and approvals. For instance, a Purchase

Assignment Board in each procurement office was required to review, prior to issuance of solicitations, all proposed procurements in excess of $25,000. Such reviews resulted in recommendations to the contracting officer relative to method of procurement, terms of the solicitation, possible problems and solutions, and adequacy of engineering data. In addition, all proposed advertised awards over $25,000 and all negotiated awards were required to be reviewed by a Contractor Selection Board....

"CNM is deep into the details of individual procurement actions. The flow of documents in and out of CNM lead to the conclusion that here also the review and approval operations are substituting, at least in part, for management....

"Individual procurement actions are controlled by CNM through review and approval of advance procurement plans, Requests for Authority to Negotiate (RANs), pre-negotiation business clearances, post-negotiation business clearances, and award approvals in special cases such as award to sole bidder and use of options in advertised procurements exceeding $600,000. Options are reviewed in negotiated procurement where the dollar value exceeds the limitations imposed on the purchasing activity. A deviation of substance from previously approved plans and business clearances must also be referred to CNM prior to action....

"Current estimated contract values which require submission of "clearances" are $5,000,000 for BUSHIPS and BUWEPS; $2,000,000 for the Navy Purchasing Office, Los Angeles, and the Aviation Supply Office; $1,000,000 for the Marine Corps; and $600,000 for all others....

"No boards or committees are utilized within CNM...."

(5) Unlimited procurement authority has been delegated to the Air Force Systems Command (AFSC) and to the Air Force Logistics Command (AFLC). These two commands in turn have delegated to their subordinate elements unlimited contract approval authority for advertised procurements and up to $5 million and $1 million, respectively, for negotiated procurements. Contracts received at their headquarters for final review prior to award will have been previously reviewed. Furthermore, they will have been signed by the contractor and contracting officer, but require manual approval (countersignature) for validation. The report comments on this procedure as follows:

"While Air Force procurement committees are well constituted and function very effectively, there is a great deal of duplication of review effort that is time consuming. A substantial amount of streamlining and simplification of the procurement process can readily be accomplished by eliminating the requirement for manual approval. This countersignature on contracts is not required ... and is unnecessary...."

c. Current Status

(1) D&Fs and Contract Review Requirements

(a) The Services began attacking the problems of excessive time for reviews and approvals in late 1965. For example, the Air Force in October of 1965 initiated a new procedure for the concurrent review of D&F documents by technical procurement, and legal staffs both in Air Force Headquarters and in the Office of the Secretary. The new procedure resulted in a reduction of average processing time from 62.4 days to 26.6 days for a net savings of 39.6 days. The Army Materiel Command issued instructions on 14 January 1966 which modified the restrictive directives on its subordinate commands for contract reviews. The primary basis for reviews was no longer price, but factors such as a shift from a competitive to a noncompetitive procurement; or proposed contracts involving multiple incentives. Actions taken within the Navy resulted in a reduction of average processing time of a Secretarial D&F from 45 days to 17 days.[9]

[9]Interview of Navy Material Command Procurement Personnel by Joint Logistics Review Board, Procurement and Production Team, 17 September 1969.

(b) In the case of urgent procurements, the Navy Material Command accepted oral presentations of business clearances from its systems commands. In 1966, the Defense Supply Agency revised its criteria requiring submission of proposed contracts to headquarters prior to award. For example, the dollar value of proposed awards of clothing and textile contracts which required a DSA Headquarters review was raised from $500,000 to $1 million. In retrospect, the above actions appear to have been prompted mainly by the review of the Joint Service-DOD Team and not from the Services' own initiative.

(c) Another means of reducing the procurement administrative lead time and paperwork for required Secretarial D&Fs is to write a class D&F (may be used when two or more contracts for supplies or services of the same or related type will be negotiated in a stated period). This technique was used effectively by the U.S. Army Munitions Command. For example, a class D&F was written for ammunition items covering the period 9 March 1967 to 30 September 1968. This class D&F contemplated 863 contracts valued at approximately $3.2 billion.[10] Ordinarily a separate D&F is required for each contract.

(d) Despite the corrective actions taken, the Summary of Findings for CY 68 of the Defense Procurement Management Review Program indicate review levels were sometimes still excessive and unclear. The following examples were cited:

> "The present requirement that every organizational level (7 or 8) from the section chief to the approving authority be included in the review chain is not considered to be essential. In addition, at those levels where there is a chief and assistant chief, review by one or the other and not both should be sufficient.... Time consuming reviews of certain types of RANs and D&Fs have been noted as they were processed through several levels....
>
> "In discussion with Contracts Branch supervisors and various negotiators in reference to levels of clearance approval authority, it was apparent that there is a prevalent vagueness as to 'who' is responsible for approving 'what'.... A draft Contracts Office Instruction... regarding clearance approvals and signatory authority was still in process of review and issuance at the time of the PMRS review...."

Procedures of the Defense Construction Supply Center require the buyer to develop and present to the Director/Deputy Director and Advance Procurement Plan on:

> All procurements against purchase requests/MIPRs estimated to be over $10,000, except those items covered by a mandatory GSA Federal Supply Schedule.
>
> All procurements under the Commander's Back Order CURE program, regardless of dollar value.

The stated intent is to provide a more penetrating review of the essential elements of the proposed procurement to ensure more comprehensive procurements and to preclude excessive lead time. In FY 68 there were 8,781 awards over $10,000. Top management direction and surveillance could have been more properly exercised if the dollar value of personal review were raised so that only the most significant actions were approved by the Director/Deputy. Also, thresholds at appropriate dollar levels could have been established for review at division and branch levels.[11]

(2) Shift from Competitive to Noncompetitive Procurement. The requirement for approval by the Assistant Secretary (I&L) of the Service of any procurement over $1 million in which it was proposed to shift from a competitive to a noncompetitive basis and for procurements over $10 million by the Assistant Secretary of Defense (I&L) was rescinded on 23 October 1969. One major procurement program especially affected by this control was Ammunition. Ammunition awards increased from $759 million in FY 65 to $2.8 billion in FY 66 and $4.9 billion in

[10] Procurement Management Review, U.S. Army Munitions Command, March 19, 1968.

[11] Department of Defense, Procurement Management Review Program, A Review of Procurement Operations in the Defense Construction Supply Center, May 1969.

FY 69. Because of the limited production sources and the huge increase in purchases, there was little alternative to sole source awards. The unnecessary burden of this review and approval requirement was recognized, and in December 1966 certain listed Ammunition items were exempted from its requirements by the Secretary of Defense.[12] Despite the additional levels of review and approval imposed by this requirement and the Services in their implementation of it, no evidence was uncovered that procurements were thereby delayed. However, it was one more hurdle to overcome in executing a contract.

5. IMPACT OF REQUIREMENTS TURBULENCE ON PROCUREMENT

a. Background

(1) The placing of a contract begins with the receipt of a purchase request by a procuring activity from the activity requiring supplies or services. The requiring activity is responsible for determining and including on the purchase request adequate specifications of what is to be procured, the quantity, and the citation of funds to be used. The procuring activity is responsible for determining the method of procurement to be used, issuing the solicitation, and preparing and awarding the contract. The procuring activity has no responsibility or control over determining the requirements and can only react to the demands placed on it by a purchase request. In order for the user to receive the item when it is needed, the purchase request must be submitted sufficiently in advance of this time to permit the procuring activity to execute a contract and to permit the contractor to manufacture and deliver the item. The interval between the receipt of the purchase request and the award of a contract is the procurement administrative lead time (PALT). Upon receipt of a purchase request, which is generally the first notice the procuring contracting officer (PCO) has of a requirement, the PCO begins planning for the purchase. This includes an analysis for determining the method of procurement he must or might use; the competition he might expect; the price he may have to pay; and other factors that may be pertinent, such as labor surplus and small business set asides, component breakout, and furnishing of Government equipment. Before proceeding with the procurement, the PCO may need to confer with other specialists in engineering, production, maintenance, logistics, preservation and packaging. In the case of negotiated production procurements of $1 million or more, the ASPR requires advance procurement planning (ASPR 1-2100.2), thus all personnel responsible for a procurement are coordinated as early as practicable. This involves the prospective analysis of requirements and the documentation of technical, business, policy, operational, and procurement considerations into a comprehensive procurement plan. By this time, a considerable effort and expenditure of time has been made by Government personnel; contractors planning to respond to the proposed procurement have also expended their resources.

(2) Because of the complexity of the procurement process, anything that interferes with its smooth and timely functioning creates considerable waste, inefficiency, and delay in delivery of the item or service to the military user. Consider the case of the procurement action in which Government personnel have performed all functions necessary to promulgate a solicitation and interested contractors have devoted men and money in an effort to obtain the award, and then the Government must cancel the solicitation for lack of funds. The waste is obvious. The loss engendered by delaying other work to process this action can never be measured. Another example is the situation where the requirement is computed to be 100 items, but due to the incremental release of funds the requirement submitted to procurement is for only 25. Three months later funds are allocated for the purchase of an additional 25, and so on through the remainder of the year. Assume that in this industry there are price breaks for purchases of quantities of 50 to 75 and another price break for quantities over 75. The impact on procurement of this parceling of funds is:

Four procurements were made during the year instead of one.

The Government lost savings available through price breaks for larger quantity buys.

[12] Secretary of Defense Memorandum, subject: Sole Source Procurement Approval, 16 December 1966.

Procurement personnel who were in short supply were diverted from processing other procurements.

The Defense Contract Administration Services had four contracts to administer n-stead of one.

The preceding examples are considered typical of the impact on the procurement function of what has become known as "funding and requirements turbulence." This turbulence was widespread during the Vietnam buildup and every procurement activity visited by the Procurement and Production Team reported it as one of the major problems during this period.

b. Impact of Funding and Requirements Turbulence

(1) The funding and requirements turbulence was especially critical for procurement programs for aircraft, aeronautical spare parts, ammunition, and certain weapons. These items, which were essential to military operations in Vietnam, accounted for 37 percent of the dollar value of contracts awarded in FY 67, the peak procurement year.[13] The General Accounting Office noted in a report:[14]

"During fiscal year 1966 and 1967, the Department of Defense released funds to the military services on a piecemeal basis. The Air Force, in turn, released funds to its spare parts procurement centers without advance notice as to amount or when they would become available. The total amount of funds made available was less than the total needed to satisfy all computed requirements. The receipt of funds at these installations on an incremental basis created additional difficulties in managing the funds that were available, specifically:

Spare parts could not be purchased in larger, more economical quantities...

Prices were increased by contractors because of delays in pricing orders...

The administrative costs of procurement were increased because of the additional paperwork...

The purchase of supplies on a piecemeal basis increased the likelihood of parts shortages which could adversely affect the operational readiness of aircraft...."

(2) Specific examples of funding and requirements turbulence are cited below:

"At Ogden, AMA, purchase requests were initiated for Federal Stock Numbers 1620-199-8301 (34 units) and 1620-679-3440 (18 units)—landing gear components for the KC-135 aircraft. The low bid was for $2,989 and $2,994 each, respectively, and had an expiration date of October 31, 1966. Because funds were not available, no contract was awarded prior to the expiration date of the bids and bidders were requested to extend their proposals. One contractor agreed to extend his proposal, but the low bidder submitted a second bid at a higher price.

"A certificate of urgency was issued on November 10, 1966, and a recommendation was made that the low bid on the second solicitation be accepted. Funds for this procurement were not available, and a decision was made again to resolicit bids, this time for smaller quantities. The low bid received on this solicitation was for 18 units at $3,899 each and 2 units at $5,841 each, respectively. Funds for this procurement were made available on June 2, 1967, and the contract was subsequently awarded. In this instance, the unit price increase was significant because funds were not available to procure the original quantities desired."

The unit prices of the landing gear components increased 30 percent and 95 percent respectively, and execution of the contract was delayed over 7 months.

[13]Office of the Secretary of Defense Military Prime Contract Awards and Subcontract Payments or Commitments, June 1969.

[14]Comptroller General of the U.S. Report to the Congress, Need for Improvement in Funding Practices Affecting Spare Parts Procurements, B 164301, Department of Defense, 27 August 1968.

(3) In a compilation of procurement problems, surfaced through procurement management and contract management reviews, the following problem and description is given:[15]

> "Problem: Adverse Effect of Program and Funding Changes
>
> Description: Procurement effectiveness is being hampered by program and funding changes at most of the larger purchasing activities. The problem was noted in 11 of the PMR reports received between 1 January 1968 and 1 June 1969.
>
> PMR extracts include: The Office of Secretary of Defense (OSD) made a number of substantive changes to major Navy programs, particularly aircraft, with a corresponding impact on Government Furnished Equipment (GFE)...there is strong evidence that for FY 66 and FY 67 the increased costs were in the millions—NAVAIR. '... (for major items) changes in availability of funds caused changes in the materiel requirements...although actual materiel requirements may not have changed in fact'—WECOM. 'The administrative manpower cost of 332 line items cancelled... was estimated to be $233,000...the lack of flexibility in funding was recognized as a major cause...'—Rock Island Arsenal.... 'It was recognized that since inception of the SE Asia buildup, continuous changes in factors used to compute planned requirements have hindered effective advance planning'...Army Ammunition Procurement and Supply Agency.
>
> Significance: Program and funding changes result in higher procurement and administrative costs, lost lead time, increased use of letter contracts, wasted procurement effort, more contract amendments, late deliveries, lower quality of material and material shortages."

(4) In addition to the consequences of funding and requirements turbulence cited above was the effect on advance procurement planning. The following comment is from a procurement management review of the U.S. Army Weapons Command.[16]

> "Notwithstanding the cause for such management decisions, the impact on the procurement cycle and related prospective suppliers was significant. These prospective suppliers were required to extend their proposal acceptance periods pending availability of funds or to cancel their proposals. Planning was invalidated by extended delay. Also, the procurement administrative cost was increased by amendment of solicitations, negotiation of acceptance date extensions...."

(5) To complete the picture, the following excerpt from a letter to the JLRB from the Defense Supply Agency is quoted:[17]

> "Experience during the buildup has shown that requirements fluctuate widely. The major cause for fluctuating requirements early in the buildup appears to have been due to funding limitations at the consumer level. Later fluctuations appear to have been the result of over-requisitioning by using activities."

c. Impact of Program Changes. As indicated in the preceding extracts of reviews and audits, not all requirements fluctuations were caused by funding. Ammunition is an example of a major procurement program affected by drastic quantitative requirements changes within the program. The data in Table 3 on changes in ammunition requirements for FY 69 during a 3-month period illustrate the turbulence in this program during the Vietnam era.

d. Analysis. Despite the disorder and waste caused by the turbulence in funding and requirements, there is no indication that essential or urgent procurements were significantly delayed. General Westmoreland is quoted as saying that there have been "no shortages in supplies for the troops in Vietnam which adversely affected combat operations or the health and welfare

[15] Assistant Secretary of Defense (Installations and Logistics), Procurement Problem Book, 29 May 1969.
[16] Office of the Assistant Secretary of the Army, Procurement Management Review, U.S. Army Weapons Command, July 1968.
[17] Defense Supply Agency, Memorandum for Chairman of Joint Logistics Review Board, 9 September 1969.

of the Command."[18] Mr. Robert N. Anthony, Assistant Secretary of Defense (Comptroller), wrote:

> "In retrospect, it would appear that the number of fund releases that were processed could have been held to a lesser number.... Of paramount importance is the fact that urgent requirements were supported on a timely basis, within available resource until supplemental appropriations became available."[19]

TABLE 3

AMMUNITION PROCUREMENT FLUCTUATIONS*
(Rounds)

| Item | Plan 1 March 1968 | Plan 2 May 1968 | Plan 2 CH-June 1968 | July Release |
|---|---|---|---|---|
| 40MM - M406 | 14,717,000 | 27,743,000 | No change | 30,190,000 |
| 60MM - M49 | 979,000 | 4,502,000 | 4,651,000 | 4,551,000 |
| 105MM - M1 | 15,319,000 | 23,687,000 | No change | 22,497,000 |
| Grenade - M26 | 4,987,000 | 8,902,000 | No change | 8,857,000 |

*Army Procurement and Supply Agency, Ammunition Management Review, Army—FY 69 Program Guidance.

## 6. CONCLUSIONS, OBSERVATIONS, AND RECOMMENDATIONS

### a. Conclusions

(1) The procurement organizational structure of the military Services and DSA were adequate to accomplish the contract placement function (paragraph 2).

(2) Major changes were made to the organizational structure of the Services and DSA during the Vietnam era but these changes were the result of evolution and not directly related to problems generated by SE Asia (paragraph 2f).

(3) The ASPR provided sufficient flexibility to accomplish the procurement mission. However, the ASPR and its implementation by the Services and DSA are voluminous, complex, and unwieldy. Changes to ASPR are frequent and the change mechanism is awkward (paragraphs 3b, c(1), and c(2)).

(4) There is no provision for uniform training programs for changes to ASPR, in order to ensure consistent interpretations thereof. Generally, the same amount of time is allowed for implementation of major changes as for minor changes. For major complex changes, this provides insufficient time for Government purchasing offices and the business community to do local planning and training for implementation prior to the effective date (paragraphs 3a and b(1)).

(5) The use of small purchase procedures reduces procurement administrative lead time up to 60 days. Ninety-eight percent of all DOD contract awards in FY 69 were for less than $10,000. This also represents less than 9 percent of the dollar value of all DOD contract awards. As a precedent the use of small purchase procedures for public exigency purchases up to $10,000 has been authorized (paragraph 3c(4)).

[18] Speech, Paul R. Ignatius, Assistant Secretary of Defense (I&L), at the annual convention of the Defense Supply Association, Philadelphia, Pa., Nov 1966.

[19] Letter, Assistant Secretary of Defense (Comptroller) to Director Defense Division, U.S. General Accounting Office, 19 April 1968.

(6) The use of class determinations and findings (D&Fs) reduces procurement administrative lead time (paragraph 4c(1)).

(7) Requirements during the Vietnam buildup fluctuated drastically. Requirements turbulence resulted in the cancellation of solicitations, wasted procurement effort, and the use of less desirable contracting methods such as letter contracts. Procurement planning was invalidated by extended delays (paragraphs 5b and 5c).

b. Observations

(1) The changes to the procurement organization structures within the military departments created temporary turbulence, but generally did not adversely affect contract placement.

(2) Requirements turbulence had the following adverse impact on procurement:

Repetitive buys of urgently needed items.

Increased administrative costs.

Price increases due to delays and uneconomical quantity buys.

Loss of procurement administrative lead time.

c. Recommendations. The Board recommends that:

(1) ASD (I&L) simplify the structure of ASPR and reduce the frequency of changes thereto. For example, separate editions of ASPR could be published for small purchase procedures, supply contracts, research and development contracts, and construction contracts. Changes should be published semiannually, unless there is a more urgent need on some specific issue (PP-3) (conclusion (3)).

(2) ASD (I&L) sponsor uniform training programs for major ASPR policy changes be accomplished prior to their effective date. In determining the effective date of a major change, time for training commensurate with the complexity of the change should be considered (PP-4) (conclusion (4)).

(3) ASD (I&L) take action to increase the dollar limit of small purchases from $2,500 to $10,000 (PP-5) (conclusion (5)).

(4) The military departments take action to ensure that procurement planning in support of contingency operations emphasize the use of class D&Fs (PP-6) (conclusion (6)).

# CHAPTER IV

# CONTRACT ADMINISTRATION

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# CONTRACT ADMINISTRATION

1. INTRODUCTION. After the contract has been consummated, the procuring and requiring activities should be kept informed of whether the contractor is going to accelerate delivery, be on time, or be delinquent. Furthermore, the Government must ensure that items delivered to the using activities are of a quality in conformance with the contract specifications. Under the concept of separating contract administration functions from buying functions, it is the responsibility of the contract administration activities to ensure delivery of the items in conformance with the contract and to report to cognizant activities any impending failure of a contractor to perform. This chapter reviews the following three issues involving the performance of the contract administration functions:

Production Surveillance and Responsive Reporting

Quality Assurance Versus Defective Items

Assurance of Performance by the Government Under Terms of the Contract.

## 2. PRODUCTION SURVEILLANCE AND RESPONSIVE REPORTING

a. Statement of the Problem. The implementation of the recommendations of Project 60[1] in 1965 transferred the functions of production surveillance from the Departments of the Army, Navy, and Air Force, and the Defense Supply Agency to the Defense Contract Administration Services (DCAS) organization for central procurements and supply contracts, with some exceptions.[2] This action occurred simultaneously with acceleration of the Vietnam conflict and contributed to the problems of coordinating pre-award and production status information by the Services and Defense Supply Agency with DCAS.[3]

(1) Significance. The buying organizations and the requiring activities need to be advised of an impending contractor delinquency so that their plans may be adjusted to take into consideration the effect of any contract delivery delinquency.

(2) Previous Studies. Some deficiencies of the contract reporting system have been recognized. In a letter from the Director of DSA to the Chairman, JLRB, dated 1 March 1969, the Director commented that "a more effective reporting system is needed for DSA-DCAS Regions to keep the military services informed on production status of contracts being administered by DCAS." An Air Force-Defense Contract Administration Services (DCAS) Working Level Group has been established for the purpose of improving DCAS support to the Air Force. Also, during the last several years, representatives from various DOD activities have been working on Military Standard Contract Administration Procedures (MILSCAP). This new electronic data processing system is planned to standardize the flow of information between contract administration regions, Inventory Control Points (ICPs), and contractors. Plans are being made to implement the system in the early 1970s.

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[1] Project 60 was established to propose a plan for establishing uniform field contract management functions, such as quality control, review of subcontracting practices, property administration, industrial security review, and price proposal reviews, and to provide alternate plans for placement of contract management and organization therefore within the Department of Defense.

[2] The Departments of the Army, Navy, and Air Force retained cognizance of some plants involving research and development, maintenance and overhaul, construction contracts, and some special contracts.

[3] See Tables 6 and 7 for examples of submittals of DD 375s.

(3) Contract Administration Services Organization and Responsibilities. The Department of Defense has assigned primary responsibility for contract administration to the Defense Contract Administration Services of the Defense Supply Agency. However, the Army, Navy, and Air Force have retained cognizance of special category contracts such as major weapons systems, large civil works contracts, shipbuilding, contracts for airlift, sealift, marine architectural services, stevedoring, and missile site activation. These contracts are administered by representatives who report to their respective Services.

(a) Defense Contract Administration Services. In 1965 the major reassignment in the contract service management area was completed by the establishment of the DCAS. This single transaction involved the transfer of some 20,000 personnel from the Army, Navy, Air Force, and DSA to eleven DCAS regions across the United States.[4] Basically this action encompassed the centralization of the field contract management responsibilities and the nationwide consolidation of the separate military and DSA field offices engaged in contract administration functions. The consolidation did not embrace the buying function, but rather the administration of contracts in the field after they have been executed by the contracting offices. Under this concept, the consolidated offices present to industry a uniform group of procedures and contract administration services, and thus reduce the number of Department of Defense activities confronting the contractors with such common functions as contract administration, security, inspection, quality assurance, production process reporting, financial management, small business and labor surplus and equal employment opportunity administration. The Defense Contract Administration Services activities are geographically disbursed throughout the United States to accomplish the contract administration functions involving about 4,800 plants. For example, their activities are in 98 separate locations and are organized into region, district, area offices, and resident offices.

| DCAS Geographic Offices | | Personnel[5] |
|---|---|---|
| Regions | 11 | |
| Districts | 24 | |
| Area Offices | 23 | |
| Resident Offices | 40 | |
| Total | 98 | 23,895 |

(b) Service Responsibility. The Services perform the same type of contract administration support in those plants where they retain cognizance that DCAS performs. However, the Services normally station plant representatives within those plants where they retain surveillance. The number of resident offices assigned is as follows:

| Resident Offices[6] | | Personnel |
|---|---|---|
| Army | 34 | 2,100 |
| Navy | 72 | 6,900 |
| Air Force | 42 | 4,200 |
| Total | 148 | 13,200 |

It is significant that the Services lost many of their highly skilled personnel to DCAS when it was established. Most of production engineering, pricing, and quality assurance personnel of the Services were transferred to DCAS. For the Services to properly accomplish their procurement mission, DCAS must be highly responsive to Service needs. The contract administration activities discussed in this monograph pertain to the Defense Contract Administration Services under the Defense Supply Agency.

[4] Defense Supply Agency, An Introduction to the Defense Supply Agency, January 1969.
[5] Personnel figures as of June 30, 1968. Defense Supply Agency, An Introduction to the Defense Supply Agency, January 1969, p. 35.
[6] Not included: offices performing on basis of category of contract assignment, such as construction, stevedoring, missile site activation, airlift, and sealift.

b. Analysis

(1) Prime or ultimate responsibility for procurement of an item from inception to completion is retained by the procuring activity which awarded the applicable contract. This is true, although selected contract administrative functions, including the function of on-site production surveillance, are ordinarily assigned to a contract administration activity. (An exception would be the case of certain small procurement actions.) Contract administration activities include those organizations assigned to the Defense Contract Administration Services under the Defense Supply Agency and those plant representatives under the Services. Each contractor's plant is under the cognizance of either the applicable DCAS region or the military department plant representative with respect to administrative functions having to do with all defense contracts applicable to that plant. Once the surveillance function has been transferred from the buying organization to a Contract Administration Services office, a communication problem is encountered. The procuring contracting officers (PCOs) must be in a position to know the status of the contract to effectively support the supply requirements. Under the present system, the PCOs must depend on a second party to accomplish the surveillance and filter to him the information needed in order that he may determine appropriate action, such as delivery status of the contract or contractual amendments.

(2) During the period of review for this monograph, nine buying organizations were visited.[7] Each expressed a need for more current information pertaining to potential contract delinquencies. The management-by-exception principle is employed in production status reporting. Unless a delinquency report is received, the procuring organizations assume that production is on schedule. Representatives of the Navy Electronics Supply Office (ESO), Great Lakes, Illinois, commented that the frequency and accuracy of receipt of DD Forms 375 vary considerably from one CAS office to another. Unless some type of notice is received ESO is unaware of a delay. It often comes to ESO's attention when a first article or test report is not received on time. To further illustrate the point, the Sacramento Air Materiel Area (SAMMA) advised that during the 3-month period of June, July, and August 1969, there were 121 delinquency reports submitted by the various CAS organizations. During this same period SAMMA experienced 1,197 delinquent line items.

(3) A number of factors influence the effectiveness of the production surveillance functions that have been delegated to the Contract Administration Services.

(a) Pre-Award Survey. The pre-award survey is the best means available to the procuring contracting officer (PCO) of ensuring that a contractor will perform within the terms of a contract before the award is made.

> "A pre-award survey (PAS) is an evaluation by a contract administration office of a prospective contractor's capability to perform under the terms of a proposed contract. Such evaluation shall be used by the contracting officer in determining the prospective contractor's responsibility. The evaluation may be accomplished by use of (i) data on hand, (ii) data from another Government agency or commercial service, (iii) or an on-site inspection of plant and facilities to be used for performance on the proposed contract or (iv) any combination of the above."[8]

The PCO has the option of requiring that a PAS be conducted on any contractor whose capability of performing under terms of the contract is in question. A PAS should reveal whether the contractor has the technical capability to perform, the open capacity to meet the production schedule, an adequate quality assurance program, and the financial resources to satisfy performance. If

[7] Defense Personnel Support Center, Philadelphia, Pa.; Defense Industrial Supply Center, Philadelphia, Pa.; Aviation Supply Center, Philadelphia, Pa.; Marine Corps Supply Center, Philadelphia, Pa.; U.S. Army Aviation Systems Command, St. Louis, Mo.; San Antonio Air Materiel Area, San Antonio, Texas; Sacramento Air Materiel Area, Sacramento, Calif.; Navy Procurement Regional Office, Oakland, Calif.; and Army Procurement Agency, Oakland, Calif.

[8] The Armed Services Procurement Regulation 30 June 1963, para. 1-905.4.

the PAS were accomplished adequately, the contract delinquencies and default actions would become minimal.

1. Accomplishment of Pre-Award Survey. PASs are accomplished by the contract administration activity having cognizance over the plant being surveyed. The buying activity is authorized to participate in the PAS upon coordination and agreement between the two activities.

2. Effectiveness of Pre-award Surveys. The effectiveness of a PAS can be determined by comparing the performance of a contractor with the recommendation of the PAS. Listed below are the results of studies made by three activities pertaining to PASs conducted by the Defense Contract Administrative Services.

a. DCAS Analysis. An analysis of PASs accomplished by DCAS in December 1967 showed that the surveys were 82 percent effective for contracts on which they recommended award covering the 1 January 1967 through 30 June 1967 period. The performance of 4,708 contracts for this period was compared with the PASs. A breakout of the analysis is as follows:

| Jan-June 1967 | Award Recommended | Award Not Recommended |
|---|---|---|
| Completed on schedule | 1,533 | 67 |
| Open, and on schedule | 2,044 | 133 |
| Completed delinquent | 813 | 118 |
| Total | 4,390 | 318 |

It is also noted that DCAS was in error on 63 percent of the surveys in which they recommended "no award." In these instances the PCO disregarded the DCAS no-award recommendation and made the award.

b. Defense Personnel Support Center Analysis. The Defense Personnel Support Center, Philadelphia, Pa., selected at random 74 purchase requests from which 83 contractor awards were made. These awards for military dress uniforms were made during the April 1968 through May 1969 period. Current Defense Supply Agency regulations require a PAS before any contract award is made for military dress items. The following data compare the PAS recommendations with the actual results of contract awards.

| Pre-Award Survey Recommendations | | Results | |
|---|---|---|---|
| Complete award | 76 (91.6%) | Delivered as projected | 49 (59%) |
| Partial award | 4 (4.8%) | Delivered later than projected | 34 (41%) |
| No award | 3 (3.6%) | | |
| Total | 83 | Total | 83 |

According to these data the DCAS surveys were accurate 59 percent of the time. However, during this period there was a flu epidemic which delayed 10 contractors; these delivery schedules were extended under the excusable delay clause. The flu epidemic could not have been foreseen, of course, by the pre-award surveyor. Considering this excusable delay, the effectiveness of the survey could be computed about 72 percent. Defense Personnel Support Center PCOs did not override any of the no-award recommendations.

c. Defense Contract Administration Services-Air Force Working Level Conference. The DCAS-USAF conference held at Cameron Station on 1 May 1969 addressed the problem of the reliability of the PAS.[9] Minutes of this meeting point out that despite concerted efforts of both the Air Force and DCAS to improve the validity of the PAS, the progress made was not sufficient to prevent some serious problems. In a 9-month period beginning September 1968, 19 contracts were terminated for default after affirmative PASs were given. Of these, 14 were due to financial problems which should have been detected during the PASs. Other difficulties included:

Inability to acquire adequate skills on a timely basis and retain skills needed.

Inability to meet scheduled startup times.

Lack of adequate personnel training programs and plans.

Equipment failure and facility additions not planned realistically.

Inadequate management controls in areas of requisitioning, supply, quality, production, safety, purchasing, and planning.

Lack of understanding of the technical requirements of the contract.

3. Timeliness of Pre-Award Surveys. In determining the number of days by which a purchase request should be submitted to the PCOs before delivery can be made under a contract, the total administrative lead time in making the award, as well as the production lead time required to produce the items, must be taken into consideration. The Armed Services Procurement Regulation allows the DCAS activity 7 work days to accomplish the PAS. Considering mailing time, normally 10 to 14 days will lapse from the time a PAS is requested until it is returned to the PCO. A delay in accomplishing the PAS will delay the award of the contract, and thereby affect supply availability. From a funding point of view, it is important that total procurement lead times be minimal because the funds are committed upon initiation of the purchase request, thereby preventing their use for procurement of other supplies or services. Data contained in Tables 4 and 5 show the processing time of sample PASs.

TABLE 4

CLOTHING AND TEXTILES, DEFENSE PERSONNEL SUPPORT CENTER, DCAS PRE-AWARD SURVEYS, FY 69

| DCAS Region | Total Surveys | Days Allowed | Written Rept. Days Elapsed | Surveys On Time | Surveys Late |
|---|---|---|---|---|---|
| Atlanta | 434 | 13.3 | 14.0 | 140 | 294 |
| Boston | 166 | 15.2 | 16.9 | 62 | 104 |
| Chicago | 62 | 14.3 | 16.6 | 20 | 42 |
| Cleveland | 24 | 13.7 | 14.8 | 2 | 22 |
| Dallas | 104 | 13.8 | 16.0 | 30 | 74 |
| Detroit | 20 | 13.4 | 16.6 | 4 | 16 |
| Los Angeles | 28 | 13.0 | 16.6 | 6 | 22 |
| Philadelphia | 249 | 13.1 | 15.9 | 85 | 164 |
| New York | 336 | 14.4 | 18.2 | 95 | 241 |
| San Francisco | 14 | 16.0 | 18.7 | 3 | 11 |
| St. Louis | 52 | 13.8 | 16.2 | 19 | 33 |
| Total | 1489 | 13.9 | 16.1 | 466 | 1023 |

Source: Defense Personnel Support Center, Defense Supply Agency, Philadelphia, Pa.

[9] Letter, Department of Air Force, AFSPPMA, subject: Meeting With Joint Logistics Review Board Representatives, 12 September 1969; with enclosure Defense Supply Agency, DCAS-T, Memorandum for Record, subject: Fourth DCAS-Air Force Working Level Conference, 11 July 1969.

TABLE 5

AIR FORCE LOGISTICS COMMAND, DCAS PRE-AWARD SURVEYS

| DCAS Region | Total Surveys | Completed 0-7 Days | Completed 8+ Days | Extensions Requested | Late Surveys |
|---|---|---|---|---|---|
| Atlanta | 27 | 10 | 17 | 13 | 4 |
| Boston | 17 | 8 | 9 | 4 | 5 |
| Chicago | 20 | 13 | 7 | 5 | 2 |
| Cleveland | 25 | 7 | 18 | 11 | 7 |
| Dallas | 60 | 31 | 29 | 14 | 15 |
| Detroit | 6 | 5 | 1 | 1 | 0 |
| Los Angeles | 129 | 27 | 102 | 43 | 59 |
| New York | 94 | 30 | 64 | 28 | 36 |
| Philadelphia | 39 | 20 | 19 | 3 | 16 |
| San Francisco | 22 | 2 | 20 | 9 | 11 |
| St. Louis | 76 | 49 | 27 | 14 | 13 |
| Total | 515 | 202 | 313 | 145 | 168 |

Source: Letter, Department of Air Force, AFSPPMA, subject: Meeting With Joint Logistics Review Board Representatives, 12 September 1969; with enclosure Defense Supply Agency, DCAS-T, Memorandum for Record, subject: Fourth DCAS-Air Force Working Level Conference, 11 July 1969.

a. Defense Personnel Support Center Experience on Receiving Pre-Award Surveys Accomplished by DCAS. Table 4 reflects the lead time experienced by the Defense Personnel Support Center in receiving the PASs accomplished by DCAS. These surveys were delinquent in 78 percent of the actions.

b. Defense Contract Administration Services-Air Force Working Level Conference. The DCAS-USAF conference held at Cameron Station on 1 May 1969 showed that, of 515 PASs conducted by DCAS, 168 or 32 percent of the surveys exceeded either the prescribed 7-day period or the extended time period authorized by the purchasing office (see Table 5).

(b) Surveillance Responsibility. Contract surveillance includes Government activities to ensure that a contractor performs within the terms and specifications of the contract. The DCAS under DSA has been assigned the responsibility for contract surveillance for all contracts throughout the United States, with the exception of contracts in approximately 148 plants in which the Services have retained cognizance. The DCAS has the responsibility for approximately 4,800 plants throughout the United States. During the course of the review, production surveillance deficiencies were not surfaced against the DCAS activities under the cognizance of the Departments of the Army, Navy, and Air Force. The following remarks pertain to the support rendered by the DCAS.

(c) Production Status Reporting. The establishment of the DCAS did not relieve buying activities of production management responsibilities. In fact, retention of the PCO function, with its inherent authority and responsibility for major contract decisions, is necessarily accompanied by ultimate responsibility for production performance. The PCO is responsible for timely delivery of supplies and services. His commander must also be currently and accurately informed of each contractor's actual and anticipated performance. As a minimum, the PCO must be currently informed of actual deliveries. He must also know the causes of any actual or potential delay in delivery, the corrective actions being undertaken to overcome these problems, and the expected get-well date for each contract. These data are essential inputs to tactical planning for force development, activation, deployment, and troop support. They also provide a sound basis for developing realistic strategic plans. DCAS, as the PCO's agent, must provide this information in a timely manner.

1. DD Form 375—Production Progress Report. The standard DOD production status report is DD Form 375, Production Progress Report, which employs the management-by-exception principle. Unless the buying organizations are notified to the contrary, they can assume that the contractor is on schedule. According to ASPR Section 25, dated 1 January 1969, whenever a delinquency or default occurs under any contract not requiring a recurring Production Progress Report by the contractor, the contract administration office shall report this condition to the purchasing office and to the status control activity or inventory control manager. Furthermore, a DD Form 375 should be submitted for all potentially or actually delinquent contract line items (estimated to be delinquent 30 days) on which PCO action is required. The DOD and DCAS instruction prior to the ASPR revision, dated 1 January 1969, required the contractor to submit DD Form 375 on impending delinquencies, assuming the report requirement was part of the contract. The administrative contracting officer (ACO) then commented on the accuracy of the contractor statements and forwarded the form to the PCO. This procedure was not effective because it required the contractor to place himself on report. However, DCAS was still under the obligation to see that a DD Form 375 was filed and that the inventory managers and the PCOs were advised of any impending delinquency. A review of production status reporting performance during the Vietnam era showed a need for a more prompt reporting system.

a. Defense Contract Administration Services-Air Force Working Level Conference. Statistics presented at the Fourth DCAS-Air Force Working Level Conference held at Cameron Station on 1 May 1969 illustrates the processing of DD Forms 375. Analytical data pertaining to the submittal of the DD Form 375 are presented in Tables 6 and 7.[10] Air Force Logistics Command data for 1968, as shown in Table 6, indicate that, of the 549 line item samples actually delinquent over 60 days during January-March 1968, only 157 DD Forms 375 were submitted by DCAS. DD Forms 375 were submitted in only 29 percent of the delinquency cases checked. The data for 1969 indicate that, of 1,525 line items actually delinquent over 60 days, only 499 DD Forms 375 were submitted by DCAS. Thus, DD Forms 375 were submitted in only 33 percent of the delinquency cases. To effect prompt remedial action it is essential that DD Form 375 be submitted to the purchasing activity as soon as applicable after a potential or actual delinquency is discovered by the contract administration office. The 1968 sample data (Table 7) show that only 157 or 42 percent of DD Forms 375 were submitted by DCAS before the delinquency had extended over a 30-day period, and that 131 or 35 percent of DD Forms 375 were on delinquencies in the 30- to 60-day range. In 1968, 23 percent of DD Forms 375 were not submitted until the delinquency had extended over 60 days. The 1969 data show about the same grouping. Of 762 DD Forms 375 submitted to AFLC during January-February 1969, 43 percent were on delinquencies of less than 30 days, 33 percent were on delinquencies in the 30- to 60-day range and 24 percent were on delinquencies extending beyond 60 days.

2. Buying Organizations Maintain Contract Delivery Status Function. The buying organizations maintain a contract delivery status as well as DCAS. However, buying organizations depend on DCAS for the prompt submittal of the DD Form 375 alerting them to potential contract delinquencies.

a. Defense Personnel Support Center (DPSC). The Defense Personnel Support Center established a production expediting function during the 1965-69 period. This activity is still functional on items that become critical. Close coordination is required between DPSC and DCAS in expediting and tracking the delivery status of critical supply items.

b. Air Force Logistics Command. The Air Materiel Areas (AMAs) of the Air Force Logistics System maintain a contract delinquency status reporting system identified as the JO-13 Contract Status Information System. The data are provided semimonthly and identify all delinquent contract line items and the number of days each is delinquent. The system covers central procurement contracts within the AMA and contracts awarded as a result of outgoing Purchase Requests/Military Interdepartmental Purchase Requests. The system does not include maintenance or overhaul contracts. The JO-13 system used by the AMAs is a complete reporting system. On the JO-13 report, follow-up action is initiated with the cognizant DCAS organization to determine the reason a contractor has not delivered.

[10] Letter, Department of Air Force, AFSPPMA, subject: Meeting With Joint Logistics Review Board Representatives, 12 September 1969; enclosure, Defense Supply Agency, DCAS-T, Memorandum for Record, subject: Fourth DCAS-Air Force Working Level Conference, 11 July 1969.

TABLE 6

SAMPLE OF DD FORMS 375 RECEIVED FROM DCAS REGIONS ON HARDWARE DELINQUENCIES EXCEEDING 60 DAYS

| DCAS Region | 1968 Line Item | 1968 DD Form 375 No. | 1968 Submitted Percent | 1969 Line Item | 1969 DD Form 375 No. | 1969 Submitted Percent |
|---|---|---|---|---|---|---|
| Atlanta | 10 | 2 | 20 | 56 | 8 | 14 |
| Boston | 44 | 12 | 27 | 188 | 70 | 37 |
| Chicago | 33 | 23 | 70 | 141 | 52 | 37 |
| Cleveland | 72 | 27 | 38 | 86 | 44 | 51 |
| Dallas | 26 | 9 | 35 | 113 | 59 | 52 |
| Detroit | 22 | 3 | 14 | 139 | 30 | 22 |
| Los Angeles | 141 | 18 | 13 | 348 | 109 | 31 |
| New York | 77 | 24 | 31 | 258 | 67 | 26 |
| Philadelphia | 82 | 25 | 30 | 99 | 25 | 25 |
| San Francisco | 21 | 1 | 5 | 46 | 11 | 24 |
| St. Louis | 21 | 13 | 62 | 51 | 24 | 47 |
| Total | 549 | 157 | 29 | 1525 | 499 | 33 |

Source: 1968—Jan, Feb, Mar, 4 AFLC AMAs; 1969—Jan, Feb, 5 AFLC AMAs; Letter, Department of Air Force, AFSPPMA, subject: Meeting With Joint Logistics Review Board Representatives, 12 September 1969, with enclosure Defense Supply Agency, DCAS-T Memorandum for Record, subject: Fourth DCAS Air Force Working Level Conference, 11 July 1969.

TABLE 7

PERIOD OF DELINQUENCY UPON RECEIPT OF DD FORMS 375 (ACTION DOC) 1969

| DCAS Region | No. in Sample | 0-30 Days No. | 0-30 Days Percent | 31-60 Days No. | 31-60 Days Percent | Over 60 Days No. | Over 60 Days Percent |
|---|---|---|---|---|---|---|---|
| Atlanta | 50 | 36 | 72 | 9 | 18 | 5 | 10 |
| Boston | 81 | 30 | 36 | 32 | 39 | 19 | 23 |
| Chicago | 77 | 37 | 47 | 24 | 31 | 17 | 22 |
| Cleveland | 57 | 29 | 51 | 12 | 21 | 16 | 28 |
| Dallas | 113 | 51 | 45 | 31 | 27 | 31 | 27 |
| Detroit | 33 | 12 | 36 | 12 | 36 | 9 | 27 |
| Los Angeles | 119 | 44 | 37 | 41 | 34 | 34 | 28 |
| New York | 94 | 29 | 31 | 48 | 51 | 17 | 18 |
| Philadelphia | 42 | 17 | 40 | 12 | 28 | 13 | 31 |
| San Francisco | 33 | 16 | 48 | 10 | 30 | 7 | 21 |
| St. Louis | 63 | 27 | 43 | 22 | 35 | 14 | 22 |
| 1969 Sample Total | 762 | 327 | 43 | 253 | 33 | 182 | 24 |
| 1968 Sample Total | 375 | 157 | 42 | 131 | 35 | 87 | 23 |

Source: 1968—Jan, Feb, Mar, 4 AFLC AMAs; 1969—Jan, Feb, 5 AFLC AMAS; Letter, Department of Air Force, AFSPPMA, subject: Meeting With Joint Logistics Review Board Representatives, 12 September 1969, with enclosure, Defense Supply Agency, DCAS-T, Memorandum for Record, subject: Fourth DCAS Air Force Working Level Conference, 11 July 1969.

c. Army, Navy, Air Force, and DSA Use of DD Form 375. From 1965 to 1968 the Army used a form identified as Notice of Delay Item (NODI) that reported delinquent items to the Army. However, this form was discontinued in 1968. The Services now use the DD Form 375 submitted by DCAS to alert them to potential delinquencies. Prompt and accurate contract status reporting by DCAS is essential for buying organizations to properly react to potential contract delinquencies.

3. DD Form 250: Material Inspection and Receiving Report. From the production status point of view, the DD Form 250 is of paramount importance. It is the document which notifies the Government representatives that deliveries have been made under the contract. This is a multipurpose report used for:

| | |
|---|---|
| Procurement Quality Assurance (PQA)—to provide evidence of PQA at origin or destination | Receiving |
| | Shipping |
| Acceptance—to provide evidence of acceptance at origin or destination | Contractor Invoice |
| | Contractor commercial invoice support |
| Packing List | Contractor internal use. |

a. Distribution. The ASPR specifies the distribution of the DD Form 250.[11] It states that the contractor is responsible for the preparation and distribution of the form. The standard distribution requires that copies be furnished to the consignee, contract administration office, purchasing office, and payment office. Special distribution is also made on a required basis to the Navy status control activity; Army, Air Force, DSA inventory control manager; quality assurance representatives; transportation office issuing Government Bill of Lading (GBL); and other activities having a need to know of the shipment. Under the present production status reporting system, an excessive amount of administrative follow-up effort is necessitated if DD Form 250 is not submitted. For example, the PCO uses DD Form 250 to prove that the items have been delivered and have met quality requirements. The Inventory Control Points and contract status activities use it to show delivery status against contracts. The proper functioning of the Air Force Logistics Command Contract Status Information System (JO-13) depends upon timely distribution of DD Form 250. It provides feeder information into the JO-13 system. Nevertheless, it is the contractor's responsibility to submit DD Form 250; it is the function of the administrative contracting officer to ensure that it is submitted. Prompt submittal will reduce necessary administrative follow-up actions to determine delivery status of contract items.

4. Standard Contract Administration Procedures. The DOD has under development a Military Standard Contract Administration Procedures (MILSCAP) system that should be implemented in the 1970-72 time period. The MILSCAP is an electronic data processing system that should standardize and expedite the flow of information between contract regions, Inventory Control Points (ICPs), and the contractors. It is planned that this system will rectify the deficiency of the tardy surveillance and delivery reports.

(d) Late Deliveries. One of the purposes of the pre-award survey (PAS) as discussed above is for ensurance that the contractor will perform in accordance with the contract delivery schedule before the contract is awarded. If, after the contract is awarded, it is determined that the contractor is not going to meet his delivery schedule, DCAS should submit a DD Form 375, Production Progress Report, alerting cognizant Government personnel to the potential

[11] Armed Services Procurement Regulation, Appendix I-401, specifies the distribution of DD Form 250.

delinquency so that they can plan accordingly. Late deliveries in many instances caused supply shortages, and in all cases increased the workload on procurement and production personnel. Once a contract became delinquent, a whole chain of administrative actions was initiated. Supply people issued emergency follow-up requisitions, production personnel reported on the cause of the delinquency, contracting personnel adjusted delivery schedules with the time-consuming negotiation effort to effect adequate consideration for breech of contract, and a quantity of correspondence and visits ensued between contractor and procurement personnel.

1. Need for Defintion of Contract Delinquency. For reporting purposes various organizations within DOD use different dates for reporting a contract delinquency. Some activities use the date the contract is due; others consider the contract on time if it is delivered within the month that it is due. Further, the method used by some activities in computing delinquent contracts is misleading. For example, DCAS, includes all contracts administered in the base for measuring delinquent contracts, whether or not they are scheduled for delivery. Thus the delinquent contract ratio gives consideration to those contracts which are not scheduled for delivery. Using the DCAS method of computing a delinquency rate, approximately 10 percent of the contracts will be reflected as delinquent, whereas, using a base number limited to contracts actually scheduled for delivery, approximately 28 percent of the contracts will be reflected as delinquent.

2. Causes of Late Deliveries. Late deliveries are caused by both the contractor and the Government. A U.S. Army Audit Agency report concerning causes of delinquent contracts of the U.S. Army Electronics Command determined that 70 percent of the causes were induced by the contractor and 30 percent by the Government.[12] These estimates are based on an analysis of 37 delinquent contracts. The General Accounting Office (GAO) in its review of causes of delinquencies at six buying activities determined that the contractor was responsible for 80 percent of the delinquencies and the Government was responsible for 20 percent.[13]

a. Contractor-Induced Delinquencies. The General Accounting Office survey showed the greatest number of delinquencies caused by contractors to be attributed to suppliers who ship late or furnish defective parts, vendor/contractor plant saturation, lack of trained personnel, poor production planning, machine breakdown, shortage of parts, inadequate tooling, administrative delay, technical problems, financial problems, and start-up problems.

b. Government-Induced Causes. The Army Audit Report NE 69-19P pertaining to delinquencies of the Army Electronics Command listed the following deficiencies on the part of the Government as causing contract delinquencies:

Delays in providing Government-furnished property (GFP).

Deficiencies in the technical data package (TDPs).

Inadequate determination of prospective contractor's capabilities.

The General Accounting Office survey showed the following deficiencies on the part of the Government which cause contract delinquencies:

Administrative delay/oversight

Faulty specifications

Design changes

Priority—highest priority expedited

[12] Northeastern District, USAAA, Report of Audit, Procurement Functions U.S. Army Electronics Command, Fort Monmouth, New Jersey: Audit Report No. NE 69-19P, Philadelphia, Pa., 15 May 1969.
[13] General Accounting Office, Schedule of Problem Areas—Frequency of Occurrence, 1967.

Failure to deliver GFE/GFP

Unrealistic delivery schedules.

This includes the same three causes as listed in the Army Audit Report No. NE 69-19P.

c. Excessive Production Lead Times (PLT). Another cause for late deliveries was the increasing production lead times (PLTs) being experienced during the 1965-69 time period. The principal reasons for the increase in PLT were:

The increased volume of Government business with firms already engaged in a high volume of commercial business.

Shortage of raw materials, purchased parts, and subcontracted items.

Urgent buys which interrupted routine business production.

Suppliers aware of long lead times required to get certain components did not respond to invitations to bid which specified fixed delivery schedules. To get responsive bids, centers were forced to extend delivery schedules. In negotiated procurement, contractors insisted on extended schedules.

Suppliers working on DO rated orders were frequently required to interrupt production to work on DO rated orders issued by other procuring agencies. Some subcontractors were not willing to disrupt their production by giving priority to DX and DO rated orders. Procurement activities had limited means to enforce priority requirements under existing conditions. It was Government policy to obtain the support of industry to honor the priority system on a voluntary basis.

Labor shortages prevented many suppliers from increasing their rates of production.

Many industries operating at full or nearly full capacity were reluctant to risk possible loss of permanent and profitable commercial business by giving priority to large defense orders that would cease almost immediately on termination of hostilities. The situation was somewhat different when excess capacity existed, since contractors accommodated both defense needs and commercial business.

Table 8 shows examples of the growth of PLT experienced by the Defense Supply Centers.[14] Similar growth of production lead times was experienced throughout American industry. The August 25, 1966, September 8, 1966, and October 6, 1966, issues of Purchasing Magazine showed that production lead times for most items had doubled and many had tripled.

3. Effect of Expanding Lead Times on Contract Delivery. In many instances the PCOs did not take into consideration the increasing PLT being experienced by industry. Contracts were awarded containing historical PLTs to subsequently become delinquent because of the industry-wide expansion of PLTs. The unrealistic PLTs contained in the contract resulted in the inability to forecast accurately receipts in support of programmed stock levels. This had a major effect on the back-order position and the ability to execute the supply management program. Further, when the delivery schedules in the contracts could not be met, the results were unproductive expediting attempts and administrative actions related to delinquent contracts that sometimes led to termination and legal difficulties.

## 3. QUALITY ASSURANCE VERSUS DEFECTIVE ITEMS

a. Statement of the Problem. The problem is to ensure that only those items that conform to contract specifications are delivered to the Government.

[14] Defense Supply Agency (DSAH PRS), Letter, subject: Production Lead Time (PLT), 31 October 1969.

TABLE 8

PRODUCTION LEAD TIME GROWTH

Defense Industrial Supply Center

| Commodity | Production Lead Time (days) FY 65 | FY 66 | FY 67 |
|---|---|---|---|
| Basic Metals | 60-80 | 90-220 | |
| Bearings | 90-180 | 180-210 | 210-240 |
| Wire and Cable | 60-210 | 120-300 | 150-360 |
| Hardware | 30-60 | 90-150 | 90-150 |
| Rope and Chain | 90-150 | 150-210 | 150-300 |

Defense Construction Supply Center

| Commodity | 31 Dec 65 (days) | 30 June 66 (days) |
|---|---|---|
| Hose, Fire | 150 | 210 |
| Axle | 90 | 300 |
| Brake Lining | 90 | 195 |
| Fram & Stator | 120 | 210 |
| Rotor Ay | 90 | 140 |
| Engine, Diesel | 180 | 370 |
| Engine, Diesel | 135 | 275 |
| Starter | 195 | 270 |
| Tarpaulin | 150 | 215 |
| Cutting Edge | 75 | 165 |
| Gage | 105 | 150 |
| Engine | 135 | 195 |
| Meter, Frequency | 90 | 267 |
| Tube, Copper | 120 | 210 |
| Tie Rod | 90 | 165 |

Defense Personnel Support Center

| Commodity | Normal PLT | FY 66 & 67 (days) |
|---|---|---|
| Sateen Field Coat | 135 | 195-225 |
| Combat Poplin Coat | 135 | 195 |
| Wool Overcoat | 39 | 69-99 |
| Polyester Coat | 135 | 195 |
| Sateen Overcoat | 135 | 195-225 |
| Combat Poplin Trousers | 135 | 195 |

(1) Significance. The need for an efficient and effective quality assurance program within the Department of Defense becomes more important as the cost and complexity of weapons and space systems being procured increase. The need is further accentuated by the specialized nature of the products and the correspondingly small quantities being procured. An effective quality assurance program will decrease acquisition lead time and improve logistic support of DOD organizations.

(2) Previous Studies. The area of quality assurance is under constant study and evaluation. Two proceedings that have reviewed and established the present DOD quality assurance goals were the Defense Conference on Quality and Reliability Management held 2, 3, and 4 August 1966 at Annapolis, Maryland, and the DOD Contract Management Conference (Impact '73) held in Dallas, Texas, in the fall of 1968. The results of these meetings are recorded in Department of Defense, Proceedings Defense Conference on Quality and Reliability Management, 2, 3,

and 4 August 1966, Annapolis, Maryland, Volume I; and Department of Defense, DOD Contract Management Conference, Impact '73, Report Panel 9, Dallas, Texas, 1968.

b. Analysis

(1) Background. Since World War II the trend in quality assurance has progressed from the concept of the Government performing 100 percent inspection to the concept of contractor responsibility.

(a) One Hundred Percent Inspection. Until World War II the military procurement activities operated on the basis of 100 percent inspection before acceptance of items of supply. The Government maintained a sizable inspection organization whose purpose was to protect the Government against defective material. Under this concept the manufacturer produced things and delivered them to the Government. The Government inspectors did their best to examine these products and return rejects to the contractor. However, the tremendous materiel requirements of World War II furnished the impetus of new inspection techniques. Further, the use of statistical techniques provided a technical base for a more modern policy of quality assurance.

(b) Contractor Responsibility. Subsequent to World War II the Air Materiel Command (later designated the Air Force Logistics Command) of the Department of Air Force assumed leadership in developing a new approach to materiel quality assurance. In the Air Force's view, quality assurance was "... first and foremost the responsibility of the producer."[15] No matter how intensive Government inspection might be, the Government itself cannot provide adequate protection against receipt of defective material. This was particularly true as weapons systems became more complex. Under this concept, the Government buys more from industry than the product. It buys the product plus proof that the product is satisfactory. By assigning irrevocable responsibility to the producer, the traditional "buyer beware" theory of the consumer market is removed from the military market. It was under the policy of contractor responsibility for product conformance that items were delivered during the Vietnam era.

(2) Factors Bearing on the Problems. The DOD quality assurance concept places responsibility on:

The Government, for establishing contractual quality requirements.

The contractor, for controlling product quality and for offering to the Government, for acceptance, only those supplies and services that conform to contractual requirements and, when required, for maintaining and furnishing substantiating evidence of the conformance.

The Government, for determining the contractual requirements have been compiled with prior to acceptance of the supplies or services.[16]

(a) Government-Established Quality Requirements. The Government imposes quality requirements or inspection system requirements on the contractor by incorporating in the contract one of two military specifications, either MIL-I-45208A Inspection System Requirements or MIL-Q-9858A Quality Program Requirements. These specifications are described by the Armed Services Procurement Regulation paragraphs 14-101.3 and 14-101.4, respectively, as follows:

"MIL-I-45208A Inspection System Requirements: Inspection System Requirement is a requirement, in addition to the Standard Inspection Requirement, that the contractor establish and maintain an inspection system in accordance with a Government specification. This requirement shall be referenced in contracts when technical

[15]John J Riordan, Protecting the Consumer Against Inferior Quality, DOD Quality Assurance Policy, Part I, unpublished and in his possession, U.S. Department of Defense, Washington, D.C.
[16]Office of Secretary of Defense, Procurement Quality Assurance Handbook H-57, June 1969.

requirements are such as to require control of quality by in-process as well as final end item inspection, including control of such elements of the manufacturing process as measuring and testing equipment, drawings and changes, inspection, documentation and records. The objectives and essential elements of an inspection system are prescribed in MIL-I-45208, which shall be referenced in contracts when an inspection system requirement has been established."

"MIL-Q-9858A Quality Program Requirements: Quality Program Requirement is a requirement, in addition to the Standard Inspection Requirement, that the contractor establish and maintain a quality program in accordance with a Government specification. Such a requirement shall be established when the technical requirements of the contract are such as to require control of work operations, in-process controls, and inspection, as well as attention to other factors (e.g., organization, planning, work instructions, documentation control, advanced metrology). The objectives and essential elements of a quality program are prescribed in MIL-Q-9858, which shall be referenced in contracts when a quality program requirement has been established."

These two specifications have been used over the past several years and have adequately met the Government needs of establishing the contractual quality responsibilities in the contract.

(b) Contractor Control of Product Quality. Under terms of the contract, the contractor is responsible for controlling product quality and for offering to the Government, for acceptance, only those supplies and services that conform to contractual requirements. In implementing this requirement, the contractor is required to prepare an adequate quality assurance plan containing sufficient in-process inspection checkpoints that will ensure a specification conforming product when it is submitted to the Government for acceptance. This quality assurance plan must be acceptable to the Government quality assurance representatives and the contractor must be able to present evidence that he had complied with the plan.

1. Economy of Contractor Responsibility. As weapons systems complexities and automation of manufacturing processes increase, there is no economic control of quality that approaches contractor responsibility as an effective system. The Government's quality assurance program costs about 6 cents of the procurement dollar. In the aerospace industry it is about 4 or 5 cents, and in ordnance it is closer to 6 or 7 cents.[17] The economy of contractor responsibility is a strength of the system.

2. Statistical Sampling. Although the Government expects the contractor to screen out all defective units, the Government's quality verification program recognizes the probability that some defective units may be in each lot. Based on statistical sampling techniques, it is possible to determine the probability of the number of defective units. The intensity of the Government's inspection program is based on the tradeoff of costs of accepting some defective units versus the cost of the verification inspection.

3. Weakness. Even though sampling verification testing is a strength of the Quality Assurance Program, herein also lies a weakness. The sampling inspection techniques make it possible for a less than honest contractor to introduce several lots of defective materials into the supply system without being detected. The present sampling plan takes into consideration that if a contractor has a good record with no rejected lots, he will be placed on a skip lot inspection basis in which the Government inspector will verify, for example, one out of every five lots presented by the contractor. If the contractor's quality program has a failure or if he "salts a lot,"[18] it is possible for several nonconforming lots to be delivered to the Government. Even though this weakness is described, the overall benefits of the program of contractor

[17] John J. Riordan, U.S. Director of Technical Data, Standardization Policy and Quality Assurance, Office Secretary of Defense, Record of an informal talk, subject: U.S. Department of Defense Quality Assurance Program, in the Ministry of Defense, London, on Friday, 21st March 1969.

[18] Contractor purposely delivers defective units to the Government.

responsibility far outweighs this deficiency. Furthermore, it is the policy of Government procurement to award contracts to only reliable contractors.

(c) Government's Role in Ensuring Performance of Contractual Requirements. Although quality assurance is basically the contractor's responsibility, DOD maintains a capability to ensure that the contractor fulfills his obligations. The Defense Contract Administration Services is assigned the responsibility by DOD for quality assurance of material produced for DOD, except in those plants in which the Services still maintain cognizance. In such plants, the Services are responsible for ensuring that contractors comply with the quality provisions of the contract. Even though the policy of contractor responsibility for quality is good, experiences during the Vietnam era showed that further refinement was needed.

1. Low Dollar Value Contracts. A great deal of emphasis is placed on inspecting high dollar value procurements at the expense of the low dollar value contracts. For example, approximately 90 percent of the contracts issued by Defense Industrial Supply Center are below $2,500. Their annual procurement program is approximately $225 million. The DCAS does not have the resources to inspect all of these low dollar value contracts. Because of the low dollar value, most inspection is at destination where such capability frequently does not exist. As a result some material is introduced into the supply system without adequate inspection.

2. Defective Materials Report. One of the areas that will aid in providing an efficient quality assurance program is a system that will furnish feedback data on deficient items. The major source of the feedback data, once defective items are in the supply system, is the user. If the user reports nonconforming supplies, corrective action can be initiated by the procuring activities. In fact, the absence of defective data reports will stimulate additional defective supplies being introduced into the system. Under the quality assurance sampling procedures, if no supplies are rejected by the Government quality representative at the contractor's plant or if no defective material reports are received from using activities, Government verification of the contractor's inspection is lessened. The contractor will be placed on a skip-lot inspection basis. Of course, the quality representatives must compile, analyze, and take action on the defective material reports. During the Vietnam era the reporting system for defective supplies was cumbersome. For example, during the January 1965 to November 1968 period each Service used its own form in reporting of deficient materials. In 1965, 23 different types of forms reporting deficient materials were received by DCAS. An analysis of the forms used in 1968 showed that those most commonly received by DCAS identified 25 entries of data considered by the military departments and DSA to be necessary for proper reporting. This analysis included in Army form, three each of the Air Force and Navy, and one of DSA. Only six items were common to all forms. One Navy form contained 11 items—the minimum number, and the Army form contained 18 items—the maximum.[19] This situation was rectified in November 1968 with the publication of DOD Instruction 7700.12, dated 27 November 1968, titled Reporting Unsatisfactory Newly Procured and Contractor Maintained Materiels, which directed all activities to use a standard procedure. Since implementation of the DOD Instruction, DCAS advised that the submittals of materiel deficiency reports have increased, but not to the extent expected because of the learning and indoctrination process.

a. Number of Submittals. In 1967 automobile manufacturers were receiving customer complaints at the rate of one per $363 worth of materiel (automobiles) delivered. By contrast, DCAS customers registered quality complaints at the rate of one per $3.6 million worth of materiel shipped.[20] This disparity may indicate that DOD users did not file Unsatisfactory Materiel Reports (UMRs) to alert the quality assurance personnel to deficient equipment, or the UMRs did not reach them. The number of UMRs received by the DCAS averaged 570 per month from the period April 1967 to May 1968.

b. Submittal Procedures. User activities of materiel should be encouraged to submit deficient materiel reports whenever nonconforming supplies are received.

[19] Office of Secretary of Defense (Administration), Directorate for Inspection Services, Defense Supply Agency Inspection Report, 10-28 June 1968, pp. 65, 66.
[20] Ibid.

Maximum use of centralized data collection and analysis should be accomplished so that the source of the materiel may be determined for corrective action and that inventories may be purged of defective units. Further, management procedures must be implemented to ensure that defective materiel reports are submitted to the procuring activities and DCAS (or applicable Government repair activities) whenever defective items are detected.

3. Capability of Quality Assurance Personnel. The capability of the quality assurance personnel is the key to the quality assurance program. For example, on those contracts requiring 100 percent inspection, the difference in job standards, qualifications, and training affect the application of the 100 percent inspection. During the Vietnam era, items were accepted for the Government which did not meet specifications because of the low skill level of the quality assurance personnel. Some of these instances are described in the following paragraphs.

a. Tank-Automotive Command. Table 9 pertaining to the Tank-Automotive Command of the Army Materiel Command illustrates that the in-house component audit produced a reject rate of approximately 22 percent on such items as gear sets, axles, engine valves, pistons, hydraulic pumps, suspension components, water pumps, and oil coolers, based on a sample inspection of 368 units. This rejection rate is compared with the Depot Quality Audit[21] of items that previously had been inspected and accepted by the DCAS Quality Audit Representative on such items as wiring harnesses, steering shafts, control valves, and cylinder assemblies. The rejection rate on these items was 21 percent from a sample of 280 items. The significant point is that the rejection rate for items that had previously been inspected and accepted by the DCAS quality representatives and subsequently audited by the quality audit team at the depot was about the same rate as those items which were inspected with the in-house capability.

b. Defense Personnel Support Center. Similarly, the following items were accepted by the Defense Contract Administation quality audit representatives and shipped into the supply system to be later rejected as nonconforming supplies.

TABLE 9

TANK-AUTOMOTIVE COMMAND, COMPONENT TESTING PROGRAM

In-House Component Audit

Typical Items: Gear Sets, Axles, Engine Valves, Pistons, Hydraulic Pumps, Suspension Components, Water Pumps, Oil Coolers

| Inspected | Acceptable | Unserviceable |
|---|---|---|
| 368 | 286 (78%) | 82 (22%) |

Depot Quality Audit (Inspected After Inspection and Acceptance by DCAS)

Typical Items: Wiring Harnesses, Steering Shafts, Control Valves, Cylinder Assemblies

| Inspected | Acceptable | Unserviceable |
|---|---|---|
| 280 | 222 (79%) | 58 (21%) |

Source: Headquarters, Army Materiel Command, Quality Assurance Directorate.

[21] Depot Quality Audits are accomplished in compliance with DOD Instruction 4155.13, Quality Control and Reliability Management at Supply and Storage Depots, 27 November 1967, which requires that periodic sampling be accomplished on all incoming materials to determine their conformance with specification. The inspection procedures are accomplished under the same inspection and acceptance criteria used by the quality assurance representative.

| Quantity | Item |
|---|---|
| 108,000 | Trousers, Men's Wool Serge Green, Type II |
| 508,500 | Trousers, Men's Cotton Poly Twill Tan 1505, Type I, Class II |
| 104,619 | Shirts, Men's Cotton Poly Tan 1505 |
| 16,000 | Shirts, Women's White Navy |

c. Sacramento Air Materiel Area. Representatives of the Sacramento, California, stated that Defense Contract Administration regions are not always able to provide specialists for all types of materials being procured. There were instances where fabric inspectors were used to accept airframe components. Such individuals lacked the experience needed to perform adequate technical determination of product conformance.

4. Quality Audit Teams at Depots. As a further check to minimize the introduction of nonconforming items into the supply system, DOD established the requirement for quality audit inspections at the depots. The quality audit inspection provides a second opportunity for detecting nonconforming supplies that may not have been identified by the quality assurance representative when the items were accepted at the contractor's plant. This requirement for audit at the depots was implemented by all Services and DSA under DOD Instruction 4155.13, Quality Control and Reliability Management at Supply and Storage Depots, 27 November 1967. The instructions directed periodic sampling checks on new and overhauled material that moves through the respective supply and storage depots. This depot quality function is a strength. Statistics from the Air Force Logistics Command show that the quality audit teams found approximately 10 percent of the replenishment spare parts were nonconforming in 1967 and about 9 percent were nonconforming in 1968 based on samples by quarter. The data are presented in Table 10:

TABLE 10

QUALITY OF REPLENISHMENT, SPARE PARTS, AIR FORCE LOGISTICS COMMAND

| Fical Year | 1967 | | | | 1968 | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| Units Inspected | 1804 | 1759 | 1930 | 1781 | 1840 | 1669 | 1934 | 1999 |
| Units Rejected | 195 | 275 | 280 | 213 | 240 | 104 | 156 | 168 |
| Percent Deficient | 10.8 | 15.6 | 6.6 | 12.0 | 13.0 | 6.2 | 8.1 | 8.4 |

Source: Cocca, O.A. Quality Assurance Staff, Hq., Air Force Logistic Command, Wright-Patterson AFB, Ohio.

It is emphasized that the quality audit teams inspected the items against the same technical requirements that were used at the time of plant acceptance. The depot quality audit function is a random sampling plan that focuses attention on those items and suppliers of questionable quality. The staffs of the depot audit teams are small since, in effect, they are reviewing the work of other cognizant Government plant inspections on a sampling basis. Although they cannot sample and inspect all shipments coming into the depot, the teams act as a defense measure to avoid inadvertently storing and later shipping unsatisfactory material to users.

## 4. ASSURANCE OF PERFORMANCE BY THE GOVERNMENT UNDER TERMS OF THE CONTRACT

a. Statement of the Problem. In many contracts the Government commits itself to some action which is required in the successful performance of the contract. Government representatives sometimes fail to accomplish the requirements as specified, which adversely affects the

contractor's performance and results in increased costs to the Government. The problem is to institute procedures which will ensure, before award, that the Government can fulfill all provisions listed in the contract and after award to see that its obligations are accomplished.

(1) Significance. Many contract problems are caused by failure of the Government to provide the support required under terms of the contract. "In fact, in the AFLC plant cognizant detachments ... $21 million in additional contract funds were required during the last two fiscal years because the Government was unable to provide the material stipulated in the contract."[22] A well-qualified source, with experienced management, can in some instances overcome the Government's failure to provide test equipment, parts, and materials to perform. However, failure in these areas, when dealing with marginal contractors, can cause extreme slippage in delivery schedules and excess costs. Further, the Government's failure to meet commitments weakens efforts to impose on deficient contractors the normal redress actions, such as termination for default, collection of liquidated damages, or placing of unsatisfactory producers on the Contractor Experience Lists.

(2) Previous Studies. The Air Force Logistics Command is presently conducting a very comprehensive program to make improvements in their contract environment for Aircraft MOD[23]/IRAN[24] and engine overhaul program. As part of that program, they will be considering procedures to ensure performance of the Government under terms of the contract. Audit reports frequently identify the Government's failure to perform which contributes to contractor delinquencies.

b. Analysis. In awarding contracts to industry the PCO initiates actions that verify that a company is fully capable of performing. A company's technical competence, production capacity, financial stability, quality of performance, and history of performance are investigated to ensure that the company can perform under the terms and conditions of the proposed contract. On the other hand, a similar investigation is not accomplished which verifies the Government's capabilities of fulfilling its obligations. The frequency of failures, on the part of the Government, which causes a degradation of performance by contractors, indicates that additional actions are required to ensure the Government's performance under the contract provisions.

(1) Factors Bearing on the Problem

(a) Frequent Failures. As shown previously, the Government is responsible for 20 to 30 percent of the delinquent contracts while the contractor is responsible for the remaining 80 to 70 percent. The Government's most frequent failures are described in the following paragraphs.

1. Failure in Providing Government-Furnished Property in Both Timeliness of Receipt and Its Physical Condition. Contracting officers frequently commit the Government to supply materiel or test equipment to contractors in the performance of contracts. Governmental action then becomes an active condition of the contractor's performance. The manner in which the Government's materiel support obligations are met directly influence the contractor's production schedules. In some instances where the Government is unable to fulfill its materiel requirements, authority is given to the contractor to purchase such materiel on the open market. This action then causes funding problems within the organization by causing funds planned for other purposes to be redirected in support of contract efforts. Frequently, test equipment or production equipment furnished to contractors is not operable. The equipment has to be repaired or replaced causing delay in delivery of the items plus additional contract costs.

2. Deficiencies in Technical Data Packages. In an interview with the Chairman, Armed Services Board of Contract Appeals, he advised that the Board considers

[22]Headquarters, AFLC, Letter, subject: Blue Ribbon Panel Presentation, 8 January 1970, Inclosure 1, Briefing Dialogue titled Card 21 and 22.

[23]Aircraft modification—A one-time repair requirement to update the weapons system or correct flight deficiencies.

[24]Aircraft IRAN—Inspect and repair as necessary. Concept involves complete inspection and repairing only that which is necessary to permit continued safe operation.

approximately 900 cases a year, and estimates that 50 percent of these are caused by improper specifications. The number of cases being appealed which involve specifications has been increasing since 1965 and probably is caused by the influence of cost contracts which were popular prior to the 1965 period. As Government procurement policy moves from using cost contracts to fixed-price contracts, the specifications must become more definitive. The need for definitive specifications in the cost contracts is not as great because the Government is committed to reimburse the contractor for his costs.

3. Administrative Delays on Part of the Government. In instances where first-article testing is required, the Government sometimes fails to accomplish the testing within the period specified in the contract. Frequently, there is a time lag in accomplishing contractual amendments, particularly when coordination is required between the PCO and the ACO.

4. Design Changes. The Government process of approving design changes frequently delays the contractor for periods in excess of 6 weeks. If funding action is required and the cost must be reviewed by the audit activity, the delay may well extend beyond 60 days.

(b) Precontract Planning. Staff activities have the responsibility of verifying that the Government can accomplish its commitments under a proposed contract at the time the purchase request is being prepared and coordinated. For example, quality assurance or technical data personnel are responsible for ensuring that specifications are accurate. Supply personnel are responsible for ensuring that materials or test equipment are available and can be supplied when called for under the contract. Quality assurance personnel or engineers are responsible for ensuring that the appropriate laboratories or facilities are available to conduct first article tests, if required, at the time designated in the contract.

1. Coordination and Verification Procedures. Even though procedures require coordination and verification that the Government can accomplish its requirements at the time the purchase request is being prepared, periodically there is a breakdown in accomplishment. The Government is frequently faced with a contractor's complaint of ambiguous or erroneous specifications causing distracting and time-consuming delays and arguments, finally ending before the Armed Services Board of Contract Appeals. Frequently, Government-furnished property is committed under a contract and subsequently the discovery is made that it has been used to satisfy some other requirement. Tooling or test equipment is shipped to a contractor and subsequently may be discovered to be defective. Effective precontract planning, coordination and verification must be accomplished to ensure that the Government can fulfill its obligations. Further, the people coordinating the purchase request must be held accountable for the tasks which they verify the Government can perform.

2. In-House Pre-Award Survey. The above requirement for verification suggests that the Government perform a PAS on itself. Such an in-house PAS containing a verification on every obligation of the Government would establish evidence of the Government's ability to perform its obligations under the contract. The PAS should be conducted by the production personnel assigned to the buying office, or cognizant project personnel and a certification should be placed in the contract file evidencing that an affirmative in-house PAS was accomplished. No contract should be awarded that commits the Government to an act that cannot be performed.

(c) Post-Award Coordination and Surveillance. Shortly after a contract is awarded, a post-award conference is held with the contractors to ensure that the contractor is familiar with all terms and specifications of the contract. This conference is attended by Government representatives (administrative contracting officers (ACOs), quality assurance personnel, industrial specialists, industrial property officers, and any others that may be needed) as well as contractor's representatives. At this time, the obligations of the Government should be thoroughly reviewed with the contractor. If any discrepancies are discovered, an immediate correction should be provided to minimize any adverse effect on contractor performance. The key man on the contract administration team is the ACO whose overall responsibility is to manage the assigned contract to ensure that the contractor's total performance is in accordance with his contractual commitments and that the obligations of the Government are fulfilled. However, he relies heavily on other members of his team which include production, quality assurance, and

industrial property personnel. In managing contracts, the ACO should establish milestones, not only pertaining to contractor performance, but to Government performance as well.

5. CONCLUSIONS, OBSERVATIONS, AND RECOMMENDATIONS

a. Conclusions

(1) The pre-award survey (PAS) is the best means available to the procuring contracting officer for ensuring that a contractor can fulfill all requirements of the Government solicitation. By the PAS process, the Government representative can critically examine the potential contractor's capability for performing. If the PASs were accomplished adequately, contract delinquencies and default actions would become minimal (paragraph 2b(1)(a)).

(2) During the Vietnam era, DD Forms 375, Production Status Reports, were not submitted by DCAS in time for procuring activities to take corrective action (paragraph 2b(1)(c)1).

(3) The depot quality audit process aids in detecting nonconforming supplies being shipped into the depots so that they are not accepted and stored and subsequently passed on to users (paragraph 3b(2)(c)4).

(4) The Services and DSA are not adequately complying with DOD instructions in reporting unsatisfactory newly procured and contractor maintained materiel to DCAS when the defective materiels were inspected and accepted by DCAS (paragraph 3b(2)(c)2a).

(5) The Government's failure to fulfill its contractual obligations adversely affects performance under the contract. Government delays are sometimes the cause of late deliveries (paragraphs 4b(1)(a)1, 2, 3, and 4).

b. Observations

(1) The implementation of the Military Standard Contract Administration Procedures (MILSCAP) should correct the deficiencies pertaining to the submittal of DD Forms 375 and 250. MILSCAP is scheduled for implementation during the 1970-72 period and should standardize and expedite the flow of contract administration information between contract regions, Inventory Control Points, and contractors (paragraph 2b(1)(c)4).

(2) The establishment of quality audit teams at depots represents a strength (paragraph 3b(2)(c)4).

(3) For the quality assurance program to operate effectively, there must be adequate feedback data reporting defective materiel from the users to the buying activities and DCAS. The Services should intensify their efforts in complying with DOD Instruction 7700.12, subject: Reporting Unsatisfactory Newly Procured and Contractor Maintained Materiel, 27 November 1968 (paragraph 3b(2)(c)2).

c. Recommendations. The Board recommends that:

(1) The Services implement procedures fixing reponsibility for setting forth the Government's obligations and for direction or coordination of actions needed to fulfill the Government's obligations (PP-7) (conclusion (5)).

(2) Upon receipt of the purchase request, procurement offices initiate an in-house pre-award survey verifying that the Government can fulfill its obligations to be incorporated in the contract (PP-8) (conclusion (5)).

(3) The administrative contracting officers intensify the administration of contracts to include and amplify those actions required by the Government as well as those of the contractor (PP-9) (conclusion (5)).

# CHAPTER V

# PROCUREMENT PERSONNEL

# CHAPTER V

# PROCUREMENT PERSONNEL

1. PROCUREMENT PERSONNEL. Attaining and maintaining sufficiently qualified personnel is a universal problem in all career fields for both military and civilian employers. The availability of procurement personnel is particularly troublesome, as requirements are substantially influenced by a fluctuating volume of business. In time of stress, the demand is felt before the compensating recruitment can be achieved. Since purchasing and contracting is a team effort, the procuring contracting officers (PCOs), administrative contracting officers (ACOs), and the termination contracting officers (TCOs) need advisors of diversified talents, such as negotiators, price analysts, auditors, transportation specialists, and lawyers. Budget limitations, civil service restrictions, and lack of personnel resources make dramatic correction of the procurement personnel problem seem unattainable for some time to come.

2. PREVIOUS STUDIES. The most recent comprehensive personnel study (February 1969) is the Report of the Long Range Logistics Manpower Policy Board prepared by the Logistics Manpower Task Force from the Office of the Assistant Secretary of Defense (Installations and Logistics). Materiel Secretaries and the Director, DSA, were each represented on a full-time ad hoc planning task force to develop facts and prepare proposals for consideration of the Policy Board. Members of the Policy Board were the Assistant Secretary of Defense (I&L); the Materiel Secretaries; the Deputy Chiefs of Staff (Logistics); the Director, DSA; the J-4, Joint Chiefs of Staff; the major Logistics Commanders; and the G-4, Headquarters, Marine Corps. The report objectives were to:

> Obtain a factual profile by key manpower characteristics, such as age, education, grade or rank, qualifications possessed, and type of career development programs provided and numerical staffing versus workload, giving special attention to lessons learned from the SE Asia conflict.
>
> Project the profile as far in the future as feasible (10 to 25 years) under present policies.
>
> Identify key problems in respect to both quantitative and qualitative characteristics of the logistics manpower force today.
>
> Develop various solutions including a 5-year plan of annual goals (expressed in quantitative terms).

The study areas were procurement and contract administration, inventory management, storage and issue, and overhaul repair. The 47 recommendations are grouped as follows:

| Quantity | Area |
|---|---|
| 1 | Manpower Information System |
| 5 | Development of Logistics Career Program |
| 18 | Recruitment and Retention |
| 4 | Military-Civilian Mix |
| 14 | Education and Training |
| 5 | Role of the Logistics Manager in Manpower Matters |

Other source material included "Defense Procurement Management Review Program Summary of Findings" for calendar years 1965, 1966, 1967, and 1968, prepared by the Office of the Assistant Secretary of Defense (Installations and Logistics). One of the general conclusions of the reports is the category "inadequacies in personnel, qualification, training, and experience."

3. OBSERVATION. The JLRB notes the reports of the Long Range Logistics Manpower Policy Board and the Defense Procurement Management Review Program and particularly endorses those recommendations pertaining to upgrading the training and experience of military personnel available for deployment.

# CHAPTER VI
# SUMMARY

# CHAPTER VI

# SUMMARY

1. OVERVIEW. The procurement and production contribution to the logistic support of the Services during the Vietnam conflict occurred under unusual circumstances that impacted significantly on its performance. While the value of contracts awarded annually surged from $28 billion in FY 65 to $45 billion in FY 67 (peak year), the procurement organizational structures of the Services were undergoing major changes, new constraints were being imposed, and military purchases had to compete with civilian orders for available production capacity. A final but very significant aspect of the environmental picture was the continuous fluctuation of requirements and its effect on the procurement and production function.

a. The surge of defense orders required to support the buildup in Vietnam found these orders superimposed on the highest rate of industrial activity ever achieved by our industrial base. The use of priority ratings became vital in achieving delivery of needed military end items in situations such as competing military and civilian orders for a specialized type of product or material; conflicting priority orders on suppliers' schedules; and inadequate facilities to produce the required product or material. Every facet of the National Priorities and Defense Materials System (which was limited to defense and defense-related programs) was needed and used; but, despite its obvious availability, many people responsible for its functioning, in both Government and industry, were unfamiliar with its provisions and unskilled in its application. In addition, the environment within industry at the beginning of the Southeast Asia buildup was not favorable for the timely production of urgently needed military supplies. The lack of a declared emergency equalized the urgency of defense programs and requirements for the national economy.

b. The support of the Vietnam conflict placed tremendous demands on the procurement function of the Services and the Defense Supply Agency, and required the rapid placement of a greatly increased number of contracts within a business-as-usual atmosphere. Because of this greatly accelerated program, concern developed that recent progress made in expanding competition in procurements might diminish. Rigid administrative controls were established which required advanced high-level approval of significant sole source procurements. As a result, the initial phase of the expansion of the procurement program for Southeast Asia, with its need for timely contract placement, was characterized by a tightening rather than a relaxing of precontract controls. In addition, procurement activities were continually confronted with requirements turbulence resulting from program and funding changes that necessitated changes in solicitations, resolicitations, and the execution of several contracts where one would have sufficed.

c. During the Vietnam era each military department and the Defense Supply Agency underwent major reorganizations that were related to procurement. Department of Defense Project 60, which assigned responsibility for contract administration primarily to the Defense Contract Administration Services, was implemented in 1965. At this time there was a phasing out of the Army Materiel Command (AMC) procurement district organizations and a rapid assimilation of a greatly increased procuring contracting officer function by AMC commodity commands. In 1966 three major subordinate commands were established in AMC commodity commands. The Navy disestablished its technical bureaus and established the Naval Material Command with six subordinate systems commands. During the August 1965 to June 1967 period, the Air Force deactivated four Air Materiel Areas and transferred their responsibilities to the remaining five. In May 1967 the Marine Corps consolidated the east and west coast procurement of secondary items at the Marine Corps Supply Activity, Philadelphia, Pennsylvania. In July 1965 the Defense Supply Agency consolidated three of its supply centers into the Defense Personnel Support Center.

d. The Services rely on Defense Contract Administration Services (DCAS) for the administration of the majority of their contracts. The pre-award survey is the best means for the

procuring contracting officer to ensure that a contractor can fulfill all requirements of a solicitation. However, Government delay is frequently the cause of contractors becoming delinquent and can cause additional expense and late delivery of the end items. Quality assurance is an area of constant study and evaluation. For the program to operate effectively, there must be adequate feedback data reporting defective materiel from the users to the buying activities and Defense Contract Administration Services. Prior to 1968, each Service was using its own format in reporting deficient items, which resulted in an inadequate number of reports reaching the cognizant Defense Contract Administration Services Office. To remedy this situation, the Department of Defense issued Instruction 7700.12, Reporting Unsatisfactory Newly Procured and Contractor Maintained Materiel, 27 November 1968, which standardized the reporting procedures. The Services should intensify their efforts to comply with this instruction.

e. The preceding paragraphs provide a brief description of the conditions affecting the procurement and production function during the Vietnam era and its response to these conditions. Three primary topic areas, priorities, contract placement, and contract administration, were selected for review. A summary of the major issues and lessons learned and the recommendations developed through this review are presented in the remaining paragraphs of this chapter.

## 2. PRIORITY SYSTEMS

### a. Lessons Learned

(1) A simplified National Priorities and Defense Materials System was in being at the start of the Southeast Asia buildup. This system, a version of the Controlled Materials Plan in operation during the Korean conflict, was limited to defense and defense-related programs. Since the system had been in effect continuously since 1 July 1953, the United States was better equipped to meet its military commitment in Southeast Asia than in previous conflicts.

(2) The surge of defense orders in 1965-69 required to support the buildup in Southeast Asia found the National Priorities and Defense Materials System suddenly needed. Despite its obvious availability, many people responsible for its functioning in both Government and industry were unfamiliar with its provisions and unskilled in its application. The National Priorities and Defense Materials System regulations, orders, and procedures now in effect are complex and are not generally known or understood.

(3) There is a need to ensure that priorities established by DX/DO ratings are fully implemented, complied with, and understood by those individuals involved in both Government and industry. For example, spot checks might be performed on a routine basis by the Business Defense Services Administration through the Department of Commerce field offices and by the Department of Defense contract administration and inspection agencies.

### b. Recommendations

(1) The Office of the Secretary of Defense endorse the continuation of the National Priorities and Defense Materials System as an administrative means of promptly mobilizing the industrial resources of the country for limited or general war (PP-1).

(2) The Office of the Secretary of Defense and the Business and Defense Services Administration:

(a) Provide for an education effort on priorities and allocations within the Department of Defense and industry.

(b) Rewrite the basic Business Defense Services Administration regulations and Department of Defense Instruction 4410.1 (Priorities and Allocations Manual) in laymen's terms to simplify and clarify procedures and to promote greater understanding of the National Priorities and Defense Materials System within Government and industry (PP-2).

## 3. CONTRACT PLACEMENT

### a. Lessons Learned

(1) During the first two fiscal years of the Vietnam buildup, procurement activity, measured by dollars of contract awards, increased approximately 61 percent. The strength of the existing Department of Defense procurement organization was demonstrated by the fact that it accomplished the increased workload, as a rule, satisfactorily. The Armed Services Procurement Regulation provided sufficient flexibility to carry out the procurement mission. However, the Armed Services Procurement Regulation and its implementations by the Services and the Defense Supply Agency are voluminous and unwieldly, particularly the method and frequency of changes to the document. A need for training of personnel in both Government and industry prior to implementation of changes to the Armed Services Procurement Regulation was evident.

(2) The review and approval process imposed on contract placement by the Armed Services Procurement Regulation and other Department of Defense regulations consumes procurement administrative lead time and is administratively costly. In this regard, the use of class determinations and findings would reduce procurement administrative lead times and administrative costs. Further, a need exists to raise the dollar limitations under which simplified procurement procedures may be used. The impact of requirements and funding turbulence on procurement during the 1965-69 time frame was particularly evident. This turbulence resulted in the cancellation of solicitations, wasted procurement effort, and the use of less desirable contracting methods such as letter contracts. Procurement planning was invalidated by extended delays.

### b. Recommendations

(1) The Assistant Secretary of Defense (Installations and Logistics) simplify the structure of the Armed Services Procurement Regulation and reduce the frequency of changes thereto. For example, separate editions of the Armed Services Procurement Regulation could be published for small purchase procedures, supply contracts, research and development contracts, and construction contracts. Changes could be published semiannually, unless there is a more urgent need on some specific issue (PP-3).

(2) The Assistant Secretary of Defense (Installations and Logistics) sponsor uniform training programs for major Armed Services Procurement Regulation policy changes to be accomplished prior to their effective date. In determining the effective date of a major change, time for training commensurate with the complexity of the change should be considered (PP-4).

(3) The Assistant Secretary of Defense (Installations and Logistics) take action to increase the dollar limit of small purchases from $2,500 to $10,000 (PP-5).

(4) The military departments take action to ensure that procurement planning in support of contingency operations emphasizes the use of class determinations and findings (PP-6).

## 4. CONTRACT ADMINISTRATION

### a. Lessons Learned

(1) The establishment of the depot quality audit process, in accordance with Department of Defense Instruction 4155.13, Quality Control and Reliability Management of Supply and Storage Depots, 27 November 1967, aided in the detection of nonconforming supplies being shipped into the depots and prevented them from being stored and subsequently passed on to users.

(2) The Government's failure to fulfill its contractual obligations can adversely affect performance under the contract. In some instances, the Government did not deliver to the contractor Government-furnished property as specified in the contract; in other cases, faulty technical data were incorporated in the contract or unrealistic delivery dates were included in the contract.

(3) A more responsive contract reporting system is needed. For example, submittals of DD Forms 375, Production Status Reports, and DD Forms 250, Material Inspection and Receiving Reports, should be made promptly. Deficiencies in submitting the DD Forms 375 by Defense Contract Administration Services prevented the buying activities from accomplishing corrective actions and prevented users from adjusting their plans to compensate for late deliveries. The delinquency in processing DD Forms 250 increased the administrative burden by causing follow-up action by the procuring activities and Inventory Control Points to determine contract delivery status. Military Standard Contract Administration Procedures (MILSCAP) is designed to correct the contract status reporting deficiencies and is scheduled for impelmentation during the 1970-71 period. Military Standard Contract Administration Procedures should standardize and expedite the flow of contract administration information between Contract Administration regions, Inventory Control Points, and contractors.

b. Recommendations

(1) The Services implement procedures fixing responsibility for setting forth the Government's obligations and for direction or coordination of actions needed to fulfill the Government's obligations (PP-7).

(2) Upon receipt of the purchase request, procurement offices initiate an in-house pre-award survey verifying that the Government can fulfill its obligations to be incorporated in the contract (PP-8).

(3) The administrative contracting officer intensify the administration of contracts to include and amplify those actions required by the Government as well as those of the contractor (PP-9).

# LIST OF ACRONYMS AND ABBREVIATIONS

# LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ACMO | Authorized Controlled Material Orders |
| ACO | Administrative Contracting Officer |
| ADP | Automatic Data Processing |
| AFSC | Air Force Systems Command |
| AMA | Air Materiel Area |
| AMC | Army Materiel Command |
| ASD (I&L) | Assistant Secretary of Defense (Installations and Logistics) |
| ASO | Aviation Supply Office |
| ASOD | Assistant Secretary of Defense |
| ASPPO | Armed Services Procurement Planning Officer |
| ASPR | Armed Services Procurement Regulation |
| AVSCOM | Army Aviation Systems Command |
| BDSA | Business and Defense Services Administration |
| BDSAF-138 | Business and Defense Services Administration Form 138 |
| BuShips | Bureau of Ships |
| BuWeps | Bureau of Naval Weapons |
| CAS | Contract Administration Services |
| CONARC | Continental Army Command |
| CNM | Chief of Naval Material |
| CY | Calendar Year |
| DCAA | Defense Contract Audit Agency |
| DCAS | Defense Contract Administration Services |
| DCASR | Defense Contract Administration Services Region |
| DIPEC | Defense Industrial Plant Equipment Center |
| D&F | Determinations and Findings |
| DOD | Department of Defense |
| DMS | Defense Materials System |

| | |
|---|---|
| D to P | Date of Mobilization to Date That Production Reaches the Level Necessary to Support Mobilization Requirements |
| DPC | Defense Procurement Circular |
| DPSC | Defense Personnel Support Center |
| DSA | Defense Supply Agency |
| FY | Fiscal Year |
| GAO | General Accounting Office |
| GFE | Government-Furnished Equipment |
| GFP | Government-Furnished Property |
| GSA | General Services Administration |
| HPA | Head of Procuring Activity |
| JAMAC | Joint Aeronautical Material Activity |
| JLRB | Joint Logistics Review Board |
| ICP | Inventory Control Point |
| IPM | Industrial Preparedness Measures |
| I&L | Installations and Logistics |
| LMI | Logistics Management Institute |
| MILSCAP | Military Standard Contract Administration Procedures |
| NATO | North Atlantic Treaty Organization |
| NAVAIR | Naval Air Systems Command |
| NMC | Naval Material Command |
| NODI | Notice of Delayed Item |
| OASD | Office of Assistant Secretary of Defense |
| OSD | Office of the Secretary of Defense |
| OCAMA | Oklahoma City Air Materiel Area |
| OEP | Office of Emergency Preparedness |
| PALT | Procurement Administration Lead Time |
| PAS | Pre-Award Survey |
| PCO | Procuring Contracting Officer |
| PLT | Production Lead Time |

| | |
|---|---|
| PMR | Procurement Management Review |
| P&P | Procurement and Production |
| RAN | Request for Authority to Negotiate |
| RFP | Request for Proposal |
| SAAMA | San Antonio Air Materiel Area |
| SE Asia | Southeast Asia |
| SECDEF | Secretary of Defense |
| SPUR | Special Purchasing Office |
| UMR | Unsatisfactory Materiel Report |
| USAF | United States Air Force |
| USC | United States Code |
| WECOM | United States Army Weapons Command |

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