

Much of Pentagon's \$45

Billion Spending Buys Nothing

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The Defense Department's \$45 billion-a-year procurement budget pays for a vast array of hardware and services, but a sizable portion of it buys nothing.

It's swallowed up by duplication, by human error and by faulty management — some of

it inevitable in an organization the size of the Pentagon where 5500 people are involved in military procurement alone.

Whatever the cause, this loss — never precisely calculated — could well run into billions of dollars. A study of five major areas of procurement found that:

- Defense officials empha-

size that price competition reduces costs by an average of 25 per cent. But in most years no more than 14 per cent of Pentagon buying is based on competitive bidding.

- The Defense Department owns billions of dollars worth of industrial equipment. Much of it is unneeded, according to the U.S. General Accounting Office, which says the Department exerts no effective control over its use.

- Last year, the Pentagon lost \$180 million, according to the General Services Administration, by acquiring new computer equipment even as computers it already owned or leased stood idle. The GSA is the chief purchasing agent for the Government.

- The Pentagon spends \$7 billion a year on research and development contracts that usually run more than double the original cost estimates.

- The Defense Department insists it has adequate protection against profiteering by private contractors yet billions of dollars in annual purchases are not subject to any independent review for overpric-

ing.

Defense Department records show that in most years no more than 14 per cent of military buying is based on price competition.

About 30 per cent of the Pentagon's business falls into a gray area called "competitive negotiated contracts," transactions in which price may or may not be a factor.

Designer Advantage

The other 55 per cent involves no competition of any sort, and this business includes some of the Pentagon's very largest contracts. Once the Pentagon chooses a company to design a weapons system, it almost always returns to the designer to award a noncompetitive contract to produce the equipment.

Regulations governing defense procurement say price competition should be the rule, but there are exceptions — 17 of them — and they are so broad that they have become the rule instead of the exceptions. "Urgent need" is one of the 17 exceptions.

Once a determination of "urgent need" is made, price

can be erased as a factor. Such was the case last April 19 when the Army awarded two "competitive negotiated contracts" for production of M-16 rifles.

Six months earlier, the Defense Department had solicited price estimates from four manufacturers.

After the contracts were awarded, members of a special House subcommittee demanded to know why one went to General Motors even though its price was \$20 million higher than two firms that lost out.

No Questions

The Army replied that there was an urgent need to obtain a large number of M-16 rifles as soon as possible to equip South Vietnamese regular and popular forces. No one on the subcommittee questioned the Army's explanation of "urgent need."

Another common exception to the rule of competitive bidding in defense buying is "sole source of supply."

On Aug. 7, a Federal indictment was returned against Chromcraft Corp., and Alasco, Inc., with which Chromcraft merged in 1966, and four individuals for receiving kickbacks on \$47 million in Defense contracts.

The Navy said the charges would have no effect on a new contract awarded to Alasco's Techfab Division for 2.75 rocket launchers because Techfab was the Navy's sole source, and "the time which would be required to develop a similar Navy-owned item and to get a new manufac-

turer into production is completely prohibitive."

The Defense Department wasted \$160 million last year by acquiring new computer equipment even as computers it already owned or leased stood idle more than two million hours.

This was the finding of the General Services Administration, the Federal Government's principal purchasing agent, in an unpublished survey compiled in April.

Time Worth \$250 Million

The GSA study concluded that on a Government-wide basis, computers were being underused by 278,000 hours a month or more than 3.3 million hours a year. This idle computer time, GSA said, was worth \$250 million.

The Defense Department owns so much industrial equipment that it can't keep tabs on it all and, as a result, spends large sums to buy machinery it doesn't need.

Furthermore, much of the equipment is used by private industry for commercial purposes, frequently without Government permission or objection.

In one instance, the Department spent \$14 million for an 600-ton forge press so TRW, Inc., of Cleveland could manufacture jet engine blades when, in fact, the Government already owned forge presses in the TRW plant capable of doing the job.

Pentagon property includes

Industrial plant machinery, special tooling and test equipment, raw materials, buildings, plants and land.

Of that property, \$14.7 billion — in all categories — is held by Defense contractors. It is assigned to them for use in Defense production. When they finish using such property on a defense contract they are supposed to report it as available for reassignment.

Overcharges Cited

But the GAO has reported to Congress many cases where the Defense Department had no idea how its property was being used, and therefore had no adequate basis for reassigning it.

The Defense Department maintains that private industry does not get away with ov-

ercharging the Government to any significant extent.

Secretary of Defense Clark Clifford wrote to the chairmen of the House and Senate Armed Services and Appropriations Committees last June 13 denying that Defense contractors were making big profits or engaging in "war profiteering." As evidence he cited the work of the Renegotiation Board.

However, there are 16 classes of exemption from the Renegotiation Board's jurisdiction, including a blanket exemption for companies which do less than \$1 million in business a year with the Defense Department and four smaller agencies.

Figures compiled by the

board estimate that in fiscal 1969, with all exemptions intact, \$44.5 billion in contractor sales will come before the board for review.

"I would estimate that if all the exemptions were lifted, we would have jurisdiction to check for excess profits on at least another \$8 billion or \$9 billion in Government purchases and it could possibly go as high as \$10 billion." Lawrence E. Hartwig, chairman of the Renegotiation Board, said in an interview.

On the basis of the contractors' own figures, private Logistics Management Institute stated that among the 40 largest of the participating companies, profits on sales had declined from 5.4 per cent in 1958

to 4.5 per cent in 1966 and profit on total investment had decreased from 20.4 per cent in 1958 to 13 per cent in 1966.

On the other hand, the U.S. General Accounting Office, which has legal authority to audit contractors' books, has shown that profits a company reports are not always the profits it has earned.

Audit Figures

In audits of five Defense contractors, which GAO refused to name, the agency found:

Company A reported 4.5 per cent profit but audit showed 10 per cent.

Company B said its profits were 12.5 per cent, but GAO found 19.5 per cent.

Company C reported 11.1 per cent profits but audit showed 16.9 per cent.

Company D reported a 2 per cent loss but GAO found 15 per cent profit.

Company E said its profit was 21.6 per cent. GAO found 3.7 per cent.

Even more than lowering the floor, Hartwig would like to get rid of the exemption for standard commercial articles.

As long as 35 per cent of contractors' sales of such articles — things like cars, drugs, fuel, computers — are on the private market or to agencies of Government not covered by the board, none of his sales of these items to Government agencies is subject to renegotiation.