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

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Dear Mr. Chairman:

In response to your request of July 24, 1970, we have completed our inquiry into contentions of irregularities in contract administration and premature progress payments contained in two letters to you dated February 14 and July 10, 1970, from an unidentified employee of the Pacific Missile Range, Point Mugu, California.

Three contractors were involved--Symetrics Engineering Corporation, the Philco-Ford Corporation, and Dynatronics Incorporated (merged with General Dynamics in 1966). These contractors provide electronic equipment used to collect flight data on guided missiles, satellites, and space vehicles.

We were able generally to confirm many of the employee's contentions. We did not find any evidence, however, that top-level personnel were overruling their subordinates without good reason or were coddling the contractors.

We interviewed technical personnel who conducted the performance testing of electronic equipment over the past several years. They were involved in the testing of 25 antenna systems procured from Symetrics and Dynatronics and four fixed and five mobile telemetry systems from Philco-Ford. Also, we reviewed procedures for controlling acceptance of equipment and for protecting property.

The specific contentions and our findings follow.

Contention

Faulty and out-of-specification electronic equipment was accepted by the Range over the objections of technical personnel who conducted performance tests, and the equipment either had to be junked, put to limited use, or repaired at Range expense.

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Finding

We found only one instance where the Range accepted equipment over the objections of the test engineer. The first of seven GKR-8A high-gain antenna systems procured from Symetrics did not meet the acceleration and tracking rates required under the contract. The test engineer's supervisor accepted the antenna systems with the condition that the contractor would provide, at no cost to the Range, any material or data required to correct the tracking deficiency. Six additional antennas were delivered by the contractor and conditionally accepted by the Range at the time of our inquiry.

Symetrics, at its expense, made some adjustments to two antenna systems which did not require installation of additional hardware and successfully demonstrated that the equipment met the tracking specifications of the contract. Range officials informed us that adjustments to the remaining systems would be performed during periodic maintenance by Range personnel and should not involve significant additional costs to the Range.

We did not find evidence that any equipment had been junked or applied to limited use during fiscal years 1968-70.

Contention

Five air-conditioned trailers purchased by the Range at a cost of \$3 million to house telemetry equipment and intended for tropical use were not tested environmentally prior to acceptance by the Government, although this testing was a contractual requirement. The air-conditioning system of a trailer shipped to Johnston Atoll had to be repaired entirely at Government expense. It cost the Government \$1,800 to test the four other trailers, none of which passed the test. The Government will incur an additional \$800 to repaint the trailers.

Finding

Contract N00123-69-C-0241 was awarded to Philco-Ford on August 2, 1968, and included five air-conditioned trailers at a cost of \$2,264,964. Some were intended for use in the tropical zone. According to contract specifications, the air-conditioning systems were to operate from a 100-ampere power source and meet environmental specifications of 0- to 100-percent humidity and -65° to 125° Fahrenheit. The contract did not require the contractor to perform environmental tests. Range officials felt that the risk involved in accepting the systems without environmental tests was not sufficient to warrant the expense of having the contractor perform them.

One of the first two systems accepted by the Range developed an icing problem while in operation at Johnston Atoll but was repaired with parts from a system in an older trailer not in use at the time. As a result of this failure, the third system received from the contractor was tested environmentally at Range expense. Since the tests disclosed operating problems, all mobile telemetry air-conditioning systems were deemed unacceptable. After a second environmental test, for which the contractor was to assume the cost, Philco-Ford modified three trailers at its expense, furnished material to modify two other trailers located at Johnston Atoll, and repainted three trailers. Estimated Range costs are about \$830 to install the material in the two trailers. In addition, the Navy incurred \$147 to transport the trailers for repainting and assumed the cost of both environmental tests amounting to about \$4,200. Because two trailers were accepted unconditionally, the Navy concluded that, unless a latent defect could be proven, the contractor was not legally responsible to rectify deficiencies noted later.

The Commander of the Range recently issued instructions placing greater responsibility for the acceptance of equipment under a contract and established a reporting system to ensure that top management would be aware of any deviation from contract specifications. We believe that this action is sufficient if properly implemented.

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Contention

A Range supervisor who allegedly favored contractors was involved in a Dynatronics antenna contract which cost the Government \$64,000 in repairs.

Finding

On June 30, 1965, the Range contracted for five telemetry antennas at a cost of about \$1.5 million. The antennas were accepted without objections by a test engineer who reported to the supervisor in question. The supervisor, however, was not directly involved in testing these antennas. Subsequently a defect was found that apparently could not have been determined from the acceptance testing.

According to the specifications, the antennas were to be designed to operate a minimum of 4,000 hours. Approximately 10 months after the Range accepted these antennas and after an average use of about 400 hours, two antennas broke down. The cost to overhaul and modify the two antennas is estimated at about \$65,700. In addition, it is estimated that it will cost about \$4,300 to modify the three other antennas.

Range officials conducted an investigation of the breakdown and reported:

"The method of attaching the output gear upper bearing retainer plate is inadequate. Under normal circumstances, however, this inadequacy would only be discovered by a failure."

The Range inspection report indicates that there may have been a latent defect in the antennas. Range officials considered the possibility of seeking recovery for the latent defect under the inspection clause of the contract but decided that the chances of proving that a latent defect existed were remote. We asked Range officials for documents showing the specific facts considered in this determination. We were advised by the contract administrator that an attorney at the Navy

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Regional Procurement Office in Los Angeles, California, was consulted but that the question asked him was of a general nature rather than specifically applying to the situation existing under this contract. We discussed the problem with an attorney at the Regional Procurement Office who stated that a legal opinion regarding the advisability of attempting to recover for a latent defect had not been obtained but that such a determination should be made.

The Range also investigated the possibility that poor maintenance by Range personnel contributed to the antenna breakdowns and concluded in the report that:

"All indications were that the maintenance procedures specified by the instruction book were being followed."

Because the Range inspection report of the breakdown of the antennas indicates the possibility that it was caused by a latent defect, we recommend that the Secretary of Defense have Range officials reexamine the matter. If a latent defect caused the breakdown, appropriate action should be initiated to recover costs incurred by the Government to repair and modify the antennas.

Contention

Philco-Ford failed to deliver acceptable operation and maintenance manuals for telemetry trailers as stipulated in the contract. Further, the manuals were delivered from 10 months to 1 year late.

Finding

We found that the contractor was 4 to 10 months late in delivery of the manuals. Discrepancies are in the manuals and corrections are being made at the contractor's expense. The Range is withholding about \$250,000 from payment under the contract pending final delivery and approval of all the manuals.

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Contention

The Government could have saved \$2 to \$3 million had the Philco-Ford contract work been performed by the Range.

Finding

The Range did not consider doing the work itself on the basis that the amount of work involved precluded in-house performance. Range officials estimated that the contractor spent about 30 man-years in producing the equipment and needed more than a year to deliver the systems. Although Range officials agreed that they had the technical expertise to perform the work, they felt that the effort would have required the entire capacity of the Technical Support Department.

This department maintains an engineering and shop capability and normally modifies, overhauls, or repairs equipment. We noted that a backlog of work existed in this department during the period of the Philco-Ford contract.

We concur with the Range officials' view that this procurement was too large to be performed in-house without disrupting other Range activities.

Contention

Range contract administration personnel made premature progress payments under the Philco-Ford telemetry systems contract.

Finding

We did not find that any premature progress payments were made under the Philco-Ford contract. We found that Symetrics received a premature payment of \$229,500 authorized by the Defense Contract Administration Services Region (DCASR), Atlanta, Georgia. Range officials discovered the premature payment prior to our review and requested that DCASR offset the payment against other amounts due Symetrics. This money

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was held by Symetrics for over 7 months. We estimate that interest for this period of time computed at 6 percent a year would be about \$8,000. This error occurred because a DCASR employee did not follow prescribed procedures for controlling and processing payment documents.

We were told that a low-level employee processed the payment on the basis of invoices and a contractor official's statement that the items had been accepted. Final acceptance documentation had not been received as required. DCASR makes a periodic spot-check review of contract vouchers prior to payment; however, this payment was not selected for review.

On the basis of a survey that we performed of these DCASR procedures for auditing contract payments, we believe that this was an isolated error rather than a weakness in the system.

Contention

Contractor personnel bring to and remove equipment from the base without proper documentation.

Finding

While three telemetry systems were undergoing inspections and tests at the Range, Philco-Ford removed certain items and defective parts from the base for repair and correction without obtaining the required authorization. The Supply Department, contrary to the Range's procedures for controlling Government property prior to final acceptance, did not issue a permanent identification tag inscribed with the assigned plant account number for delivery with the equipment to inspection and test personnel.

Range officials stated that corrective measures would be taken to ensure that the established procedures were implemented.

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Contention

Items were being delivered by the contractor to individuals other than the Range Receiving Officer.

Finding

We found that documentation (as-built plans, technical publications, etc.) had not always been delivered to the Range Receiving Officer. For example, a Philco-Ford representative delivered two sets of manuals and the accompanying material and inspection report to the officer in charge of the Range Contract Division who at the time was not authorized to receive such property and reports. Since then, however, Range officials have authorized deliveries to this officer.

Contention

Contractor correspondence is either addressed to or hand-carried to the addressee instead of via the Commander of the Range and this circumvention causes chaos and losses.

Finding

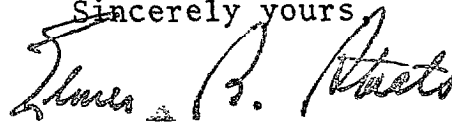
We noted that correspondence received through the mail is routed to the Range Commander as required by written procedures. In several cases, however, correspondence was hand-carried to the contract administrator, and bypassed the mail-room and subsequent routing to the Range Commander. This practice has now been discontinued.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall

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make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours

A handwritten signature in cursive script, appearing to read "James B. Aho". The signature is written in dark ink and is positioned below the typed name.

Comptroller General
of the United States

The Honorable William Proxmire, Chairman
Subcommittee on Priorities and
Economy in Government
Joint Economic Committee
Congress of the United States