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

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JUL 24 1973

The Honorable Edwin B. Forsythe
House of Representatives

Dear Mr. Forsythe:

This is in reply to your request of March 15, 1973, relating to
the complaint from Comdata Systems, Inc., about the Navy's development
of telecommunications equipment. Comdata said the Navy was incurring
unnecessary costs by developing display-editor consoles which Comdata
had already perfected. These consoles, to be added to the airborne
teletypewriter systems carried in P-3A and P-3B aircraft, are capable
of preparing, editing, and storing a full page of text before trans-
mitting it by the teletypewriters.

Our analysis of the latest pricing data available at the time of
contract award indicated that the Navy's source selection for the con-
soles was not more costly than other alternatives. Furthermore, we
could not establish that Comdata possessed, at the time the Navy chose
a source for display-editor consoles, a perfected prototype of the
console called for in the applicable Navy specification.

Presently the Naval Avionics Facility (NAFI), Indianapolis, Indiana,
is developing, testing, and manufacturing 31 display-editor consoles.
The Lockheed-California Company, Burbank, California, is manufacturing
retrofit kits for use in installing the consoles and is providing limited
logistical support for these items. The consoles will be installed at
Naval Air Rework Facilities during routine aircraft maintenance.

BACKGROUND

In 1966 the Navy awarded a contract to the Sperry Rand Corporation
for the design, development, and fabrication of three complete teletype-
writer systems. Each system consisted of a display-editor console, a
keyboard, and a printer. These devices were intended to be significant
improvements over the keyboard and printer then used in the P-3 aircraft.
Sperry delivered these three systems to the Navy in late 1968.

Comdata was formed in 1968 by former Sperry engineers who had been
responsible for designing and developing the three systems. In June
1969 the Navy contracted with Comdata to maintain, service, and update
the three systems built by Sperry. This contract was renewed annually
and ended in June 1972. During that period Comdata developed, with its
own funds, a model system which, in its opinion, was superior to the
systems Sperry produced. We could not examine that model, because it was
destroyed on March 15, 1973, during an explosion and fire at Comdata's plant.

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COST EVALUATION

We evaluated costs by using the latest bid proposals in Navy files. Our computations included the costs of display-editor consoles, an engineering design data package, aircraft retrofits kits, updated manuals, and limited logistical support because we considered these items necessary for the effective use of the consoles.

It should be recognized, however, that these amounts are only estimates based on the proposals submitted by Lockheed and NAFI in mid-1972. Actual costs are not now available because NAFI is still in the engineering-test stage of developing its consoles.

In mid-1971, when approximately $1.3 million of fiscal year 1972 funds became available, the Naval Air Systems Command (NAVAIR) asked Lockheed, the prime contractor for modernizing P-3 aircraft, to submit a preliminary engineering change proposal to add display-editor consoles to the existing teletypewriter systems. Lockheed submitted several alternative proposals in September 1971 to add up to 262 consoles to the existing teletypewriters. The most economical proposal would have cost approximately $2.6 million. Navy correspondence indicates that this included Comdata's $2.1 million estimate for supplying the consoles to Lockheed. The price of this proposal exceeded the funds available, so the Navy had to take other action.

At NAVAIR's request, NAFI submitted, in October 1971, a backup proposal to supply 31 display-editor consoles. In January 1972 NAVAIR asked Lockheed to submit a formal engineering-change proposal. Lockheed responded on June 1, 1972, for a reduced requirement of 230 consoles.

Both Lockheed and NAFI were asked to build display-editor consoles satisfying Military Specification Mil-D-81607(AS), dated April 16, 1969, and amended August 2, 1971, for a "Display Unit, Teletypewriter TT-581/AG and Mounting MT-4088/AG." However, the proposals from Lockheed and NAFI were different. Lockheed initially proposed 262 units; NAFI proposed 31. Lockheed's proposal included display-editor consoles, retrofit kits for installation in the aircraft, updated aircraft manuals, and other logistical support; NAFI's proposal included the consoles, an engineering-design data package, and spare parts.

On May 24, 1972, NAVAIR asked Lockheed to submit a proposal outlining the costs of aircraft retrofit kits and logistical support necessary for using Government-furnished display-editor consoles. Lockheed responded

on May 25, 1972, with a bid to support 230 Government-furnished consoles. Also on May 25 NAFI updated its estimated cost for producing the 31 units that the Navy is buying.

SELECTION OF NAFI

The Navy advised us that, since funds were not sufficient to buy the number of display-editor consoles in Lockheed's proposal, NAFI's proposal for fewer units offered an available alternative. The funds available for procuring these units were fiscal year 1972 funds. During June 1972 the Navy selected NAFI to produce the consoles.

NAVAIR stated that NAFI had been selected on the basis of a cost analysis which indicated that NAFI's proposal would be cheaper than Lockheed's for an equivalent number of consoles. Since Navy correspondence indicated that Lockheed's proposal included the cost of consoles to be supplied by Comdata, the Navy did, in effect, consider the Comdata consoles in evaluating the Lockheed proposal.

Our analysis of comparable costs for the display-editor consoles, using the NAFI proposal of May 25, 1972, and the Lockheed proposals of May 25 and June 1, 1972, indicated that the estimated cost of 31 consoles from NAFI would be $1.2 million and from Lockheed would be $1.4 million.

THE COMDATA PROTOTYPE

According to Comdata's letter to you dated February 20, 1973, the contractor had quoted $2.1 million for manufacturing 262 of the TT-581 display-editor consoles. Comdata told us that it had developed and built, with its own funds, an electrically complete model of the display-editor circuit and that this model had successfully passed bench tests. Comdata informed us that this model was mounted on three "half-sheets of plywood" and that, prior to its destruction on March 15, 1973, the model had never been packaged into a console. The Navy specification for the required display-editor console called for a console approximately 21 inches long by 8 inches wide by 8 inches high.

On the basis of the evidence we were able to examine, we could not establish that Comdata possessed, at the time the Navy decided to proceed with the development at NAFI, a perfected prototype of the display-editor console called for in the Navy specification. We noted also that

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Comdata, in a later unsolicited proposal to the Navy in November 1972, stated that it could deliver two consoles for testing 5 months after receipt of the order. However, we did not attempt to determine whether Comdata had the capability to design and deliver a conforming product.

We trust this information is responsive to your needs. We will be pleased to meet with you to discuss this matter in greater detail should you so desire.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Comptroller General
of the United States