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Problems In The Installation And Operation Of A Communications System In Thailand B-168097

Department of Defense

UNITED STATES
GENERAL ACCOUNTING OFFICE

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JULY 13, 1971

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DEFENSE DIVISION

B-168097

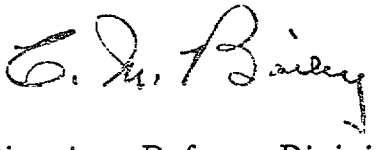
Dear Mr. Secretary:

This is our report on problems in the installation and operation of a communications system in Thailand. The report has been revised to include the comments on a draft of the report furnished us in your behalf by the Assistant Secretary of Defense (Installations and Logistics).

This report contains several recommendations for your consideration. Your attention is invited to section 236 of the Legislative Reorganization Act of 1970 which requires that you submit written statements of the actions taken with respect to the recommendations. The statements are to be sent to the House and Senate Committees on Government Operations not later than 60 days after the date of this report and to the House and Senate Committees on Appropriations in connection with the first request for appropriations submitted by your agency more than 60 days after the date of this report.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of State; and the Secretaries of the Army and the Air Force.

Sincerely yours,



Director, Defense Division

The Honorable
The Secretary of Defense

GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARY OF DEFENSE

PROBLEMS IN THE INSTALLATION AND OPERATION OF A COMMUNICATIONS SYSTEM IN THAILAND
Department of Defense B-168097

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) reviewed the management practices related to the installation of the Integrated Wideband Communications System in Thailand because it cost more than $120 million.

The contract implementing phases I and II of the system and a training facility in the United States was negotiated for $48.7 million in May 1966. A change in the contract for phase III was negotiated for $18.4 million in September 1967. Subsequently the overall contract was modified many times due to changes in requirements and aggregated $97 million as of May 1969. With the addition of $25 million for operation and maintenance, Government-furnished equipment, and other related activities, the total cost applicable to the system in Thailand was $122 million. (See p. 10.)

FINDINGS AND CONCLUSIONS

Reviews by the Army showed that the management system responsible for administering the contract was split among many commands--i.e., fragmented--and was further complicated by a lack of guidance on policies and procedures. This created administrative confusion. (See p. 12.)

The Army Strategic Communications Command corrected the condition in 1968 by centralizing responsibility for overseas administration of strategic communications contracts in one contracting officer. (See p. 13.)

Unnecessary costs of at least $1.2 million were incurred for an allowance paid to the contractor's employees because they were denied access to post exchange and commissary facilities. Further, because the employees had to make purchases on the Thai open market, the U.S. international balance of payments was adversely affected. (See p. 16.)

Additional costs of $350,000 were incurred for materials and supplies because (1) Government-owned gasoline was not furnished to the contractor prior to July 1968, (2) taxes were paid to the Thai Government, and (3) the contractor did not buy common materials and supplies from U.S. sources. (See p. 20.)

Tear Sheet

JULY 13, 1971

Additional contract costs of $113,000 were incurred, primarily for labor, because the contractor scheduled system acceptance tests prematurely. In addition, the tests resulted in costs of $45,000 for Government observers. (See p. 28.)

Contract modifications were approved in Thailand without adequate price analysis and were almost always negotiated after the contractor had completed the work. (See p. 33.)

There were no procedures established for analysis of the contractor's performance in relation to costs incurred. (See p. 37.)

The division of responsibility for operating the system between the Army and the Air Force resulted in unnecessary duplication of management overhead. (See p. 40.)

Notwithstanding these problems, the communications system, as observed by GAO during its review from December 1968 to June 1969, appeared to be performing in accordance with planned objectives.

The contractor for the communications system in Thailand, Philco-Ford Corporation, furnished comments on several of the GAO findings. (See pp. 31, 35, and 38.)

RECOMMENDATIONS OR SUGGESTIONS

Several recommendations which were designed to correct the problems were made by GAO. (See pp. 19, 25, 31, 35, 38, and 41.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Defense (DOD) said that the problems were related to the accelerated planning and rapid buildup of combat operations in Vietnam. In retrospect, DOD agreed that some areas of activity might have been handled more advantageously. DOD made several comments on GAO's recommendations, as shown below.

Prior to the award of overseas contracts involving need for significant quantities of gasoline, the contracting officers would be required to determine the feasibility of savings by furnishing Government-owned gasoline, as GAO recommended. (See p. 25.)

The problem of tax relief for U.S. military agencies was beyond the control of the contracting officer because the existing agreements between the United States and Thailand were vague and did not clearly set forth the tax relief available. A new agreement between the two countries would be needed to clarify the tax relief question. (See p. 26.)

Several years ago the Armed Services Procurement Regulation Committee considered incorporating the "Buy United States Here" techniques into

the Regulation and concluded that no change was necessary as existing language was considered adequate. GAO believes, however, that the availability and need for greater use of this program should be called to the attention of overseas contractors. (See p. 26.)

DOD agreed that future communications contracts should clearly specify the requirements to be met in tests and incentive provisions to be included, where appropriate, to encourage contractors to meet all requirements on the first test. (See p. 32.)

Procedures have been established which should ensure that timely and adequate price analyses are performed. (See p. 35.)

The various control procedures which have been implemented to date do not completely enable onsite evaluation of contractor performance versus cost. The Army, however, will continue to develop requirements for contractor progress and cost reporting systems which will provide data to permit onsite analyses. (See p. 39)

The decision to assign total responsibility for operation and maintenance of the system in Thailand to a single service has been deferred until the outcome of the military deescalation in Southeast Asia has been clarified. (See p. 41.)

DOD did not comment on GAO's recommendation that service regulations pertaining to the policy for providing commissary and post exchange privileges to contractor personnel in overseas commands be reexamined. DOD said, however, that such privileges had been extended in Thailand. (See p. 19.)

The Department of State advised GAO that the number of contractor personnel in Thailand had decreased significantly and that post exchange and commissary privileges had been granted to all contractor personnel from the United States engaged in Integrated Wideband Communications System work in Thailand as of June 1970. (See p. 19.)

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ABBREVIATIONS

ASPR	Armed Services Procurement Regulation
BUSH	Buy United States Here
DOD	Department of Defense
GAO	General Accounting Office
IWCS	Integrated Wideband Communications System

GENERAL ACCOUNTING OFFICE
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CHAPTER 1

INTRODUCTION

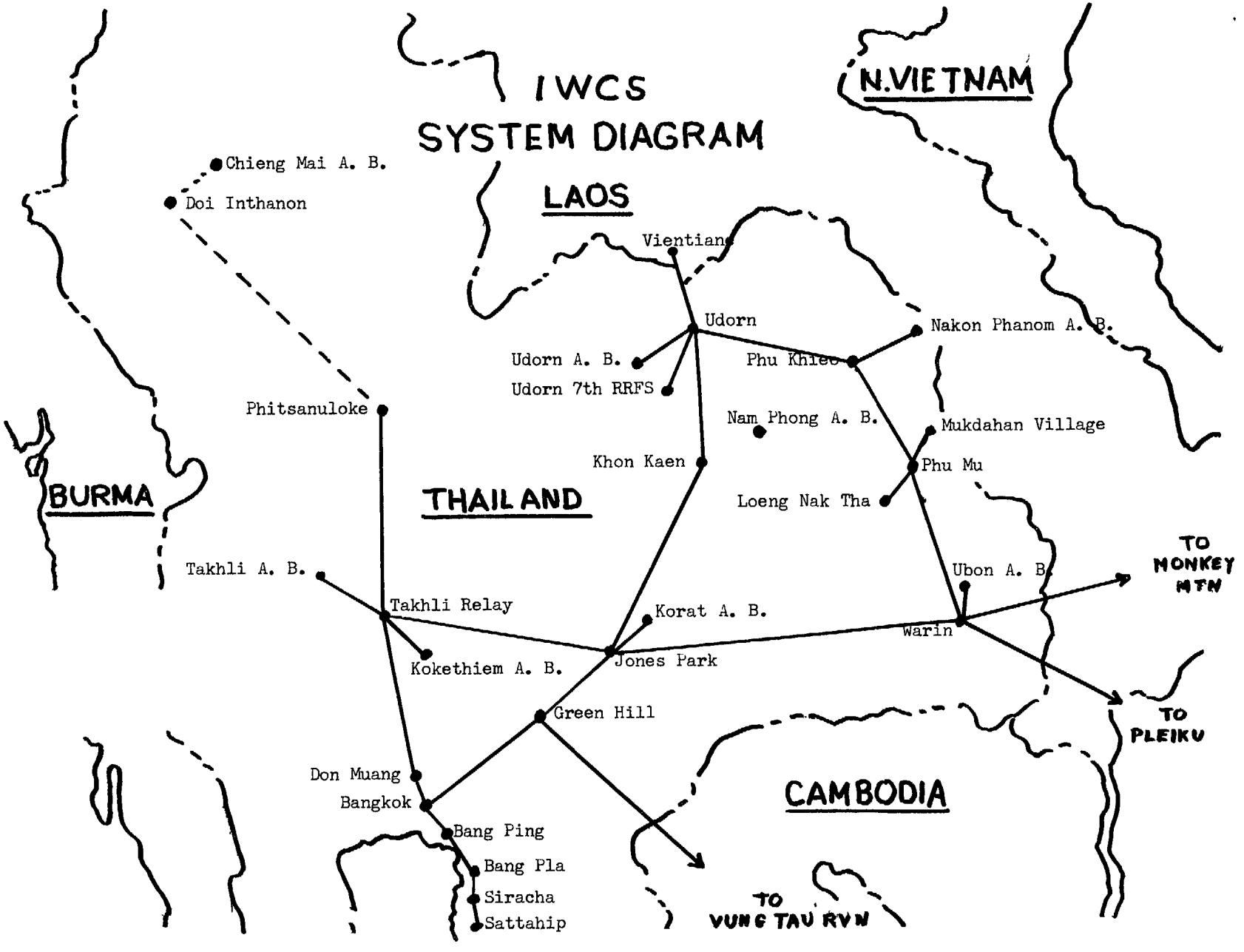
The Integrated Wideband Communications System (IWCS)--part of the worldwide defense communications system--provides the primary U.S. communications in Southeast Asia. The system consists of tropospheric scatter, diffraction, and line-of-site microwave links in Vietnam and Thailand and is composed mainly of fixed stations at major nodal points. Some transportable equipment is used where permanent communications facilities cannot be justified.

The IWCS equipment employs transmitters, ranging from 1 watt to 10,000 watts, with antennae ranging in size from 4-foot parabolas for some microwave links to 120-foot squares for the longer troposcatter links. The individual channels of communication provided on each link vary from 12 to 300. These facilities enable IWCS to integrate long-distance communications equipment in Southeast Asia into a single subsystem and to interface with the long-distance defense communications system external to Southeast Asia. A simplified system diagram and related IWCS pictures are shown on pages 5 through 9.

The need for IWCS resulted from the rapid and significant buildup of U.S. forces in Southeast Asia beginning in 1965. As the American buildup in Thailand increased, especially at the air bases, more communications sites were constructed and new radio links were added. The expanding system was installed as a multiphase project.

Phase I of the IWCS program was approved by the Secretary of Defense in August 1965 and provided for the installation of 13 new links in Thailand.

In September 1965 the Department of the Army awarded negotiated cost-plus-a-fixed-fee letter contract DA 28-043-AMC-01694(E) to the Philco Corporation (currently the Philco-Ford Corporation) for implementation of IWCS in Thailand.


IWCS
SYSTEM DIAGRAM
N.VIETNAM
LAOS
Chieng Mai A. B.
Doi Inthanon
Vientiane
Udorn
Nakon Phanom A. B.
Udorn A. B.
Udorn 7th RRFS
Phu Khieo
Phitsanuloke
Nam Phong A. B.
Mukdahan Village
Khon Kaen
Phu Mu
BURMA
THAILAND
Loeng Nak Tha
TO MONKEY MTN
Takhli A. B.
Ubon A. B.
Takhli Relay
Korat A. B.
Warin
Kokethiem A. B.
Jones Park
Green Hill
TO PLEIKU
Don Muang
Bangkok
CAMBODIA
Bang Ping
Bang Pla
Siracha
Sattahip
TO VUNG TAU RVN

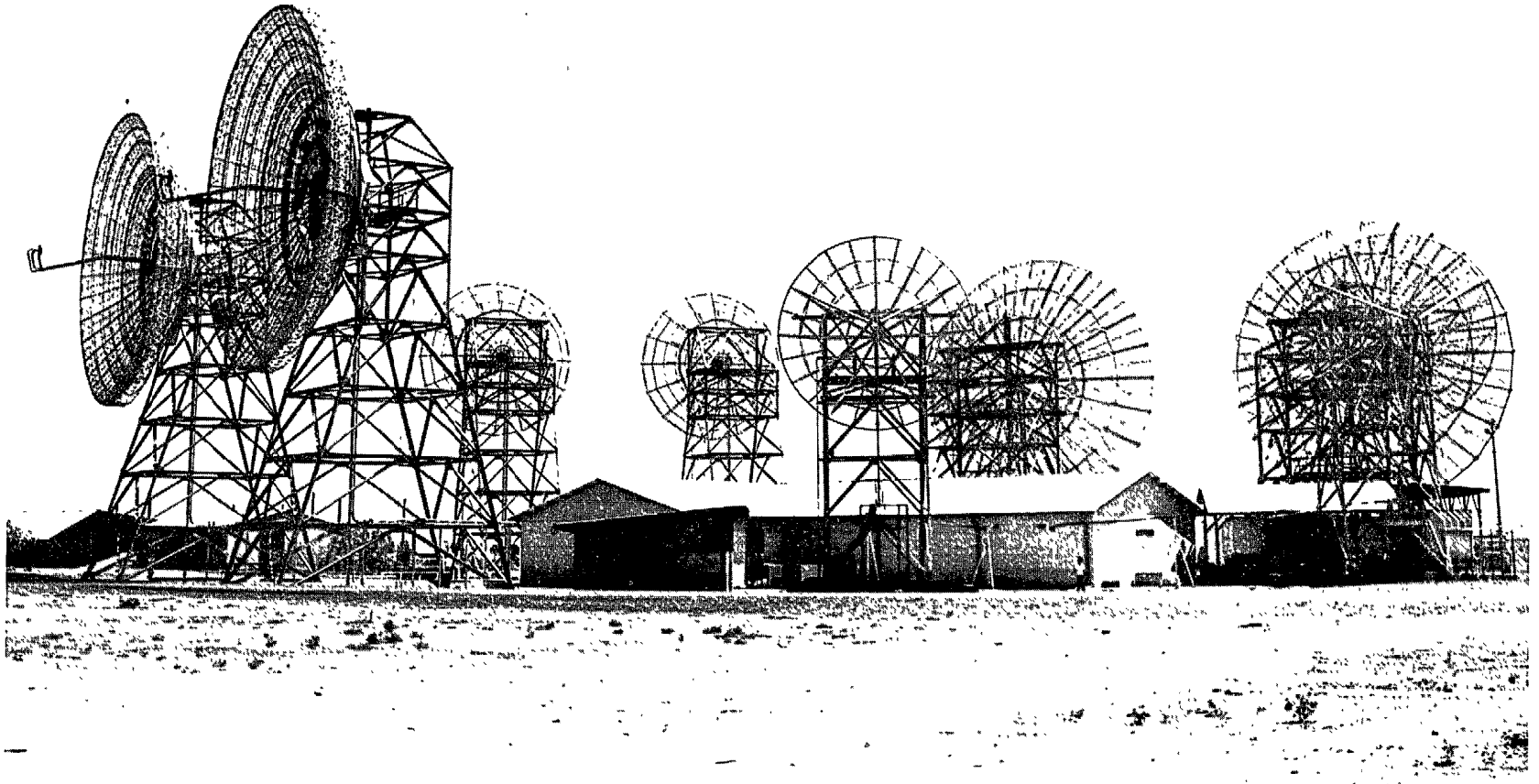


Photo furnished by Philco-Ford Corporation

IWCS TROPOSPHERIC SCATTER RELAY STATION

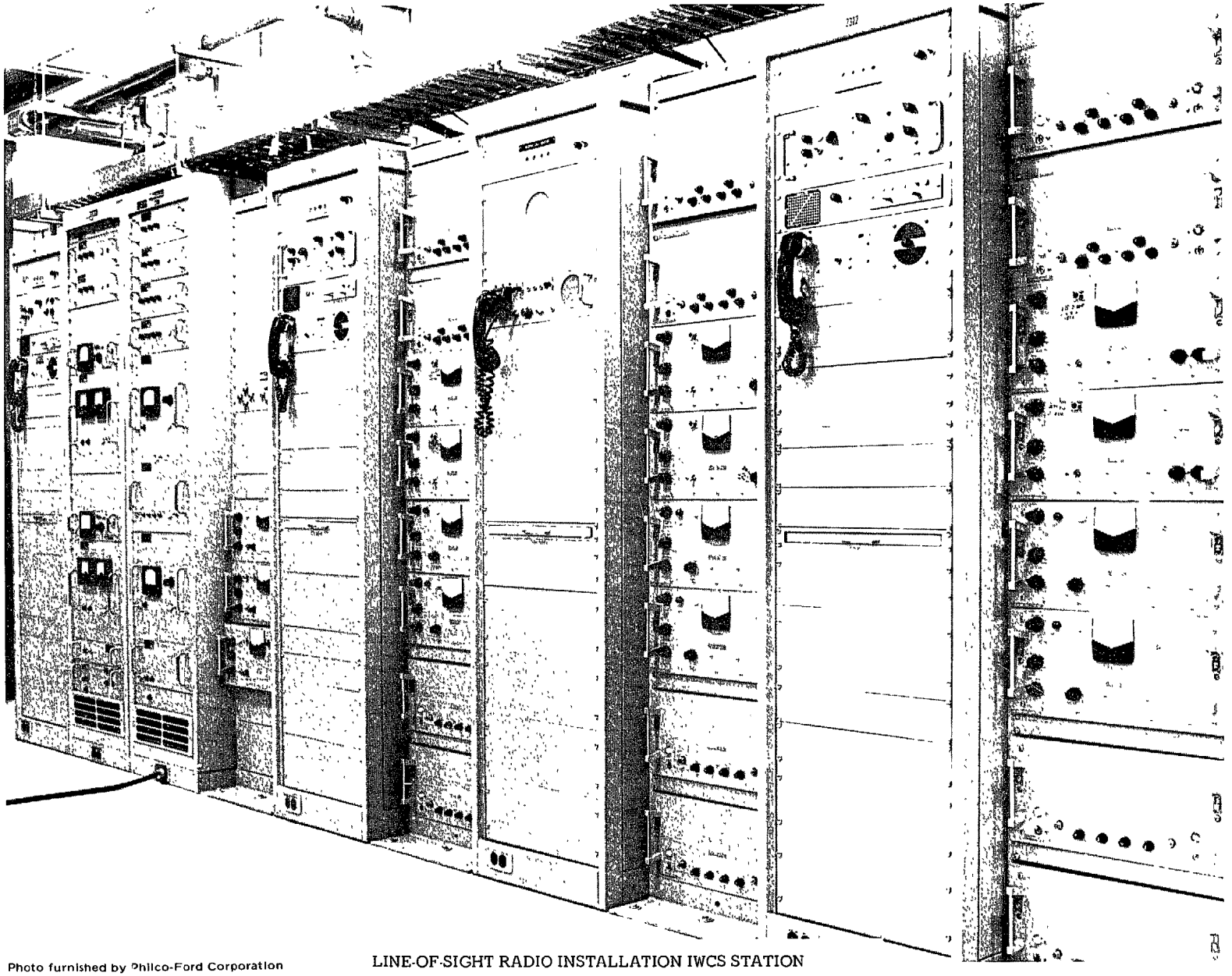


Photo furnished by Philco-Ford Corporation

LINE-OF-SIGHT RADIO INSTALLATION IWCS STATION

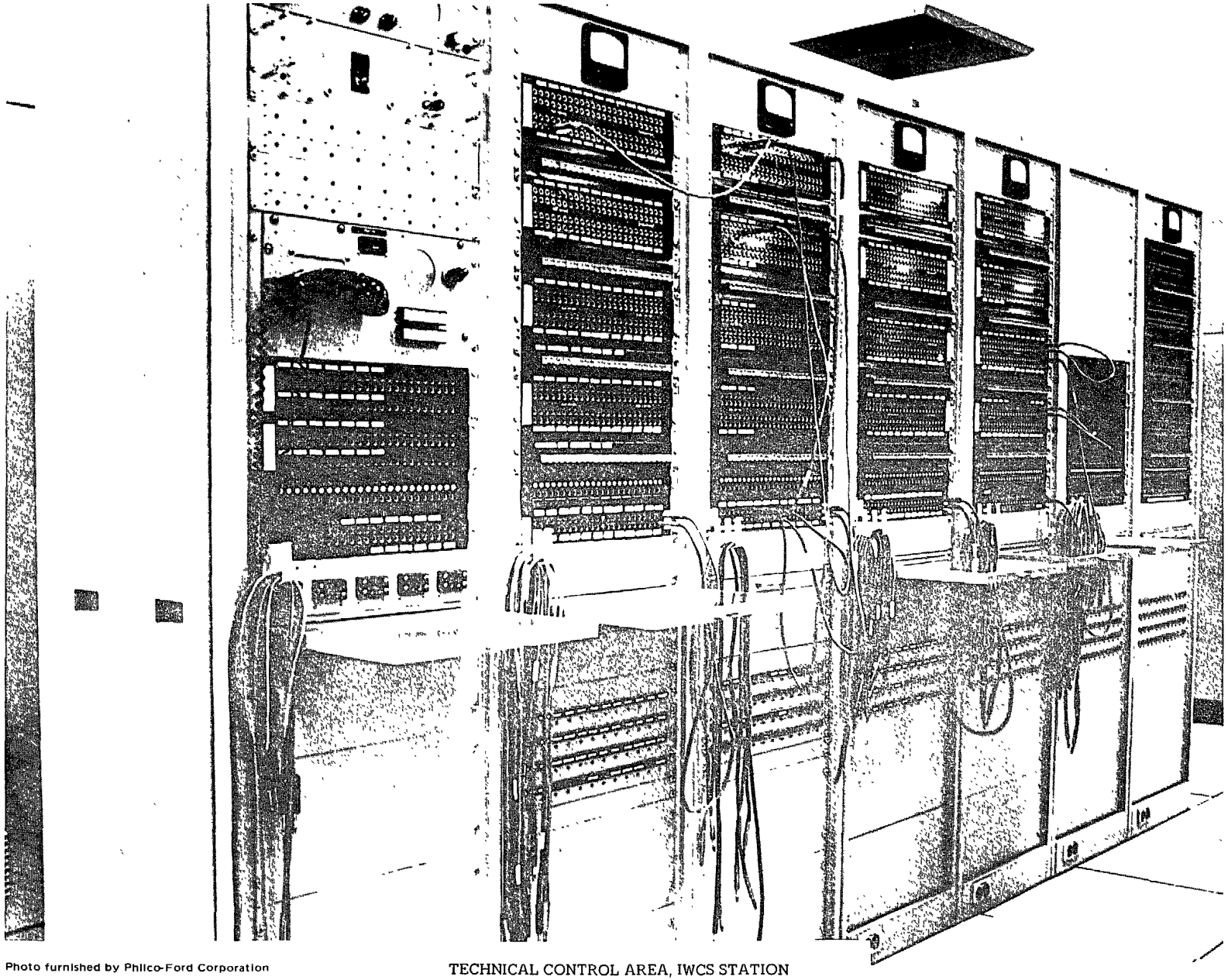


Photo furnished by Philco-Ford Corporation

TECHNICAL CONTROL AREA, IWCS STATION

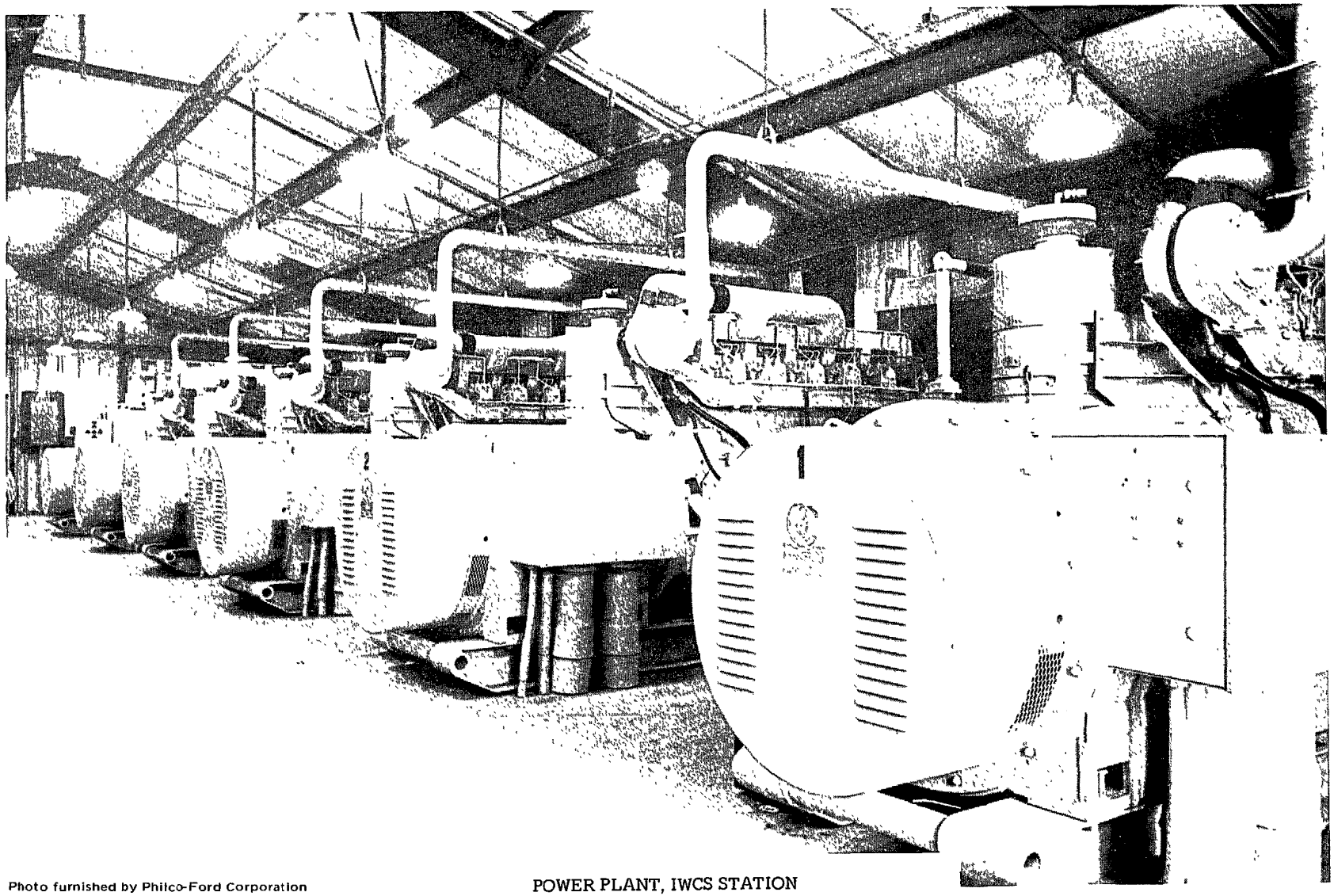


Photo furnished by Philco-Ford Corporation

POWER PLANT, IWCS STATION

In October 1965 extensive additional requirements generated by the accelerated troop buildup were identified. They dictated the necessity of expanding many phase I buildings, power plants, radio equipments, and ancillary support items. Phase II of the IWCS program was approved in January 1966 and provided for installing 12 new links and upgrading nine existing links in Thailand.

In August 1966 the Secretary of Defense approved phase III, the final phase, which provided for installation of eight new links and channel expansion on two existing links in Thailand.

The contract implementing phases I and II of the Thailand system and a training facility in the United States was negotiated for the estimated amount of $48.7 million in May 1966. The contract change for phase III was negotiated for the estimated amount of $18.4 million in September 1967. Subsequently, due to changes in requirements, the contract was modified many times and it aggregated $97 million as of May 1969. With the addition of $25 million for operation and maintenance, Government-furnished equipment, and other related activities, the total cost of the Thailand portion of IWCS was $122 million.

The Commander, U.S. Military Assistance Command, Thailand, is responsible for coordinating, evaluating, and validating communications requirements in Thailand. The operation and maintenance responsibilities of IWCS are divided between the Army and the Air Force. (See ch. 8.)

IWCS was procured by the Army Electronics Command, Fort Monmouth, New Jersey. The contract administration in the United States was performed by the Defense Contract Administration Services. The Army Strategic Communications Command was responsible for contract administration overseas.

During our review in Thailand we observed that the system appeared to be performing in accordance with its planned objectives.

We requested and received comments on a draft of our report from the Department of Defense, the Department of

State, and the contractor (see apps. I through IV). These comments have been incorporated in the report where applicable. In this connection DOD also advised us that:

> "In consonance with the current national policy to reduce U.S. troop strength in Southeast Asia, the disposition of the Integrated Wideband Communications System sites in Thailand is being studied by the Department of Defense. *** In this respect the study group will also benefit considerably from your timely report."

CHAPTER 2

FRAGMENTATION OF THE OVERSEAS MILITARY CONTRACT MANAGEMENT STRUCTURE FOR THE IWCS PROGRAM IN THAILAND

A report by the Office of the Assistant Secretary of the Army (Installations and Logistics) criticized the fragmentation of the overseas military contract management structure for the IWCS program in Thailand and pointed out that this fragmentary condition was complicated by a lack of policy and procedural guidance which created confusion along contract administration channels.

After the award of the contract to furnish, install, operate, and maintain IWCS in Thailand by the Army Electronics Command in Fort Monmouth, administration of the contract was transferred to the Defense Contract Administration Services' administrative contracting officer in Philadelphia, Pennsylvania.

The Defense Contract Administration Services designated the Army Strategic Communications Command's Pacific Contract Administration Office (in Hawaii) as a secondary contract administration office. This office appointed a secondary administrative contracting officer and a secondary property administrator, with responsibility for overseas contract administration, and located these two functions in its Pacific Southeast Asia Suboffice in Bangkok.

In February 1967 the Army Communications Systems Agency was established to manage development and acquisition projects assigned by the Strategic Communications Command. Accordingly, the command assigned these management responsibilities for the IWCS acquisition program to the Army Communications Systems Agency. In this capacity the agency provided technical direction through contracting officers' representatives in Thailand. The test and acceptance program was monitored by personnel of the Test and Evaluation Directorate of the Army Strategic Communications Command.

A diagram of the contract management relationships described in the preceding paragraphs is shown on page 14.

In January 1968 the Office of the Assistant Secretary of the Army (Installations and Logistics) made a management review of the overall responsibility of the Strategic Communications Command as single manager for strategic communications-electronics contracts administered overseas. As part of this review, the contract for installation of IWCS in Thailand was examined from contract placement in the United States to onsite contract administration overseas.

The management review team reported that the fragmented arrangement for the management of strategic communications contracts overseas indicated a need for the establishment of a cohesive contract management system within the Strategic Communications Command.

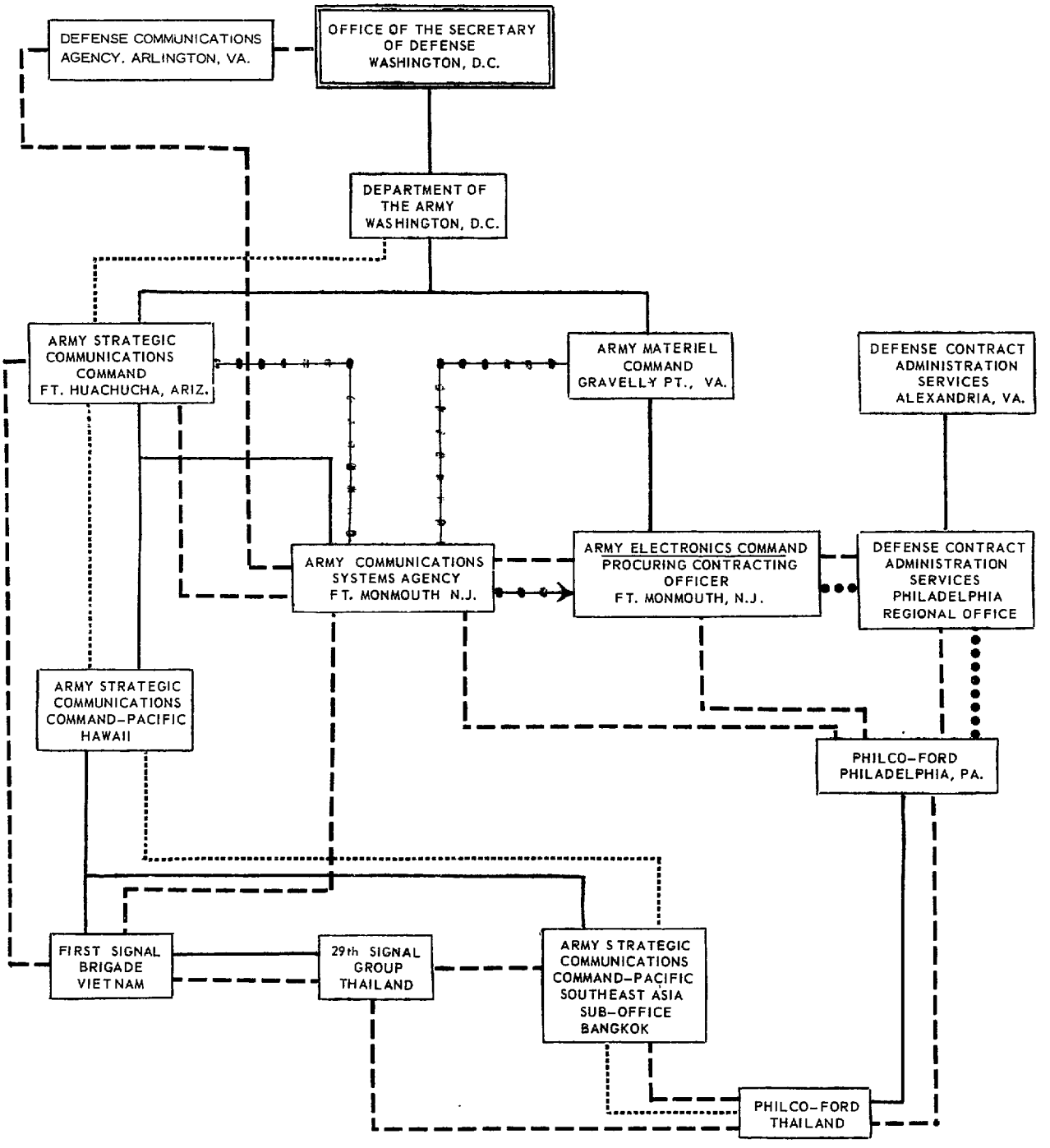
The report also stated that prompt and vigorous action was required by the command to establish an effective contract management system to include (1) more definitive mission assignments, (2) vertical alignment of the organizational structure of the Army Strategic Communications Command for contract management, (3) clear definition of the interrelationships among the various organizational elements involved, and (4) issuance of policy and procedural guidance from command headquarters to ensure full understanding by contract administration organizations and personnel at all levels of their responsibilities for effective onsite surveillance of contractor performance and total contract management.

CORRECTIVE ACTIONS

In response to the needs set forth in the management review report, in July 1968 the Strategic Communications Command placed total responsibility for contract administration overseas in the command's administrative contracting officer. More specifically, this procedure placed in the office of the administrative contracting officer the authority and responsibility to correlate the actions of the administrative and technical personnel.

On October 4, 1968, the command directed a reorganization of its subordinate commands to place the function of

CONTRACT MANAGEMENT RELATIONSHIP FOR OVERSEAS
Strategic Communications Systems



COMMAND LINE
PROCUREMENT DIRECTIVE
CONTRACT ADMINISTRATION AUTHORITY
MISSION ASSIGNED OVERSEAS CONTRACT MANAGEMENT
TECHNICAL DIRECTION

contract administration under the supervision of the logistics staff officer at each level of command to achieve vertical alignment of contract management functions and to create organizational checks and balances between contract personnel and technical management personnel.

A report dated December 3, 1969, on a follow-up review conducted by the Office of the Assistant Secretary of the Army (Installations and Logistics) concluded that the revised arrangement had centralized total contract management (business and technical) in the Strategic Communications Command administrative contracting officer and had given him adequate responsibility and authority to manage the overseas portion of the contracts.

We believe that the actions taken by the Strategic Communications Command improved its ability to manage overseas Government communications system contracts.

CHAPTER 3

ADDITIONAL ALLOWANCE TO COMPENSATE CONTRACTOR EMPLOYEES FOR THE LOSS OF POST EXCHANGE AND COMMISSARY PRIVILEGES

Additional costs of at least $1.2 million were incurred because the U.S. Military Assistance Command in Thailand denied Philco-Ford's employees access to Government facilities, such as post exchanges and commissaries, during most of the period prior to June 1970. Because the contractor's employees were prohibited from patronizing these facilities, they found it necessary to purchase goods on the local economy. The increased purchases by the contractor's employees from local sources resulted in an adverse effect on the U.S. international balance of payments.

DENIAL OF ACCESS TO GOVERNMENT FACILITIES

The initial letter contract between the Government and Philco-Ford for the construction and installation of IWCS in Thailand provided for the use of Government facilities by the contractor's personnel. The letter contract dated September 3, 1965, stated, concerning the use of these facilities:

> "US Facilities - US Post Exchange, commissary, officers club and medical facilities will be available to all US personnel."

Regulations of the military services state that the overseas command has jurisdiction over the issuance of identification and ration cards needed to obtain access to Government facilities. On November 23, 1965, the U.S. Military Assistance Command, Thailand, determined that identification and ration cards would be issued to only the 60 Philco-Ford employees then in, or enroute to, Thailand. No additional Philco-Ford personnel arriving in Thailand were to be issued identification or ration cards. We noted, however, that the Adjutant General of the command, on his own initiative, issued identification and ration cards to some Philco-Ford

employees in addition to the 60, giving these employees limited access to Government facilities.

This denial of access to Government facilities for some Philco-Ford employees was based on lack of adequate facilities to accommodate all of the contractor's personnel. In recognition of the possible lack of adequate facilities, the letter contract was amended on January 22, 1966, to state that Government facilities would be available to contractor employees "*** within the capability of the Command."

When the letter contract was definitized on May 27, 1966, the following provision for the use of Government facilities was included in the contract:

> "U.S. Facilities. Post Exchange, Commissary and Medical Facilities will be available to all contractor personnel within the capability of the Command. APO [Army Post Office] mailing privileges will be extended to the contractor and to all his U.S. National personnel."

Effective August 12, 1966, however, all identification and ration cards issued to Philco-Ford employees were revoked and access to Government facilities was denied.

The next contract for operation and maintenance of the IWCS sites covered fiscal year 1969 and included no provisions for the use of Government facilities by Philco-Ford personnel. Included in the contract cost, however, was an amount specifically related to the nonavailability of post exchange and commissary facilities to contractor personnel.

Philco-Ford officials advised us that, prior to October 1966, the post exchange and commissary facilities in Thailand were not adequate to satisfactorily accommodate the contractor's personnel. Commencing in October 1966, however, new facilities in Thailand were put into service which could have accommodated Philco-Ford personnel satisfactorily.

As stated previously, service regulations stipulate that the overseas command may decide whether access to Government facilities will be granted to contractor personnel. We noted that the final decision to deny Philco-Ford personnel

access to Government facilities, effective August 12, 1966, was based on a determination that criteria in the service regulations had not been met. The regulations state that logistic support (including post exchange and commissary facilities) may be furnished if certain conditions are met and if the items

> "*** cannot be obtained from local civilian sources or cannot be imported from other sources, or are not reasonably available, whether from local civilian sources or by importation."

The criteria set forth in the service regulations do not consider monetary savings that might accrue to the Government by providing logistic support to DOD contractors. Further, they do not consider the use of this technique for improving the U.S. balance-of-payments position.

Because post exchange and commissary facilities were not made available to Philco-Ford personnel, the contractor increased the per diem and living allowances paid to its employees by $2 a day effective August 15, 1966. The Government contract administrators approved this increase as an allowable contract cost. We determined that, as of April 30, 1969, the additional cost to the Government amounted to about $1.2 million.

Further, because the contractor's employees were not allowed to utilize Government facilities, they found it necessary to purchase goods on the local economy which they might otherwise have purchased in Government facilities. These purchases from local sources adversely affected the U.S. international balance of payments.

DEPARTMENT OF STATE COMMENTS

The Department of State advised us that U.S. military support facilities, such as post exchanges and commissaries, operated in Thailand exempt from local tax and licensing laws as U.S. Government agencies or instrumentalities. Therefore access to post exchanges and commissaries selling tax and duty-free goods could only be accorded to persons entitled to exemption from applicable Thai tax and customs laws.

In the case of Philco-Ford personnel, there were no specific arrangements with the Thai Government to grant such personnel duty-free importation privileges. To avoid the risk of provoking the Thai Government into placing any limitations on existing informally granted privileges, it was decided to withhold the post exchange and commissary privileges from the contractor's employees.

The Department of State stated further that these were matters of judgment and that the limits of what was considered possible had varied over the years. The Department stated that the number of contractor personnel in Thailand had decreased significantly and that, as of June 1970, post exchange and commissary privileges had been extended to all U.S. contractor personnel engaged in IWCS work in Thailand.

CONCLUSIONS AND RECOMMENDATION

The decision to not furnish post exchange and commissary privileges to Philco-Ford employees in Thailand during most of the period prior to June 1970 resulted in additional contract costs of at least $1.2 million and in an adverse effect on the U.S. balance of payments.

We recommend that the Secretary of Defense consider having the service regulations revised to provide for furnishing logistic support, such as post exchange and commissary privileges, to contractor personnel in overseas areas or at remote locations where such arrangements would have a significant effect on contract costs or on the U.S. international balance of payments.

DOD did not comment on this recommendation except to state that post exchange and commissary privileges had been extended to contractor personnel in Thailand.

CHAPTER 4

ADDITIONAL COSTS BECAUSE OF DEFICIENCIES IN THE PROCUREMENT OF MATERIALS, SUPPLIES, AND SERVICES IN THAILAND

Our review of Philco-Ford's overseas procurement and subcontracting activities identified avoidable contract costs totaling about $350,000, as follows:

Reason for avoidable costs	Amount
1. Government-owned gasoline not furnished to Philco-Ford	$191,000
2. Thai Government taxes included in local procurement costs	150,000
3. "Buy United States Here" (BUSH) supply sources not utilized by Philco-Ford	8,300
Total	$349,300

Procurement and subcontracting functions under the IWCS contracts were performed by the contractor's Communications and Electronics Division in Philadelphia, with a branch purchasing office in Bangkok. Overseas procurements and subcontracting for IWCS by this Division, as of March 31, 1969, totaled about $35 million of which the Bangkok office was responsible for approximately $3 million.

Pursuant to Armed Services Procurement Regulation (ASPR) Supplement No. 1, the military contracting officer should have evaluated and approved the contractor's procurement system to ensure that it was efficient and effective in the expenditure of Government funds. We noted that the contractor's stateside procurement system had been reviewed and approved annually by the administrative contracting officer but that there was no evidence that its overseas procurement and subcontracting system had ever been reviewed or approved as required by the regulation.

The procurement deficiencies which caused the avoidable added contract costs are discussed in the following sections.

GOVERNMENT-OWNED GASOLINE NOT FURNISHED TO PHILCO-FORD

Additional costs of about $191,000 were incurred from January 1966 through June 1968 because the Government did not furnish Philco-Ford with gasoline for vehicles used in direct support of the contract.

Beginning in January 1966, shortly after Philco-Ford established its IWCS program field office in Thailand, the contractor operated a fleet of leased vehicles in support of the contract. Since the Government did not furnish gasoline for contractor vehicles, it was necessary for Philco-Ford to purchase the gasoline on the local Thai economy. We found that the average price of gasoline purchased on the Thai economy was 39 cents a gallon in Bangkok and 52 cents a gallon outside of the Bangkok area; whereas the average U.S. Army stock-fund price for gasoline was 12 cents a gallon.

In May 1968 Philco-Ford brought to the attention of the Government contract administrators the potential savings available if the Government would furnish gasoline for its leased vehicles. As a result, Philco-Ford was given authority to use Government-furnished gasoline as of July 1, 1968.

THAI GOVERNMENT TAXES INCLUDED IN LOCAL PROCUREMENT COSTS

We observed instances where Philco-Ford had paid identified Thai business taxes included in the cost of local subcontracts. We were informed by contractor procurement personnel that, in other cases, such taxes, although not specifically set out, were probably included in the price paid under local subcontracts. We estimate that the total construction subcontract cost of about $6.8 million as of March 31, 1969, included business taxes amounting to about $150,000.

ASPR includes guidance to contracting officers in placing contracts with American and foreign contractors for work to be performed, or services and supplies to be provided, outside the United States. ASPR states that, at the time of negotiation of the contract, the contracting officer shall obtain and include in the contract files detailed information concerning the specific types and amounts of taxes normally applicable to the transaction from which the Government is exempt under the provisions of applicable tax agreements.

At the time when the letter contract with Philco-Ford was awarded and later when the contract was definitized, no mandatory tax exemption clause was included in the contract and the contract files were not documented concerning foreign taxes from which the U.S. Government should be exempt. We were informed by DOD that, when the contract was negotiated, the contracting officer had made inquiry concerning the availability of relief from Thai taxes and was advised that relief could not be made available. He therefore did not include the article in the contract.

The foreign tax clause required by ASPR later was added to the contract by contract modification; however, we found no evidence that any attempt had been made to obtain exemption from Thai business taxes.

The underlying reason for the tax exemption problem in Thailand is that existing agreements are vague and do not clearly set forth the relief available to U.S. military agencies and their contractors. As a result there has been little or no guidance regarding tax exemption issued by the American Embassy or the Military Assistance Command, Thailand, for the use by Government contracting officers.

We believe that the Military Assistance Command, Thailand, should issue a clarification of the tax exemption provisions of the agreement between the Governments of the United States and Thailand for use by Government procurement agencies.

A more complete discussion of our observations on problems related to Thai taxes paid by the U.S. Government is included in our report to the Congress entitled "Questionable

Payment of Taxes to Other Governments on United States Defense Activities Overseas" (B-133267, Jan. 20, 1970).

BUSH SUPPLY SOURCES NOT UTILIZED BY PHILCO-FORD

We found that a procurement technique designed to improve the U.S. balance-of-payments position, as well as to obtain more favorable purchase prices, had not been used. The BUSH program is based on a concept of buying commercial-type U.S.-manufactured end products from companies located overseas to (1) achieve a more favorable delivered cost, (2) improve overseas logistic support by offering faster delivery, and (3) improve the U.S. balance-of-payments position.

In the Far East, Air Force major commands have entered into BUSH contracts for common-type items, such as automotive supplies, hardware, and office supplies and equipment. Any U.S. Government agency or Government contractor with a cost-type contract can place orders against BUSH contracts.

The types of items available under BUSH contracts, which were purchased elsewhere by Philco-Ford, included (1) paints and paint supplies, (2) electrical supplies, (3) office machines, and (4) reproduction equipment and supplies. We could not readily determine from Philco-Ford's overseas procurement records the quantity of BUSH-type commodities purchased or the total savings which might have been achieved had BUSH contracts been utilized.

However, a selective examination of the procurement records showed, for example, that as of December 31, 1968, Philco-Ford had purchased locally about $15,700 of a type of paint. We found that the same type and quantity of paint purchased through BUSH contracts would have cost about $10,000, a savings of $5,700. In another case, we noted that, during calendar year 1967, Philco-Ford had purchased reproduction supplies at a price of about $4,400 while identical supplies, available through BUSH contracts, would have cost about $1,800, a savings of $2,600. These examples illustrate the savings that could be realized through utilization of BUSH contracts.

Local Army officials told us that they did not know why Philco-Ford had not been furnished information about the BUSH program. The responsible Government contract administrators apparently had not been fully aware of the

BUSH program. The officials stated that they would require all authorized Government contractors within their jurisdiction to utilize BUSH contracts to the extent possible in the future.

RECOMMENDATIONS

We recommend that the Secretary of Defense:

1. Require that, prior to the award of overseas contracts involving need for significant quantities of gasoline, contracting officers determine the feasibility of obtaining savings by furnishing Government-owned gasoline in direct support of the contract.

2. Emphasize to contracting officers the need to obtain exemptions from foreign government taxes for overseas local purchases and subcontracts, in accordance with applicable agreements, and to document the contract files to show that the prices are, to the extent possible, exclusive of foreign government taxes.

3. Foster use of the BUSH procurement program by appropriately revising ASPR or other DOD policy directives and by requiring review procedures to periodically ascertain that BUSH contracts are utilized to a maximum extent.

AGENCY COMMENTS AND GAO EVALUATION

DOD agreed with our recommendation for furnishing Government-owned gasoline to the contractor. In the case of Thailand, however, DOD stated that no such provision was made in the original letter contract because at that time DOD was incapable of supplying the gasoline. DOD stated further that, when the supply became available, contractual assignments had been made to support the contractor with Government-owned gasoline.

During our review we were informed, however, that the Government had had contracts with certain major oil companies beginning about October 1965 for furnishing gasoline through commercial service-station outlets in Thailand to U.S. military vehicles. We believe that Philco-Ford, as a cost-type Government contractor, should have been authorized to obtain

Government-furnished gasoline through the same sources as the military at significant savings to the Government. Only after the contractor, through a value-engineering proposal, informed the Government of the potential savings available was it authorized to use Government-furnished gasoline.

With regard to Thai taxes included in the cost of local subcontracts, DOD commented that the problem of tax relief for U.S. military agencies and their contractors was beyond the control of the contracting officer because of the vagueness of the existing agreements between the United States and Thailand.

Both the Department of State and DOD stated that, in order to explicitly describe exemptions for the U.S. Government from Thai taxes, a new comprehensive mutually satisfactory agreement would be needed. They indicated that they would take coordinated action to strengthen the management of the U.S. foreign tax relief program by added surveillance, continuous monitoring, and advising the overseas military commands with respect to pertinent host-country tax information.

With regard to the nonutilization of BUSH contracts by the contractor, DOD stated that several years ago the ASPR Committee had considered the advisability of incorporating the BUSH techniques into ASPR and concluded that no change was necessary as the existing language, particularly section III, part 4--Types of Contracts, was considered adequate to cover this technique. DOD stated further that Army procurement activities in the Pacific and Europe had utilized these contracts for purchases of supplies.

We have noted, however, that, although the language in ASPR covers procurements under indefinite delivery type contracts which include the BUSH techniques, there is nothing in ASPR that emphasizes the desirability of using BUSH contracts. Such emphasis would bring the BUSH program to the attention of procurement personnel and Government contract administrators and, we believe, could lead to substantial savings to the Government.

The ASPR Committee appeared to have considered several years ago only the contracting method used under BUSH

contracts and not the need for greater utilization of BUSH contracts. We believe that the availability of BUSH contracts should be called to the attention of the overseas Government contractors and that periodic reviews should be made to ensure utilization of BUSH contracts when savings to the Government may be realized.

CHAPTER 5

ADDITIONAL COSTS BECAUSE OF PREMATURE SCHEDULING OF SYSTEM ACCEPTANCE TESTS

For some acceptance tests for several IWCS links, Philco-Ford did not make adequate pretest preparations. We believe that this lack of preparation resulted in test failures and subsequent reruns which unnecessarily increased costs by about $158,000.

Contract provisions required that each link pass a certain acceptance test prior to becoming operational. This test was called the Link Conditional Acceptance Test. The part of this test designed to measure radio path performance was called the 4-27 test procedure.

Because of urgent Government operational requirements, the Army decided to activate certain links as soon as a limited communications capability existed even though the conditional acceptance test had not been made. A so-called Interim Test Program was applied to determine the capability of links to handle a limited amount of communications. As a result, most of the links received the conditional acceptance test after activation instead of prior to activation as originally planned.

In the testing of a total of 32 IWCS links, the results of the 4-27 tests were considered unsatisfactory for 13 links, which necessitated various additional preparations and reruns of the tests. In the reruns performed on these 13 links, three links demonstrated further unsatisfactory results which made a second rerun necessary and one link required three reruns before satisfactory test data were obtained.

As called for in the contract, Philco-Ford advised the Government test representative when the tests were scheduled to be run so that Government observers could be present. On many occasions, however, problems were encountered during testing that should have been resolved prior to test

commencement. Resolving these problems consumed many additional man-hours of Government and contractor personnel participating in reruns.

For example, Philco-Ford requested that Government observers be present on November 16, 1967, to start the testing for a particular link. The observers arrived at the scheduled time. Testing was started but had to be stopped after less than 2 hours because the equipment needed maintenance. The test was halted for almost 6 hours to calibrate the equipment. During this time the contractor decided to run another part of the test. It then determined, however, that capacitors had to be added to the channel equipment before this part of the test could start. Most of the next day was spent installing the needed capacitors in equipment at both ends of the link. Also, faulty or miscalibrated equipment caused additional delays, and test data which had taken 18-1/2 hours to run had to be rerun. In summary, the testing of this link took excessive time to complete because of inadequate pretest preparation by the contractor.

In December 1967 the Government test representative told Philco-Ford that time was being lost because tests were being scheduled without first taking adequate steps to ensure that the links were ready for testing. Philco-Ford replied to the Government test representative on December 19, 1967, as follows:

> "*** we have initiated a program whereby Philco-Ford will, well in advance of the LCAT [Link Conditional Acceptance Test] start date, send personnel to the sites to verify site and equipment readiness. Any repairs, adjustments and recalibration to be required will be accomplished prior to LCAT."

In February 1968, however, the Government test representative informed the contractor that this program had not been properly implemented and that the same problems were continuing. We noted at least five unsatisfactory 4-27 tests that were performed after this revised procedure had been initiated.

A total of 4,017 test hours was expended on reruns of the 4-27 procedure. On the basis of the number of rerun test hours, we computed the following estimate of additional costs incurred for performing the reruns.

Added contract cost:	
Direct labor	$ 58,700
Fringe benefits	12,000
Per diem	16,400
Overseas bonus	2,700
Burden	8,700
Interdivisional general and administrative expense	4,500
Corporate general and administrative expense	10,200
Contractor cost for rerunning tests	113,200
Cost of Government observers (computed from Government records)	44,500
Total	$157,700

This amount is for actual test time only and does not include any other added costs, such as those for the general lengthening of the period of the test program or for nontest time expended on identifying and correcting problems.

When we discussed this matter with Philco-Ford officials, they contended that the 4-27 test reruns had been caused by failure to meet a desired level of carrier intensity which the contractor was not contractually bound to meet.

The 29th Signal Group commander advised us, however, that the Government's position was that the purpose of the test was to ascertain whether the equipment met the performance levels predicted by Philco-Ford and that the contractor was expected to meet the prediction it had established.

Philco-Ford officials further stated that the majority of the IWCS links had been in operation for some time prior to being tested. They contended that many of the equipment failures encountered during testing resulted from normal

operational use and would not have been encountered when testing a newly installed system. We believe, however, that the fact that a link was operated prior to testing had no appreciable effect on the outcome of the testing program for the following reasons.

1. During the Interim Test Program, which was designed to determine the ability of links to handle limited communications, unsatisfactory 4-27 test results were recorded on the majority of the links tested.

2. The link which experienced the greatest number of unsatisfactory 4-27 tests did not become operational until over 5 months after it finally successfully completed the 4-27 test.

3. Since Philco-Ford also had operation and maintenance responsibility for the IWCS, it would seem reasonable to expect the contractor to have maintained the system at a high level of performance.

In our opinion, the contract clauses and specifications and the test plan subsequently developed by the contractor in accordance with the contract specifications clearly showed that it was the intent of the contract and the design of the test plan to develop acceptable carrier intensity values or criteria that should be met during the 4-27 test.

CONTRACTOR COMMENTS

In commenting on our draft report, Philco-Ford restated its position that it had made adequate pretest preparations to assure itself in advance that the equipment would meet the test requirements. The contractor contended that the problems encountered were not due to lack of pretest preparations but to concurrent operational requirements for the equipment during the test period.

RECOMMENDATION

In view of Philco-Ford's contention concerning contract ambiguities, we recommend that the Secretary of Defense emphasize to contracting officers the need in contracts for

communications systems to clearly specify the requirements to be met in tests. Consideration should be given to including incentive provisions, where appropriate, to encourage contractors to meet all requirements on the first test.

DOD agreed with that portion of our recommendation pertaining to clearly stating requirements. With respect to the recommendation for incentive provisions, DOD stated that it was possible that future situations, especially overseas, might sometimes involve circumstances under which parameters could not be satisfactorily structured to produce an acceptable minimum level of performance on which to base performance incentives.

CHAPTER 6

DEFICIENCIES IN THE NEGOTIATION OF CONTRACT MODIFICATIONS IN THAILAND

We found that price proposals for contract modifications approved by the secondary administrative contracting officer in Thailand had not been analyzed adequately and that prices for the modifications almost always had been negotiated after the contractor had completed the work involved.

We examined six contract modifications approved by the secondary administrative contracting officer in Thailand. These comprised all modifications initiated in Thailand and estimated to cost $25,000 or less. Modifications initiated in the United States and/or estimated to cost in excess of $25,000 were the responsibility of the primary administrative contracting officer in Philadelphia.

A schedule of the modifications and related information which we reviewed follows.

Modification	Contractor's proposal		Negotiations		Work effort completed	Percent of work completed prior to negotiations
	Amount (note a)	Date	Amount (note a)	Completed		
A012	$27,426	9-22-67	$24,995	Oct. 67	Sept. 67	100
A013	20,160	10-31-67	20,160	Nov. 67	Apr. 67[b]	33[b]
A015	4,764	12-20-67	4,370	Mar. 68	Jan. 68	100
A016	13,296	12-19-67	12,000	Mar. 68	Jan. 68	100
A018[c]	24,875	4- 3-68	23,400	Dec. 68	July 68	100
A019	5,059	9- 6-68	5,000	Mar. 69	Aug. 68	100

[a]The amounts of the modifications represent increases in estimated contract cost plus any increases in fixed fee.

[b]Modification A013 covered three separate projects; one was completed prior to negotiation.

[c]Modification A018 was approved by the secondary administrative contracting officer; however, price negotiations were conducted by the primary administrative contracting officer.

As shown in the schedule, work on five of the six modifications approved by the secondary administrative contracting officer had been completed by the contractor prior to the time the price was negotiated, and in the remaining instance part of the work had been completed prior to negotiations.

In May 1967 the Bangkok branch office of the Defense Contract Audit Agency issued an audit report to the secondary administrative contracting officer, which criticized Philco-Ford for negotiating the price of a subcontract after the subcontractor had completed 75 percent of the work. The report stated that this practice was resulting in cost-plus-a-percentage-of-cost type of contracting. It should be noted that all of the belated negotiations for the modifications discussed above took place after the issuance of the audit report criticizing this practice.

We also observed for the above contract modifications that adequate cost or price analyses had not been performed. The secondary administrative contracting officer stated that he did not have adequate cost information with which to analyze the contractor's cost proposals. The Defense Contract Audit Agency had not been requested to review any of these proposals.

We could not identify any specific unnecessary costs to the Government resulting from these negotiating practices. However, when we stated to the Commander, 29th Signal Group, our opinion that the Government's interest had not been adequately protected and that the contractor had not been provided with the proper incentive to hold costs to a minimum, he responded:

> "It is possible that had lower target costs been negotiated before completion of the work ***, Philco-Ford would have incurred less cost in order to meet the target. In addition, it is also possible, that a lower fee may have been negotiated due to lower estimated costs."

Allowing a contractor to incur costs prior to negotiating an agreement on estimated costs and fee has the attribute of cost-plus-a-percentage-of-cost contracting. This

form of contracting reduces the contractor's incentive to minimize his costs and is contrary to the provisions of ASPR.

CONTRACTOR AND AGENCY COMMENTS

The contractor stated that, for the most part, these modifications were restricted to emergency conditions which required immediate implementation and that definitization of a number of minor contract changes in many cases did not occur until after job completion. The contractor stated further that proposals were submitted prior to completion of work in almost all instances.

DOD stated that, in the instances described in our report, the secondary administrative contracting officer did perform a partial price analysis and that all proposals were reviewed for technical proficiencies. DOD stated also that completion of the communications system was of primary importance and that limited manpower hindered negotiations.

RECOMMENDATION

Although the volume and size of the modifications involved were relatively small, a similar deficiency might exist in the administration of other contracts by the Army Strategic Communications Command. We therefore recommend that the Secretary of Defense have appropriate corrective action taken to ensure that adequate cost and price analyses are performed and that timely price negotiations are conducted.

AGENCY ACTIONS

DOD stated that the Army Strategic Communications Command had directed each of its overseas administrative contracting officers to:

1. Ensure that timely and adequate price analyses are performed.

2. Require the technical representatives within his designated organization to make timely recommendations for refining the actual requirement, time frame,

scope, and Government cost estimate relating to each price proposal.

3. Review the documentation and, if the price analyses are favorable, issue contract modifications or, if the cost and price analyses are beyond the capabilities of the administrative contracting officer, forward the documentation to the appropriate procuring contracting officer for completion of action.

We believe that the actions outlined above, if properly implemented, will provide for better price negotiations.

CHAPTER 7

LACK OF EVALUATION OF CONTRACTOR PERFORMANCE RELATED TO COSTS INCURRED

The January 1968 report by the Office of the Assistant Secretary of the Army (Installations and Logistics) on a review of the management of IWCS (see ch. 2) stated that no management tools or standards existed with which to perform an evaluation of the contractor's performance related to costs. The report recommended that procedures be established to provide cost control. At the time of our audit in June 1969, no procedures had been established to evaluate the contractor's performance as recommended by the report.

Army officials in Thailand informed us that no attempts had been made to compare the contractor's progress with incurred costs. Apparently, necessary information--such as cost data, budgets, planned milestones, and other performance standards--was not available to contract administrators in the field. They also stated that attempts were not made to obtain such data from U.S. sources. They stated further that the evaluation of contractor progress versus costs was performed in the United States in the office of the project manager at the Army Communications Systems Agency and that progress reports and detailed financial summaries prepared by the contractor formed part of the basis for such evaluation and detailed analysis.

We found, however, that the financial summaries in these reports were inaccurate and that the costs shown for individual sites were not complete. When we questioned Philco-Ford officials on this, they advised us that these reports were prepared for the Government at its request and that Philco-Ford did not utilize the reports.

Army Communications Systems Agency officials in the United States advised us that a monthly evaluation was performed as a tool for summarizing the financial status of the program and for detecting a program cost overrun situation but that this review was not designed to evaluate contractor

performance. They further stated their belief that contractor performance was primarily evaluated in Thailand.

CONTRACTOR COMMENTS

Philco-Ford stated in its comments on our draft report that the format and the content of the monthly progress performance reports were determined by the Government. These reports contained milestone charts and tabular schedule information on all facets of the program. A financial management report and supplementary data were also provided to the Government on a monthly basis in which certain costs were prorated on a site basis.

Philco-Ford stated that the purpose of the report was to provide an approximation of the value of any given site in the system. The report was believed to have been useful to the Government in evaluating the status of the program, but the data did not reflect the way the program was managed by Philco-Ford and therefore were less useful from the standpoint of cost management and control than Philco-Ford's own more detailed cost control and performance review system.

RECOMMENDATION

We recommend to the Secretary of Defense that, for future contracts of this type, appropriate controls be established to enable Government contract administrators to evaluate the performance of the contractors.

AGENCY ACTIONS

DOD, in its comments, informed us of actions taken by the Strategic Communications Command to require the overseas administrative contracting officer to control the contractor's cost by:

1. Evaluation of the contractor's level of manning and class of personnel being utilized at the site.

2. Administration of the contractor's use of overtime.

3. Surveillance of the contractor's offshore purchasing system, when authorized in the contract.

4. Surveillance of the contractor's in-country travel.

5. Administration of Government-furnished property to ensure that Government property is delivered to the contractor on a timely basis to preclude increased cost resulting from delays caused by the Government.

6. Full utilization of the services of the Defense Contract Audit Agency.

DOD stated further that the Strategic Communications Command recognized that these cost control procedures did not completely enable onsite evaluation of performance versus cost and that the command would continue to develop the necessary contractual requirements for contractor progress and cost reporting systems which would provide data to permit onsite analyses.

In addition, DOD stated that the Strategic Communications Command project manager in the Communications Systems Agency in the United States was establishing a cost analysis group which would perform detailed costs-versus-performance analyses using data submitted by contractors and reports from onsite Government field representatives. This group will also provide guidance to the overseas commanders to ensure effective implementation of the cost control and cost avoidance procedures currently in effect, pending establishment of improved contractor progress and cost reporting systems.

CHAPTER 8

DIVIDED RESPONSIBILITY FOR OPERATION AND MAINTENANCE OF IWCS IN THAILAND

The operation and maintenance responsibility for IWCS in Thailand is divided between the Army and the Air Force. The Army is responsible for 27 sites, and the Air Force is responsible for seven sites, including two sites which had not been constructed at the time of our review. We found no valid justification for the split in operation and maintenance responsibility. The Army had been assigned by DOD the task of designing, engineering, and installing a wideband communications network in Southeast Asia. In Thailand, however, the Air Force has the predominant combat mission and the major requirement for communications services to support its mission.

In view of economies which could be expected to result from single service responsibility for IWCS in Thailand, a DOD survey team, in a report on contract services in the Pacific Ocean area, recommended that DOD direct the Joint Chiefs of Staff to investigate and report on the feasibility and desirability of assigning single service responsibility for operation and maintenance of all defense communications system facilities in Thailand to the Air Force.

The basis for the recommendation that the Air Force be considered for this responsibility in Thailand was that (1) the Air Force had the predominant requirement for communications services to support its mission, (2) the Air Force had sufficient trained military personnel to operate all IWCS sites with only minimum contractor technical assistance, and (3) such an assignment to the Air Force would facilitate the diversion of skilled Army personnel to Vietnam or to other areas where a military personnel shortage was causing continued reliance on contractor support of the military communications system.

Both the Commander in Chief, U.S. Army Pacific, and the Commander in Chief, Pacific Air Force, have stated that the arrangement of split responsibility between the two services

results in duplication of management overhead. For a variety of reasons, however, each service contends that it should be assigned total responsibility for IWCS in Thailand.

Our review revealed no justification for the division of operation and maintenance responsibility in Thailand between the Army and the Air Force. It appears that this arrangement is not only conducive to unnecessary management overhead costs but also to decreased system efficiency.

RECOMMENDATION

We recommend that the Secretary of Defense determine which service should be assigned total operation and maintenance responsibility for IWCS in Thailand and assign that responsibility accordingly.

AGENCY COMMENTS

In commenting on our draft report, DOD informed us that the issue of assigning total responsibility for operation and maintenance of IWCS in Thailand to a single service was under study. DOD also stated that the benefits to be derived from designating a single manager at this time would be carefully weighed against budgetary and associated manpower reductions, organization postures, logistics support and training costs, and the future role of the communications system in Thailand.

DOD subsequently informed us of its conclusion as a result of the study that the final decision on this issue must be deferred until the outcome of the military deescalation in Southeast Asia has been clarified.

CHAPTER 9

SCOPE OF REVIEW

Our review was directed to ascertaining what problems arose in the installation and operation of a large-scale communications system in a foreign country far removed from the offices of the project manager and the procuring contracting officers and what might be done to avoid similar problems in future programs of this nature. We did not attempt to assess the overall effectiveness and efficiency of the Government in procuring the system or of the contractor in furnishing the system.

Our fieldwork was performed at various locations in the United States and Thailand during the period from December 1968 to June 1969. We reviewed agency and contractor records, interviewed responsible officials, made physical observations, and examined reports prepared by various Government officials.

APPENDIXES

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

19 MAR 1970

INSTALLATIONS AND LOGISTICS

Mr. Charles M. Bailey
Director, Defense Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Bailey:

This is a partial response to your letter of January 20, 1970 to the Secretary of Defense which forwarded copies of the Draft Report on "Management of the acquisition, operation and maintenance of a communication system in Thailand", 86053 (OSD Case #3069).

Because of the diverse areas, identified as problem areas in the report, and the wide range of sources from which data must be gathered on corrective actions taken or contemplated to improve the management of the communications in Thailand, additional time will be required to prepare a complete reply to the report. A reply will be submitted by 30 April 1970.

However, it should be noted at this time that:

1. It is the policy of the Department of Defense to employ transportable communication facilities in overseas locations and that the original decision to use fixed facilities in Thailand was based to a great extent on equipment availability.

2. In consonance with the current national policy to reduce U.S. troop strength in Southeast Asia, the disposition of the Integrated Wide Band Communications System sites in Thailand is being studied by the Department of Defense. Among other things the assignment of the operation, maintenance, and management responsibilities for the Communication System in Thailand will be thoroughly examined. In this respect the study group will also benefit considerably from your timely report.

Glenn V. Gibson

Glenn V. Gibson
Deputy Assistant Secretary of Defense

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

11 MA 1970

INSTALLATIONS AND LOGISTICS

Mr. Charles M. Bailey
Director, Defense Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Bailey:

This is in response to your letter of January 20, 1970, to the Secretary of Defense which forwarded copies of the Draft Report on "Management of the Acquisition, Operation and Maintenance of a Communications System in Thailand," Code 86053 (OSD Case #3069).

In our letter of 19 March 1970, you were advised that, because of the diverse areas identified as problem areas in the report, and the wide range of sources from which data must be gathered on corrective actions taken or contemplated to improve the management of the communications in Thailand, additional time would be required to prepare a complete reply.

A detailed reply to the findings and conclusions on page 1 of the report, and to each of the recommendations and suggestions on pages 3 and 4, is contained in Attachments 1 and 2. Comments on the introduction to the report are in Attachment 3.

You were also advised that in accord with the current national policy to reduce US troop strength in Southeast Asia, the disposition of the Integrated Wide Band Communications System sites in Thailand is being studied by the Department of Defense. Among other things, the assignment of the operation, maintenance, and management responsibilities for the Communications System in Thailand will be thoroughly examined.

The study is progressing satisfactorily and should be completed in 3rd Quarter CY 70. In addition to the Department of Defense, the study involves the Department of State, the American Embassy at Bangkok and the US Military Assistance Command, Thailand.

We agree that there were problems in Thailand incident to the greatly accelerated planning and rapid build-up of an integrated communications system to meet military exigencies directly associated with combat

operations in Vietnam . We share with the GAO an identification of some areas of activity which might, in retrospect, have been more advantageously handled. Actions are underway to improve the management of Telecommunications in Thailand as indicated in attachments hereto.

Information obtained from the Procurement Management Review Report issued by the Office of the Assistant Secretary of the Army (Installations and Logistics) in January 1968 and the Report of Survey of Contract Services in the Pacific Ocean area issued by the Secretary of Defense Contract Survey Team in December 1968, included in your Draft Report, may be released to the public. Classified information included in the report may be made available to appropriate Congressional Committees, individual members of Congress, and Executive Agencies.

Barry J. Shillito

BARRY J. SHILLITO
Assistant Secretary of Defense
(Installations and Logistics)

GAO note: The attachments to this letter are not included in this report because of their security classification.

DEPARTMENT OF STATE

Washington, D C 20520

June 30, 1970

Mr. Oye Stovall
Director of International Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

The Secretary has asked me to reply to your two letters to him of January 21, 1970 about a GAO report regarding Thailand. The following information is unclassified with the exception of bracketed portions, which we wish to have treated as secret.

The bulk of the GAO draft report on "Management of the Acquisition, Operation and Maintenance of a Communications System in Thailand" deals with contractual and managerial matters not involving the Department of State, the American Embassy at Bangkok, or the U. S. Military Assistance Command, Thailand inasmuch as the IWCS in Thailand was initiated by higher headquarters in the context of Southeast Asia-wide communications planning.

[See GAO note 1, p. 49.]

Section 2 of the draft classified supplement (page 15) states that because PX and commissary privileges were not made available to contractor personnel the contracts with Philco-Ford Corporation were increased by about $1.16 million ***.

[See GAO note 2, p. 49.]

U. S. military support facilities, such as PX's and commissaries, operate exempt from local tax and licensing laws as U. S. Government agencies or instrumentalities. U. S. goods and merchandise foreign to the host country are imported by the U. S. Government exempt from taxes and customs duties. Accordingly, access to PX's and commissaries selling tax and duty-free goods can only be accorded to persons entitled to exemption from applicable Thai tax and customs laws. Thus, the basic question was whether to extend PX and commissary privileges to Philco-Ford contractor personnel in the absence of arrangements with the Royal Thai Government granting such personnel duty-free importation privileges. We believe it should be pointed out that decisions in this area were matters of judgment that involved weighing the extension of privileges against the risk of provoking RTG into placing limita tions on existing informally granted privileges. As these were matters of judgment and of informal arrangements, the limits of what was considered possible have varied over the years. At the present time, the number of contractor personnel in Thailand in general has decreased significantly, and it has been deemed possible to extend such privileges to the remaining ones. Thus, in fairness the GAO report should include the fact that as of now all U. S. contractor personnel engaged in IWCS work in Thailand have PX and commissary privileges.

[See GAO note 1.]

Sincerely,

Joseph F. Donelan, Jr.
Deputy Assistant Secretary
For Budget and Finance

GAO note:

1. Classified information has been omitted.

2. The deleted comments relate to matters which were discussed in the draft report but omitted from this final report.

PHILCO Ford

Henry E. Hockeimer
Vice President and General Manager

Philco-Ford Corporation
Communications and Technical
Services Division
4700 Wissahickon Avenue
Philadelphia, Pennsylvania 19144

February 25, 1970

United States General Accounting Office
Defense Division
Washington, D. C. 20548

Attention: Mr. C. M. Bailey, Director

Gentlemen:

The purpose of this letter is to comment on the draft report enclosed with your letter of January 20, 1970, relating to the management of the acquisition, operation and maintenance of a communications system in Thailand. Philco-Ford appreciates this opportunity to make the following comments on the findings and recommendations contained in your draft report:

[See GAO note, p. 52.]

[See GAO note, p. 52.]

Contract Modifications Negotiated in Thailand - Definitization of a number of minor contract changes in many cases did not occur until after job completion. For the most part, dollar value of these modifications was small and was restricted to emergency situations that required immediate implementation. In almost all instances, proposals were submitted prior to completion of the effort. In a number of instances, significant savings to the Government were realized by Philco-Ford's quick reaction in implementing necessary changes through the use of available site personnel.

IWCS Test and Acceptance Program - Philco-Ford did make adequate pre-test preparations to assure itself in advance that equipment would meet the test requirements. There were instances where, due to concurrent operational requirements for the equipment during the test period, routine equipment failures occurred during testing after approximately one year's operation. The equipment was in operational use at all times prior to and during the test periods at the Phase I and II sites where test reruns were requested. Some problems were encountered, but these were not due to lack of pre-test. This conclusion is supported by the fact that no test reruns were required on the Phase III links which were tested prior to being turned over to operations.

Evaluation of Contractor Performance to Costs Incurred - The format and content of the monthly progress performance reports were determined by the Government. These reports contained milestone charts and tabular schedule information on all facets of the program including engineering, procurement, construction, installation, O&M and software. We believe the progress reports did contain meaningful indicators of progress. They not only contained progress for the previous month, but also contained

milestone charts and tabular data indicating future target dates for work to be performed. In addition, monthly program status meetings were conducted at Headquarters, CSA, Fort Monmouth, to review the progress of the program and to anticipate and resolve any problems. A financial management report and supplementary data were also provided to the Government on a monthly basis for use in evaluating Philco-Ford's cost performance. It is true that Philco-Ford did not utilize the supplementary financial report for its own management and control of this program. Although we believe the report was useful and meaningful to the Government in evaluating the status of the program, Philco-Ford's cost control and performance review system provided substantially more detail. In the supplementary data it was recognized that certain costs, such as engineering, provisions, etc., were prorated on a site basis. These data, although useful to the Government, did not reflect the way the program was managed by Philco-Ford and were, therefore, less useful from the standpoint of cost management and control. The purpose of the report was to provide an approximation of the value of any given site in the system and we believe the report effectively served this purpose.

We appreciate the opportunity of replying to your request and will be available to discuss any aspects of this reply at your convenience.

Very truly yours,

GAO note: The deleted comments relate to matters which were discussed in the draft report but omitted from this final report.

U.S. GAO, Wash., D.C.