contract with a private contractor for the account of the Navy Department.

You will understand that the subcommittee's hearings are about to close; therefore, this information is desired promptly.

By direction of the chairman.

JOHN J. COURTNEY, *Special Counsel.*

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, D.C., August 28, 1961.

Hon. F. EDWARD HÉBERT,
Chairman, Subbcommittee for Special Investigations, Committee on Armed Services, House of Representativves, Washington, D.C.

MY DEAR MR. CHAIRMAN: This is in reply to a letter dated August 14, 1961, from Mr. John J. Courtney of your staff, which posed several questions relating to the contract between the Navy Department and the Transport Co. of Texas for the operation of base facilities at Kwajalein Atoll, in the Marshall Islands. I am pleased to furnish the following data in response to the questions.

The original contract for the operation at Kwajalein was let early in fiscal year 1959. It contained three options for renewal, if determined to be in the best interests of the Government. The company is currently operating under an option that the Government exercised to provide services from July 1, 1960, to September 30, 1961. The document covering this period is amendment 7 to the basic contract. Since the subcommittee appears to be interested in present rather than in past operations, I am attaching that amendment. It covers completely all facets of the contractual relationship presently in force between the Navy Department and the Transport Co. of Texas. This relationship has remained substantially unchanged in terms of services rendered since the initial bid was won by the Transport Co. of Texas in July 1958. All the background documents are, of course, available should the subcommittee care to examine them.

Exhibit B to the amendment (p. 10) stipulates the services to be supplied by the contractor for the civilian and military community at Kwajalein. It will be noted that the contractor under this contract provides virtually every service normally provided at all military installations by the operating activity. All initial equipment and initial facilities are furnished to the contractor as Government-furnished equipment. Replacement and additional equipment necessary for the performance of the contract are procured by the contractor with the approval of the contract administrator. In certain instances such as the areas of transportation, construction material handling, and aircraft, increased allowances and replacement are filled through Navy channels and provided as Government-furnished equipment to the contractor. No profits accrue to the contractor other than the fixed fee paid under this contract.

The contractor does not maintain or operate a "company store." In fact, the contractor has no business enterprises on Kwajalein that are foreign to or separate from the prime contract with the Navy. Compensation, therefore, to the contractor for all types of services rendered is an integral part of the fee stipulated in the contract. Within the scope of the contract, the contractor operates a hard and soft goods store (Navy exchange) and a commissary store. The price structure for merchandising the items sold in these stores parallels the pattern established for Navy-operated navy exchanges and commissaries. In brief, the contractor purchases all material as an allowable reimbursable under the contract. Markups are applied as appropriate to cover the cost of sales services. Collections from sales by the contractor are then credited against the reimbursables due under the contract. This complete operation is under the surveillance of Navy auditors on the site. The contractor derives no profits from merchandising operations. The contractor receives no percentage of sales. Merchandising operations in terms of collections credited against reimbursables due the contractor have been included in the gross scope of the contract as a basis for fee determination. By way of further explanation, the estimated net cost of $12,631,650 shown in the contract excludes that volume of business managed and operated by the contractor on a "no cost to the Government basis" such as the two stores above.

At the present time virtually all supplies are procured by the contractor either from Navy supply channels or in the open market depending on price and avail-