Appendix 5

DIGESTS OF SELECTED U.S. GENERAL ACCOUNTING OFFICE REPORTS ISSUED TO THE CONGRESS DURING THE PERIOD JANUARY 1, 1966, THROUGH FEBRUARY 28, 1967

[Index No. 1—B-152980, Jan. 6, 1966]

REVIEW OF POLICIES AND PROCEDURES APPLIED IN EVALUATING FOREIGN SORCE COMPONENTS AND BARTER BIDS FOR AN UNDERSEA CABLE COMMUNICATIONS SYSTEM, DEPARTMENT OF DEFENSE, DEPARTMENT OF AGRICULTURE, TREASURY DEPARTMENT

Our review disclosed that the Department of the Air Force, at the direction of the Department of Defense, awarded a contract for the domestic source procurement of a communications system at a price $2.3 million higher than a foreign source bid in order to minimize dollar payments abroad.

The award was made under Department of Defense policies implementing its balance-of-payments program. The Department's policies did not require that the bidder's estimated domestic and foreign cost components be taken into account in evaluating the merits of alternative bids. Had this been done, more detailed consideration could have been given to the fact that the successful bidder intended to obtain substantial amounts of goods and services abroad under the contract and that the $2.3 million price differential paid to this bidder seemed excessive in relation to the balance-of-payments advantages which could be expected.

It would then have been apparent to the Department of Defense that the premium of $2.3 million would result in a balance-of-payments advantage of $1.4 million, or about a 61-cent balance-of-payments gain for each extra dollar expended. This contrasts with the normal goal of the Cabinet Committee on Balance of Payments that each extra dollar of cost achieve at least a $2 advantage in balance of payments.

Of equal significance, the Department of Defense did not attempt to evaluate another offer of the low bidder to accept surplus agricultural commodities in partial payment (barter) for the communications system. Under this offer, the low bidder proposed to sell the commodities abroad and use the proceeds to pay his foreign costs. This offer, which was $2,150,000 lower than the successful bidder's price, was rejected on the grounds that existing policy did not permit consideration of a barter offer from a foreign source bidder whose dollar bid had been rejected. Had the barter offer been accepted under arrangements that would not result in a significant reduction of commercial United States agricultural exports, substantial financial advantage would have been realized by the United States.

Because of the possibility of achieving significant savings on like transactions in the future, we proposed at the conclusion of our review