return such components to the supply system. The Assistant Secretary of the Navy (Financial Management), in a letter dated August 24, 1965, advised us that the Department of the Navy concurred in the findings set forth in our report and that corrective actions, to the extent of issuing instructions and directives and the undertaking of a servicewide audit of the Navy's ammunition supply system by the Auditor General of the Navy, had been taken or were planned.

We recommended that the Secretary of the Navy take the necessary action to develop and implement appropriate accounting controls over the issue and return of reusable ammunition components to the Navy supply system and to establish adequate surveillance over the operation of such controls to ensure their effectiveness. In this connection, we recommended that consideration be given to assigning the responsibility to account for all reusable ammunition components issued to a vessel to the commanding officer and that appropriate reports of such accountability be designed for issuance, through appropriate channels, to the inventory manager. The difference between the quantity of reusable components issued to the vessel and the quantity still on hand or returned to an ammunition depot should be supported by appropriate explanatory reports.

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Pricing of Recorders Purchased from Midwestern Instruments, Inc., Tulsa, Okla., Department of the Air Force

Our examination into certain costs of procuring electronic malfunction detection and recording systems disclosed that Midwestern Instruments, Inc., Tulsa, Oklahoma, did not use its most recent cost experience as a basis for its price proposal and that, as a result, an overstatement of about $192,800 was made in the price negotiated with Lockheed-Georgia Company, Marietta, Georgia, a division of Lockheed Aircraft Corporation. This cost was passed on to the Government under Lockheed's contract AF 41(608)–16733 with the Air Force. Under the terms of this contract, Lockheed added a charge of $41,800 to provide for spares administration, packing, and profit thereby increasing the cost to the Government by $234,600. Had either the Air Force or Lockheed requested and had Midwestern furnished the most recently experienced costs and vendors' quotations before the final prices were established, the Air Force and Lockheed could have detected the overestimates and would have been in a position to negotiate appropriate reductions in the prices of the subcontract and the prime contract.

In response to our suggestion that appropriate recovery be made, the Department of the Air Force has recovered by offset action from Lockheed the amount of $234,623. Lockheed has appealed this recoupment action to the Armed Services Board of Contract Appeals. The case will be heard by the Armed Services Board of Contract Appeals at a later date.

The prices commented on in our report relate to the model 813LQ recorder, a component of a malfunction detection and recording system supplied by Lockheed for use principally in the B–52 aircraft. The price charged by Midwestern for the recorder component of the 813LQ