

recorder comprised \$1,304,776 of the total purchase order price of \$2,586,296. The balance of \$1,281,520, comprising about 50 percent of the total purchase order price, was for galvanometers and magnetic structures which were the remaining principal components of the model 813LQ recorder. We were unable to examine into the reasonableness of the price for the galvanometers and magnetic structures because Midwestern refused to furnish us any cost information on these components. Midwestern claimed that, on the basis of its representation that these components were proprietary catalog items, it was not required to furnish this information. We have advised Midwestern that it has no valid claim and that it has wrongfully refused to make records pertaining to galvanometer and magnetic structures available for our review.

In commenting on a draft of our report, Midwestern disagreed with our finding and recommendations. Midwestern stated as its belief that, when all costs incurred by Midwestern throughout the development and production of the malfunction detection and recording system under all contracts are considered, the Government has not sustained any increased costs. Lockheed, on the basis of its independent review, advised us that it was entitled to a price reduction of approximately \$108,000 under the defective-pricing-data clause of the subcontract with Midwestern.

Subsequent to the period covered by our review, (1) Lockheed established written procedures to be followed in making an analysis and evaluation of a subcontractor's proposed prices and (2) the Armed Services Procurement Regulation was revised to require an explanation of why cost or pricing data were not required and a statement of the basis for this determination. We believe that effective administration of these revised procedures and proper enforcement of these revised regulations should obviate the occurrence of situations similar to those described in our report.

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NEED TO REEXAMINE PLANNED REPLACEMENT AND AUGMENTATION OF HIGH-ENDURANCE VESSELS, WESTERN AREA, U.S. COAST GUARD, TREASURY DEPARTMENT

On the basis of our review of the operating experience during fiscal years 1962-64, we believe that the Coast Guard's plans for acquiring 14 high-endurance vessels to replace the 11 high-endurance vessels presently assigned to the Western Area, primarily for search and rescue and ocean-station duties, are questionable. In our opinion, the stated requirements can be reduced, thereby saving about \$45 million in construction costs and about \$3.6 million annually in vessel operating costs.

In developing its vessel requirements, the Coast Guard did not use actual operational data to determine the number of new high-endurance vessels needed to carry out its assigned functions. The Coast Guard's planning document, known as the Vessel Report, states a requirement in the Western Area for three additional high-endurance vessels at an estimated cost of \$15 million each. Our review showed, however, that the actual utilization, during fiscal years 1962-64, of