

Agency aircraft and that overhauled and repaired military parts would be used as well as new parts. We note that, in March 1965, the Agency issued a directive for the guidance of its procurement personnel which states, in part, that personal property requirements will not be procured from commercial sources until it has been determined that the needed items are not available from other agencies.

If these directives are effectively implemented, the deficiency discussed in this report should not recur. We are recommending that the Administrator of the Federal Aviation Agency ascertain through future management reviews and internal audits that the aforementioned directives are being effectively administered and that military aircraft parts are being used to the maximum extent practicable.

[Index No. 19—B-133386, Apr. 12, 1966]

REVIEW OF ROYALTIES CHARGED TO THE U.S. GOVERNMENT FOR
USE BY GOVERNMENT CONTRACTORS OF CHEMICAL MILLING IN-
VENTIONS, DEPARTMENT OF THE AIR FORCE

A basic chemical milling invention was developed by a Department of the Air Force prime contractor, North American Aviation, Inc., Los Angeles, California. Inventor laboratory notes, technical reports, and other records of the contractor show that the invention was made to solve a problem arising in the performance of an Air Force research and development missile contract. The invention had been classified by the contractors as being not subject to the patent rights provisions of the contract, and thereafter the Government was charged royalties for its use. Although the terms of the contract were subject to varied interpretations, we believe that a reasonable interpretation would have granted the Government a royalty-free license to use the invention.

When the Air Force became aware of the basic chemical milling invention, it raised the issue of the Government's rights to royalty-free use of the invention but did not resolve the issue. At the time of our review, Government contracts with other firms had been charged chemical milling royalties totaling almost \$500,000, of which an unidentified portion covered improvement patents and know-how of another company whose records were not subject to our review.

We informed the Secretary of Defense of our findings and proposed that his Department take the necessary steps to settle the matter on equitable grounds and to avoid any unwarranted royalty payments in the future. In commenting on these proposals, the Department of Defense advised us that the Air Force General Counsel's Office had entered into preliminary discussions with counsel for the Air Force prime contractor to resolve the legal issues relevant to a determination of the Government's rights in the inventions in question and, further, that the Air Force would advise us of the action taken on these proposals at a later date.

The Air Force advised us in February 1966 that it had negotiated with the prime contractor a proposed settlement agreement which the Air Force intended to execute in the near future. This agreement in essence provides for (1) the rebate to the Government of \$157,000 as settlement of one half of the prime contractor's share of the chemical