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POLICY GUIDANCE STRENGTHENED ON DIRECT PROCUREMENT OF COMPONENTS NEEDED BY CONTRACTORS IN PRODUCTION OF WEAPON SYSTEMS AND OTHER MAJOR END ITEMS, DEPARTMENT OF DEFENSE

The General Accounting Office has issued to the Congress a large number of reports over the past several years on reviews of the policies, procedures, and practices followed within the Department of Defense in determining whether certain components needed for installation in weapon systems or other major end items being produced should be purchased by the contractors or purchased by the Government and furnished to the contractors. In these reports we pointed out the economies that could be realized in Government procurement if the Department of Defense and the military services would make greater efforts to furnish components to contractors in instances where it is feasible and to the advantage of the Government to do so.

The economies stem from several factors. Purchasing of the components by the Government provides an opportunity to consolidate requirements for a component common to several weapon systems or other major end items and to take advantage of the lower prices that may be available for purchases in larger quantities. Inasmuch as military procurement is subject to provisions of the Armed Services Procurement Regulation which requires the use of formal advertising procedures designed to obtain full and free competition, unless specifically excepted by law, the Government is more likely to purchase the components competitively, thus affording all qualified producers an opportunity to participate in supplying the Government's needs. Also, the furnishing of components to the contractor places the Government in a sound position to negotiate a lower price for the end item by reducing the profit or fee which otherwise would be allowed on the contractor's cost of items purchased under the contract.

In the subject report we stated that the Department of Defense had recently added to the Armed Services Procurement Regulation a provision which contains a policy statement and procedural guidance designed to encourage and expand the practice of furnishing components to contractors when the circumstances are appropriate. The prior policy guidance, in effect during the periods covered by our reports, appeared to us to tend to discourage the practice we were advocating.

The earlier policy guidance, which had been in effect since prior to 1959, was provided in the Armed Services Procurement Regulation (section 13-201) in the following terms.

It is the general policy of the Department of Defense that contractors will furnish all material required for the performance of Government contracts. However, the Government should furnish material to a contractor when it is determined to be in the best interest of the Government by reason of economy, standardization, the expediting of production, or other appropriate circumstances.

This provision gave the military services broad latitude and was variously interpreted in their implementing instructions. The interpretations ranged from the position of the Air Force, that components should be Government furnished to the maximum practicable extent, to the position of the Navy's Bureau of Ships, that the furnishing of such items should be "reduced to an absolute minimum."