

The new guidance, which was added to the Armed Services Procurement Regulation on October 1, 1965, as revised December 1, 1965 (section 1-326), places greater emphasis on direct procurement of components. The Department of Defense policy is now stated as follows:

Whenever it is anticipated that the prime contract for a weapons system or other major end item will be awarded without adequate price competition, and the prime contractor is expected to acquire a component without such competition, it is Department of Defense policy to break out that component if (i) substantial net cost savings will probably be achieved; and (ii) such action will not jeopardize the quality, reliability, performance or timely delivery of the end item. The desirability of breakout should also be considered (regardless of whether the prime contract or the component being purchased by the prime contractor is on the basis of price competition) whenever substantial net cost savings will result from greater quantity purchases or from such factors as improved logistics support through reduction in varieties of spare parts and economies in operations and training through standardization of design.

This provision does not apply to all procurement decisions, but only to those which deal with whether components that were furnished by the contractor in a previous procurement of a weapon system or other major end item should be furnished by the Government in a forthcoming procurement. Thus it does not apply to the initial decisions which must be made at the inception of the procurement program. We understand that the Armed Services Procurement Regulation Committee is developing guidance which will cover initial decisions.

In addition to placing emphasis on direct procurement, section 1-326 places responsibility for breakout decisions on the project manager and sets forth certain requirements for establishing and maintaining records for identifying components which have been considered for breakout and for disclosing the basis for decisions which are made. Section 1-326 also establishes certain guidelines to assist project managers in making their decisions.

We believe that the adoption of section 1-326 represents a significant step toward realizing more fully the economies which are obtainable by direct procurement under appropriate circumstances. The progress that results will of course depend upon the effectiveness of implementation by procurement organizations and surveillance by the services. We have been advised that the progress will be evaluated by the Department of Defense Procurement Management Review Program as a part of its continuing reviews of the operations of procurement organizations.

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REDUCTION IN DOLLAR OUTFLOW POSSIBLE THROUGH MORE EXTENSIVE USE OF AMERICAN-MADE BUILDING MATERIALS IN EMBASSY AND RELATED CONSTRUCTION PROJECTS, DEPARTMENT OF STATE

Our examination into selected purchases of building materials for embassy and related construction projects overseas disclosed a number of instances where foreign-made materials were used in lieu of American-made materials. Our examination was concerned entirely