

furnish cost or pricing data on the ground that proposed prices are based on established catalog or market prices of commercial items sold in substantial quantities to the general public.

3. Clearer definition of the Government's right to price reductions under firm fixed-price contracts where prices are increased because subcontractors have submitted defective cost or pricing data.

MILITARY SUPPLY SYSTEMS

During the past 18 months, we have assigned a large number of our staff to surveys, studies and reviews of the military supply systems and their responsiveness to military needs.

Primary emphasis has been, and is being, placed on appraising the effectiveness and economy of the supply systems and concurrently identifying and advising military officials of opportunities for improving supply management.

During the period from June 1966 through December 1966, we made a review of the responsiveness of the military supply systems to increased demands generated by the Southeast Asia conflict. We are currently complementing this initial effort with a review of certain aspects of the Army's supply system in Vietnam.

During this committee's hearings held in May 1967, we apprised you of the results of our review of the supply systems in the Far East. This effort, conducted in cooperation with the Department of Defense, resulted in the identification of 82 specific opportunities for improvements in the operations of the individual military supply systems. The effort also identified several broad problem areas requiring high level management attention.

Subsequent to the May 1967 hearings, we have had the opportunity to observe the results of the military services' actions to accomplish improvements in the areas cited. We were pleased and impressed with the results to date.

For example, with respect to the operation of the Army stock fund, we find that procedures have been changed so that units in combat zones no longer need concern themselves with stock fund limitations when ordering supplies and equipment. The fund controls inherent in a stock fund system are being applied at a higher organizational level.

In the area of communications, progress has been made in improving the reliability and accuracy of the communications systems used to transmit requisitions and other logistical data. Automatic transmission and switching facilities have been installed at various locations in the Far East and transceiver capabilities have been increased throughout Vietnam. The services have also improved their systems for reconciling and controlling data transmitted.

We are continuing to keep abreast of developments with respect to the various major problem areas we described to you in May.

ARMY'S LOGISTICS STRUCTURE

One of the more significant areas discussed with you in May involves the Army's logistics structure.

In our reviews of the military supply systems we observed that it tends to fragment supply management responsibilities through all