

SURVEY OF GOVERNMENT OPERATIONS
PART 4—RENEGOTIATION BOARD

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HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
NINETIETH CONGRESS
SECOND SESSION

MARCH 26, 1968

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CONTENTS

Statement of Lawrence E. Hartwig, Chairman, Renegotiation Board; accompanied by Harold E. Stone, Director, Office of Administration; George Lenches, Economic Adviser; Paul T. Semple, Director, Office of Assignments; and Mrs. Eulie I. Jackson, Acting Chief, Budget and Fiscal Accounting Staff.....	Page 1
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EXHIBITS

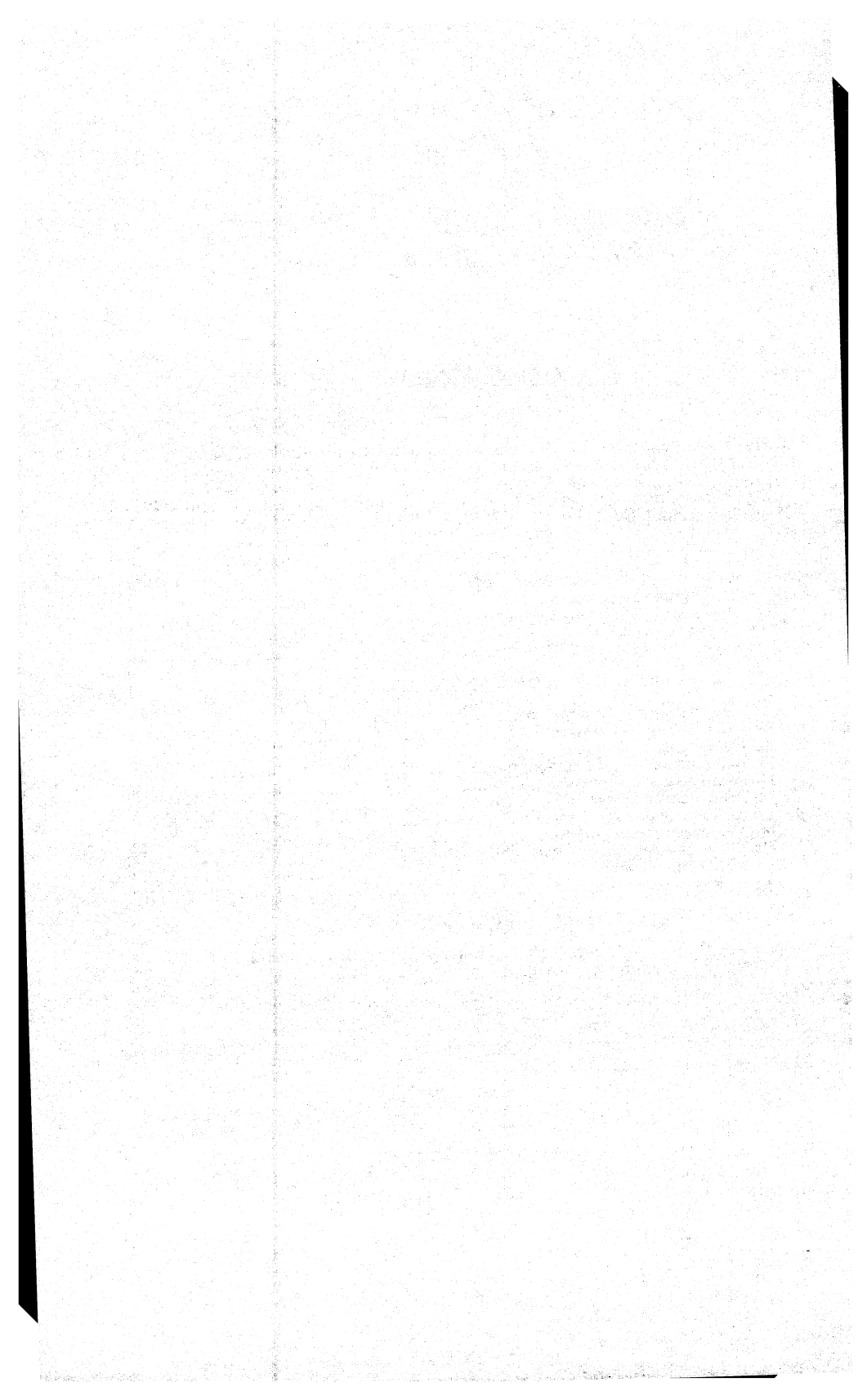
Exhibit A—Fact sheet—Combined program.....	3
Exhibit B—Organization chart.....	4
Exhibit C—Program budgeting breakdown.....	5
Exhibit D—Fact sheet—General support program.....	6
Exhibit E—Fact sheet—Renegotiation program.....	13

TOPICAL INDEX

Part 1.—Overall agency operations.....	2
A. General support program.....	5
B. Budget processes.....	8
C. Accounting system development.....	8
D. Management information system.....	9
E. Internal audit system.....	9
F. Automatic data processing.....	10
G. Personnel management.....	11
H. General Accounting Office audit reports.....	11
Part 2.—Program review.....	12
A. Renegotiation program.....	12

APPENDIX

Appendix.—Written responses of the Renegotiation Board to questions submitted by the subcommittee.....	23
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SURVEY OF GOVERNMENT OPERATIONS PART 4—RENEGOTIATION BOARD

TUESDAY, MARCH 26, 1968

**HOUSE OF REPRESENTATIVES,
GOVERNMENT ACTIVITIES SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
*Washington, D.C.***

The subcommittee met at 11:30 a.m. in room 2247, Rayburn, House Office Building, Hon. Jack Brooks (chairman of the subcommittee) presiding.

Present: Representatives Jack Brooks, William S. Moorhead, Ogden R. Reid, and Fletcher Thompson.

Also present: Ernest C. Baynard, staff administrator; William M. Jones, counsel; Thomas Smith, minority staff; Irma Reel, clerk; and Lynne Higginbotham, clerk.

Mr. Brooks. We are pleased to have with us today Mr. Lawrence Hartwig, Chairman, Renegotiation Board.

The Renegotiation Board is a relatively small agency with a somewhat unique but nevertheless important objective. The subcommittee is interested in how well you are achieving that objective.

Would you be so kind as to introduce the officials accompanying you?

STATEMENT OF LAWRENCE E. HARTWIG, CHAIRMAN, RENEGOTIATION BOARD; ACCOMPANIED BY HAROLD E. STONE, DIRECTOR, OFFICE OF ADMINISTRATION; GEORGE LENCHES, ECONOMIC ADVISER; PAUL T. SEMPLE, DIRECTOR, OFFICE OF ASSIGNMENTS; AND MRS. EULIE I. JACKSON, ACTING CHIEF, BUDGET AND FISCAL ACCOUNTING STAFF

Mr. HARTWIG. Yes, sir.

To my right is Mr. Harold Stone, Director of the Office of Administration; Mr. Paul Semple, Director, Office of Assignments; and Mrs. Eulie Jackson, Acting Chief, Budget and Fiscal Accounting Staff. She assumed her duties only 2 weeks ago. And on my left is Mr. George Lench, our economic adviser.

Mr. Brooks. Thank you.

We have a number of detailed questions concerning various aspects of management of the agency which I would submit to you for written response, to be placed in the record.

(The written responses of the Renegotiation Board to the questions submitted by the subcommittee are in the appendix.)

PART 1.—OVERALL AGENCY OPERATIONS

Mr. BROOKS. At this time we will go into the management concepts in general. To begin our questioning I would ask if you have a fact sheet indicating the total funds available to your agency as a whole for fiscal 1968.

Mr. HARTWIG. Yes. It shows \$2,600,000. We have requested a supplemental of \$76,000 for the pay increase.

Mr. BROOKS. I will submit now exhibits A, B, and C without objection.

(Exhibits A, B, and C follow:)

Exhibit A. - Fact Sheet- Combined Program - Renegotiation Board

100	DEPARTMENT OR AGENCY Renegotiation Board CODE	PROGRAM Renegotiation CODE	SUBPROGRAM			
200	ANALYSIS AND CONTROL CODES					
300						
400	FISCAL YEAR					
		Unobligated Carryover	Appropriation or Current Year Request	Total Available	Total Obligated or Expended	
500	"In house" inputs					
510	Personnel:					
511	Comp.			2,375		
512	Benefits			169		
513	Travel			29		
520	Expenses:					
521	Communications			48		
522	Transportation			5		
523	Printing			11		
524	Supplies and Consum- able Materials			30		
530	Capital Equipment			9		
540	Land and Structures					
541	Additional Investment					
542	Rents					
550	Total					
600	Funds distributed					
610	Contracts					
620	Grants					
630	Loans					
640	Benefits					
650	Other					
660	Total			2,676		
700	Total					
				Prior Fiscal Year		
800	Input-output ratio					
810	1. Input					
811	1. Output					
820	2. Input					
821	2. Output					
830	3. Input					
831	3. Output					
840	4. Input					
841	4. Output					
850	5. Input					
851	5. Output					
860	6. Input					
861	6. Output					
870	7. Input					
871	7. Output					
880	8. Input					
881	8. Output					

EXHIBIT C.—PROGRAM BUDGETING BREAKDOWN—RENEGOTIATION BOARD
PROGRAM SHEET

A. *Major program.*—The renegotiation of defense and space contractors and subcontractors.

B. *Support program.*—Provide administrative management services for the operation of the Renegotiation Board.

Mr. BROOKS. Mr. Chairman, could you give us the total number of employees in your agency, and the geographical extent of your operations?

Mr. HARTWIG. We have 174 employees in the agency, 96 located at headquarters in Washington, 46 in the eastern regional board, which is also located in Washington, and 32 in the western regional board, which is located in Los Angeles.

Mr. BROOKS. Thank you.

A. GENERAL SUPPORT PROGRAM

Do you have a support program covering the operations of your office and the other policymaking personnel not directly attributable to your program functions?

Mr. HARTWIG. We have a support program which provides administrative management services for the operation of the Board.

Mr. BROOKS. Would you give us a brief justification of the size and extent of your support program?

Without objection I will put exhibit D in the record at this point. (Exhibit D follows:)

Exhibit D. - Fact Sheet - General Support Program - Renegotiation Board

100	DEPARTMENT OR AGENCY Renegotiation Board	PROGRAM Administrative Management	SUBPROGRAM			
200	CODE	CODE	CODE			
300	ANALYSIS AND CONTROL CODES					
400	FISCAL YEAR					
500		Unobligated Carryover	Appropriation or Current Year Request	Total Available	Total Obligated or Expended	
510	"In house" inputs					
511	Personnel:			192		
512	Comp.			13		
513	Benefits			1		
520	Travel					
521	Expenses:			7		
522	Communications					
523	Transportation			2		
524	Printing					
530	Supplies and Consum- able Materials			5		
540	Capital Equipment					
541	Land and Structures					
542	Additional Investment					
550	Rents					
600	Total					
610	Funds distributed					
620	Contracts					
630	Grants					
640	Loans					
650	Benefits					
660	Other			220		
700	Total					
800				Prior Fiscal Year		
810	Input-output ratio					
811	1. Input					
820	1. Output					
821	2. Input					
830	2. Output					
831	3. Input					
840	3. Output					
841	4. Input					
850	4. Output					
851	5. Input					
860	5. Output					
861	6. Input					
870	6. Output					
871	7. Input					
880	7. Output					
881	8. Input					
	8. Output					

STATEMENT

A. The administrative management program was established by the Statutory Board in 1951.

The necessary delegations of authority to take official actions for the Board are made by the Chairman of the Board.

B. The administrative management program requires the services of 25 employees.

The Director and his staff provide the following services for the headquarters and the regional boards:

- (1) Serve as adviser to and assist the Chairman, members of the Board, and the Board staff on all administrative management matters.
- (2) Prepare and administer the Board budget.
- (3) Develop and issue quarterly allotment of funds for specific activities and projects of the headquarters and the regional boards.
- (4) Administer the personnel and physical security programs of the Board in accordance with the provisions of Executive Orders 10450 and 10501, and appropriate regulations of the Civil Service Commission.
- (5) Develop and maintain fiscal and internal accounting procedures and accounts for payroll, travel, leave, and other matters relative to the operation of the Board.
- (6) Prepare regular and special statements reflecting the financial status of the Board's appropriation.
- (7) Formulate, develop, and administer the personnel management program of the Board.
- (8) Establish, maintain, and control the files and records of the Board, including such activities as files and records analysis and scheduling for retirement. The files and records consist of: active and inactive class A and class B case files; the official copies of correspondence, memorandums, and various reports and related documents; contractors assignment files; the Standard Industrial Code files; and other official files and records of the Board.
- (9) Administer the printing program of the Board.
- (10) Provide a variety of office services, such as space management, supplies and equipment, mail and messenger, telephone, and duplicating.
- (11) Provide library services.
- (12) Maintain liaison with other Federal agencies on all administrative management matters.

C. Harold E. Stone, Director of Administration, has direct operational responsibility over the administrative management program.

Mr. HARTWIG. Do you wish amplification of exhibit D?

Mr. BROOKS. Yes. What is the justification?

Mr. HARTWIG. I will ask Mr. Stone to respond.

Mr. STONE. Mr. Chairman, we have 25 employees in the administrative management program. This program includes personnel management, budget and fiscal accounting, personnel and physical security, records management and files, printing, procurement and supply, library services, forms control, and office services.

For budget purposes, we are not broken out into a support program. We have, however, for use by this committee, submitted a statement on our support program showing a total cost of \$220,000. The majority of that, \$192,000, is for personnel costs.

The administrative management program comprises 19 employees in headquarters, and six in our regional boards.

We do have five employees, including the overall figure of 25, who are actively engaged in agency operations. These five employees are in the central files facility that controls and maintains the contractors' case files in the renegotiation program.

B. BUDGET PROCESSES

Mr. BROOKS. Mr. Chairman, would you give us a status report on the implementation of program budgeting in your agency?

Mr. HARTWIG. I will ask Mr. Lenches to reply.

Mr. BROOKS. Mr. Lenches?

Mr. LENCHES. Mr. Chairman, the Renegotiation Board is a single-purpose agency. Its statutory mandate is laid down in the Renegotiation Act of 1951, as amended. The Board has no direct control over the scope of its program or over most of the volume of its workload. Consequently, in the Board's case, long-range planning in the PPBS sense is meaningful only in a budgetary and administrative sense.

We discussed this situation with the Bureau of the Budget at the time the President recommended to the civilian agencies the adoption of the PPBS program, and the Bureau has advised us that we are not required to develop a PPBS system in view of the Board's workload.

However, the Board has decided, mostly in appreciation of the importance of the PPBS technique for administrative management, economy, and efficiency purposes, to go ahead and develop internally a PPBS program, not by program as such, since we have only one program, but by breaking down that program along functional lines. This has been done.

We did the first one in fiscal 1967 and we have done another one, a somewhat improved version of it, during the current fiscal year.

In order to develop the basic program and the financial plan as required by Presidential instructions, the Board has estimated its future workload on the basis of a statistical relationship between the volume or renegotiable sales reviewed and the amount of prime contract awards made by the Department of Defense and the National Aeronautics and Space Administration. Because DOD procurement is a controlling factor in determining the Board's workload, and since the intensity of the fighting in Vietnam has a direct bearing upon such procurement, alternative workload projections have been made on the basis of differing assumptions as to the course of developments in Vietnam.

Furthermore, since the Board has been requested to prepare and has submitted proposals further to amend the Renegotiation Act of 1951 in the course of the present Congress, projections have also been made in various configurations to indicate the effects upon the Board's workload of the enactment of these various proposals.

We have made, as required by the PPBS system, a 5-year projection on the basis of all these alternatives. We have cut the program along functional lines and costed out the programs as such, and we have a document in the files of the Board with this 5-year budget plan to the extent that it is useful for administrative and internal purposes.

C. ACCOUNTING SYSTEM DEVELOPMENT

Mr. BROOKS. This is very helpful, Doctor.

I wonder, Mr. Chairman, if you would give us an idea of what your agency is doing in accounting system development.

Mr. HARTWIG. Mr. Stone?

Mr. STONE. Mr. Chairman, our accounting system was developed back in the early fifties and it is an accrual system with general ledger

and allotment ledger accounts. We have an accounting manual that establishes the principles and procedures for this accounting system. The manual was approved by the General Accounting Office in 1958. We do not have, however, an internal audit system for the accounting program.

D. MANAGEMENT INFORMATION SYSTEM

Mr. BROOKS. We will cover that a little later.

Let me ask the Chairman about the management information system that you have now. Do you have one?

Mr. HARTWIG. Yes. We have developed two monthly reports which we use for management purposes.

I have here a workload report which sets forth the input and output of each office, each division, and each regional board on a monthly basis.

Mr. BROOKS. Is it done on a computer? Do you keep an account of the number of contracts, the status, and how the work is coming along?

Mr. HARTWIG. No, sir. It is done manually. Each office feeds the data into this report on a monthly basis. The report shows such information as the number of filings made by contractors during the month, the number of filings completed in headquarters by various offices involved in the screening process, the number of assignments to each regional board, the number of assignments completed by each regional board, the beginning of the year backlog, the beginning of the month backlog, the backlog at the end of the reporting month. Altogether it is a very useful report because, by studying this report I can ascertain in a matter of minutes whether any office has fallen behind during the month. This gives me an opportunity to call in the head of the office to find out why they fell behind.

The report is geared to the case flow through the Board, on, you might say, a production line basis: opening inventory, input, completion, ending inventory, by each office.

Mr. BROOKS. Does the manual system seem to be working efficiently in your instance?

Mr. HARTWIG. Yes, sir. As a matter of fact, the report itself is self-policing because no office wants to submit a monthly report to me which shows that they have fallen behind because they know they will be called on the carpet. It has been of great assistance to me.

Mr. BROOKS. I might adapt it to some of my own operations.

Mr. HARTWIG. In addition to that, we have a monthly financial report which reflects the monthly and cumulative obligations by each object classification in our accounting system. This includes monthly and cumulative obligations for personnel services, personnel benefits, travel and transportation, transportation of things, rent, communications and utilities, printing and reproduction, services of other agencies, supplies and material, equipment, and other services.

E. INTERNAL AUDIT SYSTEM

Mr. BROOKS. Mr. Chairman, would you give me a brief description of your internal audit system? Or perhaps Mr. Stone would go into it. You touched on it earlier.

Mr. STONE. Mr. Chairman, we rely solely on the General Accounting Office for the audit of our records and accounts.

Mr. BROOKS. It is contracted out to the GAO? They do your accounting?

Mr. STONE. No sir, they do only the audit. We feel that the audits that are conducted by GAO are adequate for our purposes.

Mr. BROOKS. You find them useful and helpful to you as the Director?

Mr. STONE. Yes, sir.

Mr. BROOKS. You have found it sufficiently protected your agency from developments within which could be erroneous?

Mr. STONE. Yes, sir. Occasionally they will pick up an administrative error, where there has been an underpayment or something of that nature.

Mr. BROOKS. Do they change the auditors occasionally?

Mr. STONE. I don't believe we have ever had the same auditors 2 years in a row.

Mr. BROOKS. That is good. If they start drinking your coffee they might get to be pretty friendly.

F. AUTOMATIC DATA PROCESSING

On automatic data processing, do you have any?

Mr. HARTWIG. We do have an electric accounting machine, a 407, which maintains historical and financial data relating to contractors.

Mr. BROOKS. That is adequate for your purposes?

Mr. HARTWIG. That is adequate for our purposes.

Mr. BROOKS. You do know that you can have available to you some time from other computers if you have a requirement for it.

Mr. HARTWIG. Yes, sir. As a matter of fact, we tried that before we acquired this machine. It was very unsatisfactory.

Mr. BROOKS. It was?

Mr. HARTWIG. Because our operations are quite simple. We don't require the time of a very sophisticated computer.

Mr. BROOKS. Do you operate the system on tapes?

Mr. HARTWIG. Cards.

Mr. BROOKS. A card system?

Mr. HARTWIG. Yes, sir.

Mr. BROOKS. Have you found that sort of fundamental system to be pretty helpful in keeping your records?

Mr. HARTWIG. Yes, indeed. We acquired this machine secondhand last August. It has been very useful. We have our mailing list on cards. We have a master index of all contractors, giving historical data which we print out monthly. This printout is used by various offices in reviewing filings, and checking on the status of cases. In addition, the 407 is used to make statistical runs for annual report purposes as well as for special studies required in connection with legislation and questions asked by congressional committees.

Mr. BROOKS. As distinguished from most agencies, Mr. Chairman, I guess your basic problem with computers is just to continue to evaluate what is available in the technological development of them and see what would be applicable to your use, admitting that it might be somewhat limited.

Do you have somebody keeping track of those developments and keeping up with your own equipment, keeping an eye on what could be done to upgrade and improve your own utilization of this type of equipment?

Mr. HARTWIG. Mr. Stone?

Mr. BROOKS. Mr. Stone works on that too?

Mr. HARTWIG. Yes, sir.

Mr. STONE. I think the record should show that Mr. Hansborough, who is the Assistant Chief of the Identification and Statistics Division, under Mr. Semple, is really the ADP expert on the Board, and not Mr. Stone.

Mr. BROOKS. You ought to encourage him to take a look at the new developments. It may be that some of the other agencies have a more sophisticated approach that might be useful to you. It is a very fast moving art.

Mr. STONE. It is.

Mr. BROOKS. They have not yet really adapted it to smaller agencies, to smaller uses. This is not too far advanced. You can see with the kind of research money being expended, both by the hardware people and the software folks, that the uses of this technology are going to be more and more applicable to smaller operations both within Government and within business. They are now aiming for small Government agencies, they are aiming for small business utilizations. I am glad you have somebody looking at it.

G. PERSONNEL MANAGEMENT

On personnel management, would you give the committee an idea of the elements of your personnel management program?

Mr. HARTWIG. Manpower planning at the staff level is the responsibility of the Office of Administration under my direction. Final decisions with respect to budgetary matters rest with the entire Board.

Mr. BROOKS. Do you have any problems acquiring the kind of accountants and lawyers that you need for a thorough evaluation of these contracts?

Mr. HARTWIG. At the present time we are so strapped for funds that we haven't been able to recruit. I anticipate that we will have some difficulty when funds are available.

Mr. BROOKS. It seems that there is always an effort to keep people who are supposed to collect money from doing it. Internal Revenue has the same problem. They are trying to cut down on the number of agents who can examine returns. That increases the odds. I guess you have the same problem.

Mr. HARTWIG. We have asked for an increase in our appropriation for 1969. I am quite hopeful it will be granted.

H. GENERAL ACCOUNTING OFFICE REPORTS

Mr. BROOKS. Would you describe for the subcommittee any GAO reports that have been issued as to your management and administration?

Mr. HARTWIG. We haven't had any to my knowledge.

Mr. STONE. Other than the audit of our fiscal operation.

Mr. BROOKS. Which is a standard annual procedure. I hope it is more than annual.

PART 2.—PROGRAM REVIEW

A. RENEGOTIATION PROGRAM

Turning to your program breakdown, we understand that yours is a one-program agency. I would appreciate a brief explanation of that program and how it is performed, Mr. Chairman. I will put exhibit E in the record, without objection.

(Exhibit E follows:)

Exhibit E. - Fact Sheet - Renegotiation Program - Renegotiation Board

100	DEPARTMENT OR AGENCY Renegotiation Board	PROGRAM Renegotiation	SUBPROGRAM	
200	CODE	CODE	CODE	
300	ANALYSIS AND CONTROL CODES			
400	FISCAL YEAR			
500		Unobligated Carryover	Appropriation or Current Year Request	Total Available
510	"In house" inputs			
511	Personnel:			
512	Comp.			2,183
513	Benefits			156
520	Travel			28
521	Expenses:			
522	Communications			41
523	Transportation			5
524	Printing			9
530	Supplies and Consumable Materials			25
540	Capital Equipment			9
541	Land and Structures			
542	Additional Investment			
550	Rents			
600	Total			
610	Funds distributed			
620	Contracts			
630	Grants			
640	Loans			
650	Benefits			
660	Other			
700	Total			2,456
800				Prior Fiscal Year
810	Input-output ratio			
811	1. Input			
820	1. Output			
821	2. Input			
830	2. Output			
831	3. Input			
840	3. Output			
841	4. Input			
850	4. Output			
851	5. Input			
860	5. Output			
861	6. Input			
870	6. Output			
871	7. Input			
880	7. Output			
881	8. Input			
	8. Output			

STATEMENT

A. The Renegotiation Board was created by the Renegotiation Act of 1951 (Public Law 9, 82d Cong., approved Mar. 23, 1951, and amended Sept. 1, 1954, Aug. 3, 1955, Aug. 1, 1956, Sept. 6, 1958, July 13, 1959, July 3, 1962, June 30, 1964, and June 30, 1966).

B. The Renegotiation Board has authority under the Renegotiation Act of 1951, as amended, to determine and eliminate excessive profits realized by contractors and subcontractors in the defense and space programs. Recoveries by the Government arising from determinations of excessive profits are covered into the Treasury as miscellaneous receipts. The Board's determinations have always exceeded its annual appropriations.

The Board cannot, at this time, estimate the number of determinations of excessive profits that will be made during fiscal year 1968, nor the dollar amount of the determinations. However, from the Board's inception through fiscal 1967, 3,755 determinations of excessive profits have been made totaling \$952,436,037, before adjustments for Federal income and excess profits tax credits. Also during fiscal 1967, contractors reported in connection with renegotiation proceedings voluntary refunds and voluntary price reductions amounting to \$30,318,586. (These refunds and price reductions are to be distinguished from price reductions made pursuant to contract provisions.) Such reported savings totaled \$1,300,121,-259 since creation of the present Board.

C. Lawrence E. Hartwig, Chairman of the Renegotiation Board, has direct operational responsibility over the renegotiation program.

Mr. HARTWIG. Yes, sir. The Renegotiation Board has authority under the Renegotiation Act of 1951, as amended, to determine and eliminate excessive profits realized by contractors and subcontractors in the defense and space programs. Renegotiation is conducted not with respect to individual contracts but with respect to the receipts or accruals of a contractor under all renegotiable contracts and subcontracts in a fiscal year of the contractor.

Not all Government contracts are within the scope of the act. The act relates only to prime contracts with the Department of Defense, the Army, the Navy, the Air Force, the Maritime Administration, the Federal Maritime Commission, the General Services Administration, the National Aeronautics and Space Administration, the Atomic Energy Commission, and the Federal Aviation Administration, as well as to related subcontracts, including purchase orders.

Certain contracts and subcontracts are exempt in whole or in part from renegotiation. The act provides that a report must be filed with the Board by every contractor or subcontractor having receipts or accruals in his fiscal year which exceed \$1 million, or \$25,000 in the case of brokers and manufacturers' agents, from contracts or subcontracts subject to the act.

Contractors or subcontractors with renegotiable receipts or accruals amounting to less than the above minimum need not file a report but may, if they choose, file a statement of nonapplicability.

These reports then are processed by the Board. Above the floor cases are analyzed, and the Board determines whether the contractor has or has not realized excessive profits by applying certain so-called statutory factors which are set forth in the Renegotiation Act.

Mr. BROOKS. Mr. Chairman, can you give us an estimate of excessive profits that will be made during fiscal year 1968? Can you give us an idea of what has been accomplished? What is the total recovered for the Government in the last few years? What was recovered for the Government in 1967? Give us some actual facts of what you have accomplished, a justification of the agency's operation.

The most important facet of your operation is to be a deterrent to wrongdoing and the secondary and of less importance is how much you recover. The deterrent is like the iceberg. Six-sevenths of them you encourage to do right without having talked to them. This saves time and money and problems.

Mr. HARTWIG. That is right, sir. It would be impossible for me to estimate what the recoveries will be this fiscal year, because I just don't know. Cases that are being processed cannot be prejudged. I can say, however, that our business is picking up as a result of Vietnam.

With respect to the last published figures, and that is fiscal 1967, the year ended June 30, 1967, the Board made 18 determinations of excessive profits in the amount of \$15,980,214 before Federal tax credit. During that same period contractors reported to the Board voluntary refunds and price reductions in the amount of \$30,318,586.

Mr. BROOKS. The deterrent was twice as good as the stick.

Mr. HARTWIG. These are voluntary actions without legal consideration.

Mr. BROOKS. This is when you brought it to their attention?

Mr. HARTWIG. No, sir.

Mr. BROOKS. They brought it to your attention?

Mr. HARTWIG. We have a question in our report asking in substance: Did you make any voluntary refunds or price reductions during the course of the present fiscal year? Contractors supply that information. That is the statistic we pick up here.

Mr. BROOKS. These are voluntary repayments or voluntary reductions in charges?

Mr. HARTWIG. Voluntary refunds or voluntary reductions in price under a contract in existence, under which there is no legal obligation to reduce the price.

That is the picture for 1967. Since the beginning of the act in 1951, the Board has made 3,755 determinations of excessive profits in the total amount of \$952,436,037 before Federal tax credit.

Mr. BROOKS. Do you think, Mr. Chairman, that the voluntary reductions in the amount of some \$30 million would have been as easily acquired and accomplished if they didn't have the Renegotiation Board?

Mr. HARTWIG. I think that the statute is a factor in the voluntary refunds.

Mr. BROOKS. A significant factor or just a factor?

Mr. HARTWIG. We don't pursue these matters in depth. This is a statistic. We get the figure because one of the statutory factors requires that we consider a contractor's pricing risk. In other words, if a contractor has reduced his price early in the year, he will have more pricing risk than if he had not reduced his price. This is the reason we gather this information.

Mr. BROOKS. He would have had more what?

Mr. HARTWIG. More pricing risk if he had reduced his price than if he had not reduced the price. That is the relevance of the figures in individual cases. For annual report purposes we compile the total figure and submit it in the report.

There is a fact to bear in mind. A profit corporation has to justify making a refund or a price reduction without legal consideration. I

should think the stockholders of the corporation might question such an action.

Mr. BROOKS. What ground do they use generally for that type of determination?

Mr. HARTWIG. I would say that the renegotiation statute can supply the consideration.

Mr. THOMPSON. Mr. Chairman, I would like to ask a question.

Mr. BROOKS. Congressman Thompson.

Mr. THOMPSON. I would like to determine just what is an excessive profit. How do you determine what excessive profits are?

Mr. BROOKS. Give us an example, Mr. Chairman.

Mr. HARTWIG. The act is purposely broad. You must view this act in the context of the first profit limitation statute of modern times, the Vinson-Bramwell Act of 1934, which set a flat limitation on profits. That form of profit limitation was found to be repressive because any profit earned above a certain percentage was automatically deemed to be excessive. This discouraged efficiency. This discouraged cost reduction. Therefore, in World War II, the Congress adopted the method of profit limitation set forth in the Renegotiation Act of 1943 and also incorporated in the 1951 act. That method provides that the profits of a contractor in his fiscal year will be reviewed on an overall basis. In such reviews, the Board must give credit for reasonableness of cost, the contractor's efficiency, the extent of risk, et cetera.

Congress purposely avoided a formula approach to the problem. In other words, the Board does not apply a formula. It applies judgment.

On the other hand, the process is not as nebulous as you might think because in evaluating a case we look at the ratios which financial analysts, businessmen, look at in determining adequacy of a firm's profit; namely, the return on sales, return on net worth, return on capital. And in cases where excessive profits may exist, you usually find a sudden and abrupt change in these ratios from one year to the next.

A contractor, for example, may be able to realize a 10-percent margin on a \$10 million volume as a normal matter, in year one. In year two the volume goes up to \$20 million. That increase, we will assume, is due solely to Government buying, an increase of \$10 million in Government business. This increase in volume may then send the sales margin up from 10 to 20 percent, the contractor's return on his investment from 25 to 100 percent. In a situation like that, we analyze the reasons for the change in the profit picture.

Mr. THOMPSON. Mr. Chairman, let me say that I cannot be impressed by the performance of the Board based on the statistics that have been given us. It is stated that during 1967, fiscal 1967, that approximately \$15 million in excess profits were returned to the Government as a result of their activities, and then I think there were voluntary reductions in the amount of \$30 million. When one considers this in view of the total dollar amount of the contracts negotiated and otherwise that we have, it is obviously a very small figure. It leads me to this conclusion: That either private industry is being very, very honest in their dealings with the Government on all of the negotiated contracts we have—and I think in the Department of Defense some 75 percent of all of our contracts have been negotiated,

in fact it has gone up considerably in the last 2 years, the negotiated versus competitive bid contracts in the Department of Defense—so either we have some businessmen who are very concerned about their not making excessive profits, or else your agency is understaffed and simply does not go into this area in depth. Or maybe our definition of excess profits is so nebulous that it is difficult for you to tie down what an excess profit actually is.

Mr. HARTWIG. It isn't that nebulous. As a result of Korean procurement we recovered \$167 million in 1955, \$152 million in 1956. And I might add that in 90 percent of the Board's cases, the contractors agreed to the determinations. There have been 3,755 determinations since the beginning of the act, and 89.9 percent resulted in formal agreements with the contractors involved.

Mr. THOMPSON. What types of contracts are exempt, again? I believe you covered that briefly. I did not quite follow your discussion.

Mr. HARTWIG. I didn't go into the listing of the exemptions. There are quite a number of exemptions in the act. I did describe the floor, the \$1 million floor, if you want to call that an exemption. That is one exclusion from our jurisdiction.

There is also the exemption of so-called standard commercial articles.

Mr. THOMPSON. May I interrupt you to say that the exemption of standard commercial articles was recently in the news. There was an item pertaining to some items that were procured by the Defense Department that cost about \$32 and they were sold to DOD for about \$1,500. I don't have the exact figures. The ratio is about the same. Would that be an exempt category?

Mr. HARTWIG. Yes; I think that could be a standard commercial article.

Mr. THOMPSON. You feel—

Mr. HARTWIG. I know that that particular contractor did not file with the Board.

Mr. THOMPSON. Do you feel that we need to eliminate some of the exemptions?

Mr. HARTWIG. Yes, sir. The administration has recommended that the commercial exemption be repealed. There are other exemptions. There is the exemption of construction contracts which are let as a result of advertised bidding. There is the exemption of new durable productive equipment.

Mr. BROOKS. New durable productive equipment?

Mr. HARTWIG. New durable productive equipment.

Mr. BROOKS. What do you mean?

Mr. HARTWIG. Machine tools.

Mr. BROOKS. Presses?

Mr. HARTWIG. That sort of thing, yes. Long life equipment.

Mr. THOMPSON. May I ask you one further question? Do you have any indication of whether excessive profits are more normal in negotiated contracts as compared with competitive bid contracts?

Mr. HARTWIG. I don't think so.

Mr. THOMPSON. In other words, if you have a competitive bid item you can have an excessive profit on about the same ratio as you would on a negotiated contract. You have no data on this, is that what you are saying?

Mr. HARTWIG. I have no data. I'm thinking back to the Korean situation. During the Korean period this act did not have the exemptions I described, with the exception of the machine-tool exemption. I remember many cases where we found excessive profits although the procurement was let competitively.

The fact is that competition often was not effective. The bids were not hungry bids. This happens in a time when the Government is in the market buying in large quantities.

Mr. THOMPSON. Such as could be occurring right now?

Mr. HARTWIG. That could be occurring right now. You know, of course, that Defense Department prime contract awards increased from \$28 billion in 1965 to \$38 billion in 1966, to \$45 billion in 1967, and currently are running at the \$45 billion rate.

So this has been a period of quite rapid buildup. The Board's determinations in 1967, Mr. Thompson, related to the pre-Vietnam situation. I want the record to be very clear about that. This is because of the timelag which exists between the date the contract is awarded—

Mr. THOMPSON. What is your normal timelag? If there is a contract awarded today, and delivery is made within 12 months, how soon would your agency become involved, and what would be the timelag between the time of your involvement, your determination, and the return to the Government of any excess profit?

Mr. HARTWIG. About 2 years on the average before we become involved.

Mr. THOMPSON. So basically what you are talking about in fiscal 1967 would be contracts that were performed in fiscal 1965?

Mr. HARTWIG. Or earlier. As far as the processing time is concerned, the Board has placed a great deal of emphasis on what we call the screening process. To give you some idea as to how important that is, in terms of manpower requirements, in 1967 we screened 3,782 filings at headquarters. Of that number, 3,147, or 83.2 percent, were cleared at headquarters without further proceedings. And that was done in an average of 48 days. The remaining 17 percent, the hard cases, the difficult cases, were assigned to either the eastern regional board or the western regional board for full-scale renegotiation. Those are the cases where the possibility of excessive profits exist. That kind of case will require an average of 15 to 16 months to process.

Mr. THOMPSON. It requires a person with quite a bit of knowledge to go into an area and determine whether or not an excess profit has been made by a skirt manufacturer, does it not?

Mr. HARTWIG. Yes, indeed. We deal with a wide variety of industries, as you can well imagine, such as shipping, construction, electronics, et cetera.

Mr. THOMPSON. I for one am convinced that your agency is a very important agency. Based on the statistics that have been given us here, I just wonder whether or not you are equipped sufficiently to go into this matter of excess profits as it should be. Or else, as I mentioned, it may well be that industry simply is not charging excess profits.

May I ask one further question, Mr. Chairman? This primarily stems out of ignorance. During World War II did we not have, by statute, an excess profits tax?

Mr. HARTWIG. Yes, sir.

Mr. THOMPSON. We did not have that during the Korean war?

Mr. HARTWIG. We did.

Mr. THOMPSON. We do not have it now?

Mr. HARTWIG. We do not have it now.

Mr. BROOKS. Mr. Chairman, the Renegotiation Act covers competitive awards with specific exemptions, is that correct?

Mr. HARTWIG. It covers all awards by the agencies named in the act.

Mr. BROOKS. Negotiated or competitive?

Mr. HARTWIG. Negotiated or bid.

Mr. BROOKS. With the exemptions you discussed?

Mr. HARTWIG. With the exemptions I mentioned. There are a number of other exemptions, too. It would take quite a long time to enumerate all of them. I have given you the major ones.

Mr. THOMPSON. I hate to put you on a spot and if you don't want to answer, don't answer. In your opinion, do you feel we should have an excess profits tax similar to that we had in World War II and the Korean war? If you don't want to answer it, don't answer.

Mr. HARTWIG. I have been so busy in my own job, I frankly haven't given it much thought.

Mr. THOMPSON. All right.

Mr. HARTWIG. So far as our organization is concerned, we have a definite need for more people at the present time. No question about it. We don't have enough people to do the job we have in front of us.

Here is some indication of how the work is building up. We estimate that there will be 4,400 filings over the floor this year, 1968, as compared with 3,737 last year and 3,387 in 1966. We estimate that the hard cases, those cases that are assigned to the regional boards, the cases which may result in refunds, will increase from 635 in 1967 to 725 in the current year. The number will probably exceed 725.

We see greater profitability in the new filings. For example, for years about 30 percent of the contractors reported overall renegotiation losses, about the national average. That was true, I think, in 1966. In 1967 that ratio declined to about 21 percent. We made a check of the cases that went through the screening process in February of this year and 12 percent were loss cases.

Mr. BROOKS. "Loss" is the word you're using?

Mr. HARTWIG. Overall loss.

Mr. BROOKS. Losses declined from a national average of 30 percent in 1966 to 21 percent in 1967?

Mr. HARTWIG. Yes, sir.

Mr. BROOKS. And now seems to be approaching 12 percent?

Mr. HARTWIG. The cases that went through the process in February, 12 percent. This month we haven't found a single one.

Mr. BROOKS. Not one?

Mr. HARTWIG. No, sir.

Mr. BROOKS. Anything further?

Mr. THOMPSON. No further questions.

Mr. BROOKS. I want to say, Mr. Chairman, I appreciate your time here. I would say that to offset this increasing workload and give you a careful surveillance of the filings which you have to contend with and are supposed to cope with, you might want to consider a data proces-

sing system that would take into account the basic profits and basic type of construction, so that you might more expeditiously, with less difficulty and less trouble, with fewer people and at less cost, determine the vast majority of cases which really are not what you would call productive.

In other words, the time you spend on that 87 percent you might cut considerably, leaving more time and more people to evaluate more profitable cases. If they are not excessive you don't want to collect a dime. If they are, you want to collect every dollar you have coming. It will give you a chance to more fairly evaluate the cases where your real problems lie.

Mr. HARTWIG. Yes, sir. That is the problem that we have gone into in depth.

Mr. BROOKS. Who would be in a position to evaluate that possibility for you? Would your present man be competent to take a look at that possibility, Mr. Stone, or would you want to evaluate that?

Mr. STONE. I'm sure the Director of Accounting would want to get involved in that.

Mr. BROOKS. It might save you an awful lot of manpower and time. It may be that Dr. Grosch at the Bureau of Standards would be of some help to you in that, Mr. Chairman. Some of your people might call him and ask him to look at it. He is very capable in this field.

We want to thank you very much for coming down and bringing your staff. We will look forward to receiving the answers to some of the questions submitted. I think your presentation was informative and helpful.

Mr. HARTWIG. Thank you, Mr. Chairman. I have here a list of actions taken by the Renegotiation Board to improve its economy and efficiency in recent years. I am quite proud of what we have done.

Mr. BROOKS. We will accept that for the record and look forward to reading it with interest.

(The document follows:)

ACTIONS TAKEN BY THE RENEGOTIATION BOARD TO IMPROVE THE ECONOMY AND EFFICIENCY OF ITS OPERATIONS, 1961 TO PRESENT

General

1. Reorganization of field activities, resulting in the elimination of two regional boards.
2. Reevaluation and, if possible, consolidation of job functions as vacancies occurred.

Publications

Various steps were taken to improve understanding of the act and Board procedures, thereby promoting more efficient administration of the act:

1. Revision of procedural regulations.
2. Complete reprint of regulations, with a new appendix.
3. Issuance of a new series, called renegotiation rulings.
4. Revision and simplification of forms.
5. Compilation of forms and instructions for filing in a single booklet.

Office of Review

1. Development of a notice of points for presentation to assist contractors in preparing appeals.
2. Issuance of a clearance notice in lieu of a withholding letter.
3. Increased emphasis on the screening process. In fiscal 1967, 3,147 or 83.2 percent of all filings were completed at headquarters in an average of 48 days.

Office of Assignments

1. Reorganization of two divisions along functional lines.
2. Elimination of the flexoline (manual) index of contractors.
3. Introduction of ADF equipment.
4. Improvements in utilizing procurement data for identification purposes.
5. Revision of mailing list.
6. Streamlining of followup procedure for contacting contractors who fail to file.
7. Elimination of certain internal reports and forms; consolidation and improvement of others.
8. Increased assistance to contractors with respect to preparation of renegotiation filings.
9. Introduction of automatic extension procedures where extensions have been granted for filing tax returns.

Office of Administration

1. Consolidation of the two major filing systems.
2. Consolidation of the budget and fiscal functions, resulting in elimination of three out of seven positions.
3. Reorganization of administrative functions at the western regional board, resulting in elimination of six out of eight positions.
4. Development of a new system of internal reporting.
5. By arrangements with Department of Commerce, renegotiation forms and instructions have been made available to the public at 42 field offices of that Department.

Reduction in personnel

As a result of the above-described actions the Board was able to reduce its personnel from 271 at the end of fiscal 1961 to 174 at the present time. Most of these actions now contribute to the Board's ability to cope in an efficient manner with the increase in its workload resulting from the surge of procurement for Vietnam.

Mr. Brooks. The committee stands adjourned.

(Whereupon, at 12:18 p.m., the subcommittee was adjourned.)

APPENDIX

WRITTEN RESPONSES OF THE RENEGOTIATION BOARD TO QUESTIONS SUBMITTED BY THE SUBCOMMITTEE

A. Justification of personnel not chargeable to specific programs

1. What are the total funds available to your agency as a whole for fiscal 1968? Total of \$2,676,000, which includes a \$76,000 proposed supplemental for pay increases.

2. How many employees does your agency employ?

As of March 31, 1968 174—96 of these are at the Headquarters, 46 at the Eastern Regional Board, and 32 at the Western Regional Board.

3. What is the geographical extent of your operations?

The Headquarters office and a Regional Board in Washington, D.C., and another Regional Board in Los Angeles, Calif. The Eastern Board has jurisdiction over the eastern part of the United States and the Western Board has jurisdiction over the western part of the United States.

4. Under your program budgeting breakdown, do you have a support program covering the operations of your office as well as other policymaking personnel? Yes.

5. How much money is available in fiscal 1968 for expenditures under this support program?

Amount available: \$222,000.

6. Briefly justify expenditures for the support program in terms of the nature and extent of your operations and responsibilities.

The expenditures are for personnel management, personnel and physical security, records management and files, printing, procurement and supply, library services, forms control, and office services, as well as budget and fiscal accounting.

B. Budget processes

7. Has your program breakdown been approved by the Bureau of the Budget?

Yes. For budget purposes, our breakdown is: executive direction, staff operations, and field operations.

8. Does your program structure flow generally along functional lines of the agency?

Not entirely: Only the regional boards are organized functionally.

9. Has the program budgeting concept been fully implemented within your agency as yet in operational terms?

No, because we have only one program.

10. To what extent do you believe that your new budget concept will improve the efficiency of agency operations?

Not applicable.

C. Accounting systems development

11. Has the GAO given its approval of your accounting system?

Yes, in September 1958.

12. Is the accounting system basically established in terms of accrual costs as the GAO and this subcommittee have recommended?

Yes.

13. What is the target date for completely implementing an accrual accounting system throughout the agency?

Was completed in 1959.

14. Is your accounting system output oriented so that it will be on the same basis as budgeting and planning?

Yes.

15. What basis do you use for establishing the charges for products or services provided to other agencies, and how are these handled in your accounting system?
No products or services are provided.

16. Are capital assets, such as building and equipment items, formally recorded in the accounting system, and upon what basis are they depreciated?

Equipment items are recorded in the accounting system. They are not depreciated.

17. Are the costs of the agency's physical assets considered in establishing the charges for services to other agencies?

Not applicable.

18. Are agency accounting reports used regularly in program management?

Yes.

19. Are agency accounting policies summarized in an accounting manual with which your staff accountants must comply?

Yes.

D. Management information system

20. Do you have an automated management information system for your agency?

No.

21. In general, what functional areas are included in the management information system? (Examples: financial, planning, program budgeting, inventory, personnel, etc.)

Financial, planning, budgeting, and personnel.

22. Briefly describe the state of development of your system and how it operates. The management information system consists of a monthly workload report and a monthly financial report. The workload report sets forth in detail the input and output of offices, divisions, and regional boards. The report reflects such information as the number of filings received from contractors and subcontractors, the number of filings completed in the headquarters by various offices involved in our screening process, the number of assignments received by each regional board, the number of assignments completed, the beginning of year backlog, the backlog at the end of the reporting month, the assignments processed in the two major offices in the headquarters, the beginning of year backlog in each office and the backlog at the end of the reporting month.

The financial report reflects the monthly and cumulative obligations by each object classification in our accounting system. This includes monthly and cumulative obligations for personnel services; personnel benefits; travel and transportation; transportation of things; rent, communications and utilities; printing and reproduction; services of other agencies; supplies and material; equipment; and other services.

23. Did you perform a "requirements" analysis of the entire agency, or just selected areas?

The entire agency.

24. To what extent have you considered the need of other agencies for exchanging information with your agency in the development of your system?

We have, but our information is of little use to other agencies.

25. Are you developing a standard data base of information for the entire agency?

Yes.

26. In reporting statistical information, what standards for coding are you using?

Standard industrial classification (SIC) for industrial groups and post office letter codes for our States' coding.

27. Have you explored all of the information requirements common to your agency which might exist within the data base of other agencies?

Yes. We now receive annual and semiannual contract award data from the Department of Defense and prime and subcontract award data from NASA.

28. Are you performing the work in-house, or are you utilizing contractor personnel?

In-house.

29. What main benefits do you feel your management information system will provide in the management of your agency's activities?

The system will enable the board to (a) meet production goals, (b) determine manpower requirements, (c) develop realistic budgetary requirements, and (d) assure maximum utilization of personnel.

30. What is your estimated dollar cost for the completion and operation of the basic parts of your management information system?

Per annum, \$1,500.

31. At what level is the determination made concerning what is needed in the management information system?

Chairman of the board.

E. Internal auditing

32. Do you have a centrally organized internal audit system within your agency which operates independently of department and agency operations?

No. GAO performs periodic audits. The last audit was in 1967.

33. Is your internal audit staff made up of persons with experience in accounting and auditing?

Not applicable.

34. Is the scope of review by the internal audit staff limited in any way?

Not applicable.

35. Are all reports and recommendations of the internal audit staff submitted in full directly to the head of the agency?

Not applicable.

36. Is the audit staff responsible to or subject to direction by any official who is also primarily responsible for an activity which might be audited?

Not applicable.

37. Are the personnel assigned to the internal audit function adequately protected from recriminations and arbitrary personnel action that might result from an adverse effect of their reports upon other agency employees?

Not applicable.

38. Are all reports and recommendations of the internal audit staff available to the Comptroller General and to appropriate congressional committees?

Not applicable.

F. Automatic data processing

39. Do you have a central organization in your agency which is responsible for ADP management?

Yes.

40. Will you describe its function?

Maintains historical and financial data on contractors and subcontractors on punched cards that are processed through an electric accounting machine (IBM 407), prepares the mailing list of contractors and subcontractors who may have renegotiable business above the \$1 million statutory "floor," makes monthly printouts of the contractors' master index, and makes statistical runs used in the annual report and special studies.

41. Who has the responsibility for deciding whether or not the use of a computer for a particular function within your agency is justified?

Not applicable; we do not use computer.

42. On what basis is the decision made? Are there documented systems studies available for review in all cases?

Not applicable.

43. Can you cite instances in which a request for a computer system was disapproved for lack of adequate justification?

Not applicable.

44. Assuming the use of a computer has been fully justified by a proper study, are there procedures for determining whether the requirement can be satisfied by using (sharing) equipment already installed in your agency? Will you describe the procedure?

Not applicable.

45. To what extent have you been successful in getting the users to share equipment instead of acquiring their own?

Not applicable.

46. Do you review the GSA lists of available excess equipment before going to the open market to acquire equipment?

Yes.

47. Who makes the determination that excess equipment can or cannot do the job?

The Assistant Chief, Identification and Statistics Division, Office of Assignments, who directs the ADP operation.

48. What has been your experience in making use of excess equipment?

Some can be used after moderate repair.

49. Assuming it is necessary to acquire equipment from the commercial market, do you normally invite all qualified suppliers to submit proposals. What are the exceptions?

It has not been necessary to acquire equipment from the commercial market.

50. Who makes the final selection of equipment, and on what basis is the decision made?

The Assistant Chief, Identification and Statistics Division, Office of Assignments, on the basis of an actual need.

51. Describe your program for evaluating the actual results of computer use against the results anticipated when the use of the computer was approved.

Not applicable.

52. In general, have your computers produced the benefits that were expected?

Not applicable.

53. How many computers do you now have, and how many of these are purchased?

None.

54. Who makes the decision of whether computers are purchased or leased? On what basis are the decisions made?

Not applicable.

55. Is your agency now using any leased ADP equipment? If so, how much longer do you expect to use it?

Yes, we expect to lease it until we can make a favorable purchase.

56. Have you made use of third-party leasing arrangements? If so, what has been your experience with these arrangements?

No.

57. To what extent have you developed standard systems or applications which are used by your computer installations?

Not applicable.

58. Will you describe the steps you have taken for the development of standard data elements for use by your department under the program recently established by Bureau of the Budget Circular A-86.

Thus far we have not been able to use the recommended standard data elements.

59. What do you consider to be the most pressing problems that need to be overcome for you to make better and more efficient use of computers in your agency?

Not applicable.

G. Personnel management

60. Where is the responsibility placed for manpower planning in your agency?

Manpower planning at the staff level is the responsibility of the Director, Office of Administration, under the direction of the Chairman. Final decisions on budgetary matters rest with the full Board.

61. What manpower requirements are forecast for your agency and how are these determined?

Manpower requirements are forecast for both clerical and professional employees. These are determined on the basis of the overall workload projected for the Board.

62. Is the work in your agency organized with some consideration of the effect on position classification so that the mission can be accomplished with the minimum number and cost of positions?

Yes.

63. Is the classification of positions in your agency in accord with applicable Civil Service Commission standards?

Yes.

64. Has the agency established career possibilities to assist in development and advancement of employees?

Yes.

65. Would you describe what means your agency uses to recruit quality personnel?

We use CSC registers and contact Federal agencies.

66. Does your agency emphasize promotion of employees on the basis of merit?

Yes.

67. How does your agency consider employee complaints, grievances, and appeals?

We attempt to resolve complaints and grievances on an informal basis. These are handled by the Director of Administration, or by the equal employment opportunity officer when the grievance or complaint involves discrimination.

The Board has formal procedures for handling appeals which conform to CSC regulations.

68. Is personnel management considered to be an integral part of the mission of your agency?

Yes.

69. How does your agency treat equal employment opportunity and employment of the handicapped?

All personnel actions are based on merit and discriminatory practice is prohibited. The Board has a coordinator for employment of the handicapped.

H. GAO audit reports

70. Has the General Accounting Office issued any audit reports on the overall operations of your agency, that is, reports not directed at a functional program of the agency, but rather at the management and administration of the agency?

No.

71. If so, to what extent have the recommendations contained in these reports been carried out?

Not applicable.

QUESTIONS ON AGENCY OPERATIONS AT THE PROGRAM LEVEL

1. What is the nature of and authority for this program?

The Board was established by the Renegotiation Act of 1951, as amended (Public Law 9, 82d Congress, approved Mar. 3, 1951), to determine and eliminate excessive profits realized by contractors and subcontractors in the defense and space programs.

2. Who is the person primarily in charge of this program at the operative level? Chairman of the Board.

3. How much money and capital equipment is available under this program for fiscal 1968?

Total amount of \$2,600,000 and a proposed supplemental of \$76,000 to cover the pay increase. Capital equipment at a value of \$295,324.84 is also available.

4. Would you describe the output generated by this program?

Determinations as to the existence or nonexistence of excessive profits in specific cases involving defense and space contractors and subcontractors.

5. Can you quantify this output in any way?

Yes.

6. Would you describe the principal operations that are involved in producing this output?

All filings by contractors are received by the Office of Assignments. These are examined for acceptability, and checked for subsidiary, affiliated or related companies. Acceptable filings which show renegotiable business in excess of the "floor" are forwarded to the Office of Accounting. The Office of Accounting makes a determination on the adequacy and correctness of the segregation of sales and allocation of costs and expenses of each filing and forwards the filing to the Office of Review for examination. When circumstances warrant, this Office has the authority to assign filings to the regional boards for detailed processing. It also makes recommendations to the Statutory Board to clear filings without assignment, if the profits are obviously not excessive, except in a limited area where authority has been delegated to this Office to grant clearances without approval by the Statutory Board.

In each assigned case, the regional board formally commences renegotiation, obtains such additional information as it may need, and then determines whether the contractor has realized excessive profits, and if so, in what amount. Authority has been delegated to the regional boards to complete those cases in which renegotiable profits before income taxes are \$800,000 or less (class B). In any such case, if a clearance is issued or a refund agreement is entered into with the contractor, the action of the regional board is final; if agreement is not reached with the contractor, the regional board issues an order, which is subject to review and final determination by the statutory board. The regional boards also process cases of greater magnitude (class A), but in such cases their authority is limited to recommending determinations to be made by the statutory board; and if a regional board's recommendation is not acceptable to either the statutory board or the contractor, the case is reassigned from the regional board to the Statutory Board for further processing and completion.

The Office of Accounting conducts a complete accounting review of each case that is subject to final approval by the statutory board, and assists in the account-

ing aspects of cases reassigned to the Statutory Board. The Office of Review also provides any necessary assistance to the Statutory Board in the final disposition of the impassed and other reassigned cases.

The statutory Board is composed of five members. Divisions of the board hear cases and determine the existence or nonexistence of excessive profits in the impassed and reassigned cases.

7. How many employees are involved in the program and in what general type of employment categories do they fall?

One-hundred and seventy-four employees comprised mainly of: Accountants, business analysts, procurement specialists, attorneys, supporting clerical and stenographic personnel.

8. What is the grade structure and how many supergrades—quota and non-quota—are involved?

Most of our professional employees are GS-14's, most of our supervisory personnel are GS-15's, and we have seven "quota" supergrades.

9. What capital equipment, such as ADP, if any, do you rely upon to fulfill this program?

One IBM 407 electric accounting machine, one key punch machine, one collator, and one sorter.

10. Do you expect the expenditures or the benefits of the program to grow appreciably in the future?

Expenditures are expected to increase about 15 percent; benefits will grow appreciably in the future.

11. At what level are the personnel responsible for the various parts of the program coordinated to determine if the program as a whole is being efficiently carried out?

Chairman of the Board.

12. Is there a continual program review within the agency, other than the annual budgetary review, to determine more effective and efficient ways to achieve these program objectives?

Yes.

13. To your knowledge, does this program duplicate or parallel work being done by any other agency?

No.

14. Is your organizational structure such that the program is being carried out most efficiently and effectively?

Yes.

15. Are there any outstanding GAO reports on this program? If so, what is the status of the GAO recommendations the report contains?

No.

16. What significant problems, if any, are you facing in accomplishing the program objectives?

The continuing problem of hiring highly qualified professional personnel.

17. Do you administer any grants, loans, or other disbursed funds related to this program? If so, is the size of your administrative staff commensurate with the magnitude of the outlays?

No.

18. If your appropriations were reduced, how would you absorb the cut—by an overall reduction, or by cutting or curtailing certain activities?

A cut could be absorbed only by an overall reduction in personnel.

19. If additional funds were available, what would you do with the new money?

Hire additional personnel and replace some aged equipment.