



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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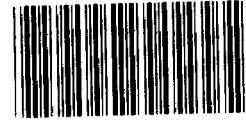
PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

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MARCH 15, 1983

B-210758

RELEASED



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The Honorable Les Aspin  
House of Representatives

Dear Mr. Aspin:

Subject: The Army's Award of a Contract for Power Supply Units Under the Authority of 10 U.S.C. 2304(a)(16) (GAO/PLRD-83-53)

In your request of November 17, 1982, your expressed concern about the price differential between establishing another source (Union Carbide Corporation) and using an existing source (Accudyne Corporation) to produce power supply units used in a variety of conventional ammunition. We found that there is no cost limitation or ceiling under existing legislation or regulation to establish a second source for mobilization base purposes. The legislation, 10 U.S.C. 2304(a)(16), authorizes the negotiation of purchases and contracts by the Secretaries of the Army, Navy, and Air Force if they determine that it is in the interest of national defense to have a producer, manufacturer, or other suppliers available for furnishing property or services in case of a national emergency. In this regard, Senate Report No. 571, July 16, 1947 (reprinted in 1948 U.S. Code Congressional Service (1048, 1062)), provides, in connection with this portion of the Armed Services Procurement Act of 1947, that:

"The committee recognizes that this subsection would authorize the making of contracts which might not represent the most economical procurement of the items involved. However, it is believed that the national security requires the granting of this power."

Furthermore, Comptroller General decisions B-195679 of December 19, 1979, and B-187532 of February 25, 1977, have recognized that the exercise of this authority sometimes requires payment of a premium without regard to prices available from other sources and that this was contemplated by the Congress.

The Army surveyed the integrated production facility at Union Carbide to determine its readiness posture in the event of mobilization. The survey revealed that it would take 6 months before there would be any assurance the equipment would be capable of achieving its design capacity. The survey team, therefore, recommended that funds be allocated so that defects would be corrected while the integrated production facility was producing the power supply units. The Armament Material Readiness Command (ARRCOM), acting on the survey's recommendation, awarded Union Carbide the contract in question. Union Carbide's price includes the cost for starting up the facility and correcting defects as well as producing the units.

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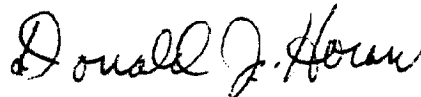
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As agreed with your Office, we obtained responses from the Procurement Contracting Officer (PCO) located at ARRCOM to the points raised by Accudyne in its August 27, 1982, letter. The points are presented verbatim.

It would appear that Accudyne, to some extent, is concerned that the Army has reservations about its production capacity and believes this may be the reason for the award to Union Carbide. To our knowledge, the Army has not raised any question regarding Accudyne's production capacity or its ability to meet delivery requirements. The Army's rationale for the award was improvement in the mobilization base.

As arranged with your Office, unless you publicly announce its contents earlier, we plan no further distribution of the report until 10 days from the date of this report. At that time, we will send copies to the Secretary of Defense and the Secretary of the Army and make copies available to others upon request. Please let us know if we can be of further assistance.

Sincerely yours,



Donald J. Horan  
Director

PCO'S RESPONSES TO ACCUDYNE'S POINTSACCUDYNE POINT

The contract required delivery of only 20,000 units a month. Our production requires 50,000 units a month. We have been producing 100,000 a month on a 1-8-5 basis [one, 8-hour shift, five days a week] so there was no problem with meeting delivery requirements.

PCO response

The maximum ever required by contract was 90,000 units a month. Accudyne may have produced 100,000 units a month on its own. The Army needs 70,000 units a month to maintain loading of the M732 fuze. Accudyne is required to supply 50,000 a month and Union Carbide is required to supply 20,000 a month.

ACCUDYNE POINT

We are a small business, contract was awarded to a large business. We lost employment of about 40 people. Government issued contract to large business at over 100% price differential, which is non-competitive.

PCO response

By activating Union Carbide, the Army may have created employment for about 200 people. Since Accudyne has many other Government contracts, it is likely that the 40 people were transferred to production of other items.

ACCUDYNE POINT

We first produced the power supply in 1977, at a unit price of \$12.73, and have steadily reduced the price thru efficiency methods to a current price of \$8.95 each. Union Carbide contract price is \$20.619 each.

PCO response

It is true that Accudyne has reduced its unit price from \$12.73 to \$8.95. However, Union Carbide's price of \$20.61 is a ceiling price and may be lowered through negotiation. In addition, the ceiling price includes "one time" start-up costs that will not be included in future contracts. Union Carbide's price, therefore, will be lower on future bids.

ACCUDYNE POINT

We produced and delivered over 2,500,000 quality units as required by contracts. Contract Number DAAA09-79-C-0094 required delivery of 100,000 units per month, which we produced accordingly without any financial assistance.

PCO response

Accudyne was never required by contract to produce 100,000 units a month. We found that the procurement history of the PS-115 shows the highest monthly rate required was 80,000 units.

ACCUDYNE POINT

Our present contract only requires about 50% of our capability on a 1-8-5 basis, therefore, 20,000 units per month more is still below the 100,000 per month we were producing.

PCO response

True.

ACCUDYNE POINT

Union Carbide was previously paid for the integrated production facility and was also previously paid to prove out [demonstrate the facility could operate smoothly at desired rates] the facility for the PS-115 Power Supply.

PCO response

Union Carbide was paid for setting up and maintaining the facility. It was not paid to prove out the facility.