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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-220762

OCT 15 1985



The Honorable Glenn English
Chairman, Subcommittee on Government
Information, Justice, and Agriculture
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

Subject: Concerns Regarding the National Security Agency
Secure Telephone Program (GAO/NSIAD-86-7)

On September 24, 1984, you requested that we evaluate the use of TEMPEST and similar technologies--such as secure telephones--for the protection of national security information. As requested by your office on July 26, 1985, this letter identifies the major issues regarding secure telephones that we have identified to date.

The STU-II is the secure telephone in use today. These telephones are to be replaced by lower cost STU-III telephones. Development contracts for the STU-III telephones were awarded in March 1985 to AT&T, Motorola, and RCA to develop an easy to use, low cost (target price about \$2,000) secure telephone, deliverable by early 1987. Current plans are to award production contracts to all three contractors (if they successfully develop a product) in March 1986, with deliveries to begin in April 1987. The number of units awarded to each contractor will depend on their price and degree of success in performance tests. A contract has also been awarded to GTE Sylvania for systems integration and testing. The total cost to the government for this developmental effort is about \$82 million.

This program is very unique because, in addition to having applicability to national security information, this secure telephone will also have a commercial market, that is, banks, brokerage firms, and other businesses interested in securing

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their communications. The three developmental contractors perceive this commercial market to be quite large. It is anticipated that this large commercial market will benefit the government by effecting a reduction in the unit price.

The following are the major issues we are pursuing regarding the secure telephone program.

1. Whether the government should continue purchasing higher cost STU-II telephones when lower cost STU-IIIs will be available in a short time.
2. Whether the criteria being developed to justify the number of new secure telephones government agencies will be purchasing is appropriate.
3. Whether secure telephones purchased directly by defense contractors on a reimbursable basis will cost more than if these units are provided to the contractors as government furnished equipment.

ADDITIONAL ACQUISITION OF
STU-IIIs IS QUESTIONABLE

The STU-II was developed and is currently being produced by ITT. Over 4,000 units have been delivered to date. The unit price for these telephones has ranged from about \$17,000, initially, to about \$12,000 today.

In April 1984, a production contract was awarded to Bendix as a second source and to provide competition. The unit price under this contract is expected to be about \$8,000. Deliveries are currently scheduled to begin about September 1986, and continue for about 2 years, provided Bendix is successful in producing a viable product. The total cost of this contract, for about 3,400 STU-IIIs, is over \$34 million.

In addition to the above contracts, the Department of Defense (DOD) was planning to award an additional contract in December 1985 for STU-IIIs and an initial production contract for the STU-IIM. The STU-IIM is the militarized version of the STU-II. After our inquiries, DOD has decided to cancel these procurements because deliveries from these contracts would not begin until about the same time as the STU-IIIs. This decision will save over \$300 million.

A recent decision was also made to continue deliveries of STU-IIs from the present contracts with ITT and Bendix. According to the National Security Agency, deliveries of these STU-IIs are necessary to satisfy urgent requirements for secure communications. Proposed plans are to cut-off installation of STU-IIs around November 1986, about 6 months before the scheduled first deliveries of STU-IIIs.

However, deliveries of STU-IIs from the Bendix contract are not currently scheduled to begin until September 1986 which is only 2 to 3 months before the planned installation cut-off date. Thus, only a small number of the Bendix deliveries would be made before the installation cut-off date. There will be no need for the much larger number scheduled to be delivered after November 1986. It is also unlikely that alternative uses will be found for them.

CRITERIA FOR DETERMINING THE
NUMBER OF NEW PHONES NEEDED

DOD has established three priorities for the use of the new secure telephones (STU-IIIs). The first and second priorities state that these telephones are to be used to protect classified voice and data communications. The third stated priority for use of these telephones is to protect unclassified but sensitive national security related information.

Our major concern in this area focuses on this third priority and the definition of the term: unclassified but sensitive national security related information. A high degree of confusion exists regarding this definition. The National Telecommunications and Information Systems Security Committee, established under National Security Decision Directive 145, is responsible for defining this term.

On June 27, 1985, and September 18, 1985, we testified on this issue before the Subcommittee on Transportation, Aviation, and Materials, House Committee on Science and Technology and the Subcommittee on Legislation and National Security, House Committee on Government Operations. At these hearings, we stated that information considered to be unclassified but sensitive and in the national security interest should be protected. However, we expressed concern that the National Telecommunications and Information Systems Security Committee, which is chaired by DOD, might define this category too broadly. This could result in excessive expenditures to protect unclassified information.

We plan to monitor the progress being made to define this term and the effect it will have on government expenditures.

GOVERNMENT COSTS FROM DIRECT
CONTRACTOR PURCHASE OF PHONES ON
A REIMBURSABLE BASIS MAY BE EXCESSIVE

Secure telephones purchased directly by defense contractors on a reimbursable basis might cost more than if they are provided to the contractors as government furnished equipment.

Under the present acquisition plans for the STU-IIIs, the National Security Agency will buy an initial large volume of secure telephones for DOD and other government agencies. However, government contractors will be able to buy directly from the telephone manufacturers and charge it to their government contracts as they do for other security equipment.

We believe this arrangement may result in higher unit prices being paid by the government contractors due to their lower volume orders. These higher prices will be borne by the government through the reimbursement method. We plan to examine this issue in greater detail, including an exploration of the advantages and/or disadvantages of providing the telephones to the contractors as government furnished equipment.

We trust that this information meets your immediate needs and we will keep you informed as we gather additional information on these issues. We discussed these issues with responsible agency officials, but did not obtain official agency comments.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



Frank C. Conahan
Director

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