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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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OCT 25 1972

Dear Senator Williams:

Your letter of March 28, 1972, referred to us a letter from the Electrospace Corporation, Long Island, New York, concerning the Army's method of retrofitting AN/PRC-77 radio sets and of procuring additional sets. We advised you by letter dated May 17, 1972, that the procurement of additional sets had become the subject of a formal bid protest filed with our Office by Electrospace and that this aspect of your request would be dealt with in our decision on the protest. A copy of this decision will be provided to you when it is issued.

With respect to retrofitting, Electrospace questioned whether the Army is wasting the taxpayers' money by doing the rework itself. Electrospace asserted that, because it made the radios, it was in a better position to perform the work required to correct the deficiencies involved.

BACKGROUND

The AN/PRC-77s are portable, short-range radios. The 11,264 radios to be reworked were initial shipments made by Electrospace on an advertised, multiyear contract which calls for about 56,000 radios. Radios produced subsequent to the 11,264 have been corrected in the manufacturing process.

A problem with Electrospace-produced radios surfaced in early 1971 during testing by the Army Test and Evaluation Command at Fort Huachuca, Arizona. The Army concluded that this problem was traceable to inaccuracies in the radios' frequency synthesizer system. Electrospace claimed that the deficiencies were attributable to the design of the radios; this contention was countered somewhat by Army claims of poor workmanship and quality.

Six engineering changes were developed which the Army believed would correct the deficiencies in the radios. The Army Electronics Command (ECOM) had not initially planned to obtain a cost estimate from Electrospace for necessary rework

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but did so at the Army Materiel Command's direction. Electro-space submitted a cost estimate which exceeded the depots' estimates by \$88 a radio. Records indicated that the Army had not fully evaluated Electro-space's estimate but had concluded that there would be a cost savings in the amount by which Electro-space's estimate exceeded the depots' estimates. These cost savings, along with the opportunity for the depots to gain experience on the radios, were the deciding factors in the Army's decision to do the rework in-house.

We found that the work contemplated by the Army and by Electro-space differed. In some instances, Electro-space's proposal included more work than the depots' proposal. But the Army believes that some of the work the depots contemplated was not covered in the Army's request for Electro-space's proposal. The depots used an accounting system which provided for recovering all significant work project costs, including shop overhead and general and administrative expenses, and included these costs in their proposals.

The Army was not satisfied with the fix under the six engineering changes, so it continued to develop another method to eliminate the frequency problem. This effort culminated in redesigning one of the radio's 24 removable modules, which obviated the need for three of the six engineering changes.

In January 1972 the Army decided that the depots would do the rework, and in March it directed a change in the rework to provide for the new module. The Army expected that the new module would reduce rework costs and assumed that the estimates previously submitted by Electro-space and the depots would have been proportionately reduced. Further, the Army advised us that it would not have been feasible in March 1972 to have given the rework to Electro-space because the depots had already begun the work.

CURRENT STATUS

Presently, the Army is reworking the radios at its Tobyhanna and Lexington-Bluegrass Depots. As of July 31, 1972,

Tobyhanna and Lexington-Bluegrass had completed about 155 and 600 radios, respectively. Acceptance of these radios is being withheld until they are tested by ECOM quality control personnel. Neither ECOM nor the depots established any firm completion dates or costs for the current rework. The experience gained this far on the completed radios is limited because only a few have been fixed and none have been accepted. Thus, we have no basis for commenting on the overall efficiency and effectiveness of the current rework program.

CONCLUSIONS

In retrospect, the Army should have evaluated the work upon which the cost estimates were based because the work contemplated by each party differed. However, we believe it would not be useful, at this point in time, to reconstruct the cost estimates in order to permit cost comparisons because they would not apply to the work now being done by the depots. Further we cannot conclude that the Army would or should have decided differently if Electrospace's reconstructed estimate had been lower than the depots' estimates.

The Army's decision seems reasonable when the following noncost factors are considered.

- The Army's greater control of the work when done by the depots.
- Flexibility of the depots to respond to changed work without costly or time-consuming contractual restrictions.
- Lack of agreement on what was required to fix the radios.
- Experience to be gained by ECOM and the depots for their respective missions of buying, maintaining, and repairing the radio sets.

On the basis of our observations of the depots' facilities and discussions with depot personnel, we believe that

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the depots have the capability to perform the necessary rework.

SCOPE OF REVIEW

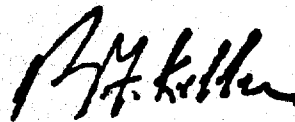
We reviewed correspondence and related documents at HCOM and at the Tobyhanna and Lexington-Bluegrass Depots and discussed these matters with officials at these activities. We also discussed the Electrospace position with its officials.

We have not obtained formal agency or contractor comments on the matters included in this report, but we have discussed the bases of the respective Army and contractor positions with representatives of each of the parties.

As discussed with your office, the House Committee on Appropriations has asked for copies of this report. If you have no objection to releasing this report to the Committee, please advise our Office of Legislative Liaison. L300

In accordance with your letter of March 28, 1972, a copy of your request with its attachment is enclosed.

Sincerely yours,



Deputy Comptroller General
of the United States

Enclosures - 2

The Honorable Harrison A. Williams, Jr.
United States Senate