NPIC/P&DS/D/6-1492
28 July 1966

MEMORANDUM FOR: Chief, Development Branch, P&DS

THROUGH: Chief, Interpretation Systems Section, DB

SUBJECT: [redacted] 25X1

25X1

REFERENCES: (a) [redacted] Letter, Dated 19 April 1966
25X1 (b) [redacted] Proposed Modification to the
25X1 Development of Prototype Modulated-Light
Film Viewing Tables Dated 30 September
1965

25X1 In reference (a), [redacted] claims that both the technical monitor and the Contracting Officer, by their failure to stop the program, have implied that the contractor was permitted to overrun the authorized expenditure of the contract. The following discussion should rebut these accusations.

1. On 23 September 1965, the contractor first notified the technical monitor verbally that there would be an overrun on this contract which was expected to be about [redacted] The contractor 25X1
agreed to submit the necessary documentation as soon as possible.
25X1 The expenditures as of 26 September 1965 (report received on 23 October 1965) were [redacted] which was 60% of the allocated funds.

2. On 1 October, a meeting was held at NPIC to discuss reference (b). The contractor was specifically told that Tasks 1, 2, and 3 should not be incorporated within the scope of this contract, because these items were interpreted as company initiated, unauthorized changes in scope, but Tasks 4, 5, and 6 which had been discussed since the beginning of this effort would be included. Specifically, Tasks 4 and 5 were interpreted as overruns and Task 6 was a change in scope. This was a compromise on our part and was considered by us and [redacted] to be a negotiated settlement.
25X1 25X1 [redacted] was asked to prepare an analysis as to the cost required to incorporate these items into the contract either as a change-in-scope and/or as an overrun.

25X1 3. [redacted] replied to this request in their letter dated 14 October 1965 /Date received unknown/. They stated that [redacted] 25X1
would probably be required for these three tasks and that they would require authorization by 12 November 1965 because all of the previously authorized funding would be expended by that date.

4. Negotiations began after the letter of 14 October was received and as a result [redacted] re-submitted their request for additional funding in a letter, dated 28 October 1966, received by the technical monitor on 6 November 1966. In this request, the contractor stated that [redacted] would be required to incorporate the three mentioned tasks within the contract. This letter implied and bore out the verbal assurances received at our meeting with [redacted] on 1 October 1966 that this additional funding was all that would be necessary to complete the program.

5. The monthly progress report for November 1965, which was dated 17 December and received by the technical monitor on 4 January 1966, indicated that [redacted] had been expended, but gave no indication as to any expectation for additional compensation above and beyond the [redacted] contract price plus the previously requested [redacted] (which was later reduced to [redacted] a total of [redacted] exclusive of fee).

6. Recommendation for approval for additional funding--the [redacted]-was made in the P&DS memorandum 420-65 dated 2 December 1966 and was approved by the Director, NPIC on the same date. Written approval to proceed was given in the Contracting Officer's letter to the contractor dated 10 January 1966.

7. In neither of the monthly reports, December 1965 (received 8 February 1966), nor January 1966 (which was received on 28 February 1966), was the expectation of additional funding indicated, although indications were given that these costs were being incurred. At no point prior to a meeting held at the contractor's facility on 8 February 1966 was any request, verbal or otherwise, made by the contractor for additional funding.

8. During the 8 February meeting, the technical monitor was advised that the contractor expected compensation for an extensive overrun. The contractor was told that this was not in line with our understanding of the situation; however, they were instructed to prepare a detailed analysis of the overrun and that it would be considered by the technical monitor relative to the desirability of completing the effort. At no time was any authorization either by verbal agreement or lack of authorization (omission) made that could be implied as authorization to proceed. The contract specifically calls for written authorization from the Contracting Officer prior to proceeding.

9. On 1 March 1966, (almost one month later) the contractor submitted a cost and performance analysis to complete the program. Because of the incompleteness and lack of definition of the performance specifications a visit was made to the contractor's facility on 7 March 1966 to determine the status of the program and if it would be beneficial to complete the effort for the elevated cost. The contractor was told that his specifications were vague and that a

more complete set of specifications would have to be prepared.

10. On 16 March 1966, a meeting was held at NPIC to discuss the specifications that would have to be agreed on before NPIC could justify any additional expenditure. These specifications were outlined in P&DS/D/6-846 dated 16 March 1966 and thoroughly discussed with the contractor at this meeting. [redacted] was requested to re-submit a proposal citing those specifications that would be applicable to the acceptance of this instrument. 25X1

11. The contractor failed to prepare this proposal and maintained in their telephone conversation on 22 March 1966 with [redacted] that they would only agree to the specifications presented in their letter dated 1 March 1966. 25X1

12. [redacted] was then notified in the Contracting Officer's letter dated 25 March 1966 that they were not authorized to expend any funds above the authorized limit of the contract. The Assistant for Plans and Development concurred in this letter based upon verbal assurances from [redacted] that this task could be settled for the contract price. 25X1 25X1

13. Reference (a) claims that [redacted] will not settle for the contract price, but insists that the omissions of authorization to expend funds above the contract limitation were an implied authorization to proceed. Although the technical monitor has given proper notification of the additional costs incurred in the inspection reports dated 11 January and 9 March 1966, it was assumed that any written or verbal authorization to the contractor must be given by the Contracting Officer, whose office has been sufficiently notified as to the financial conditions of this contract. 25X1

[redacted]
Development Branch, P&DS 25X1

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