

In addition to our own program, we have maintained a strong contractor cost reduction program. The savings from the contractor program are separate and distinct from those reported under the Department of Defense program. Eighty-nine companies are now participating in the contractor program and over 200 of their plants or divisions report to us semiannually on their cost reduction accomplishments.

In the 2 years ended June 30, 1966, companies in this program reported cost reductions of \$1.8 billion on their defense sales, exclusive of firm fixed-price contracts. On February 8, Secretary McNamara reported to the President on these industry accomplishments. In his memorandum, he pointed out that these savings benefit the DoD by—

Reducing payments to contractors under cost-reimbursement contracts.

Enabling Defense to share in savings under contracts with incentive-type arrangements.

Providing a lower base of experienced costs for reference in pricing out subsequent contracts.

MAY 1966 COMMITTEE REPORT RECOMMENDATIONS

Since the time of our appearance before this committee last year, we have made progress in improving our supply system and in doing so have given emphasis to the recommendations made by the committee in its report dated May 27, 1966.

PROPERTY ADMINISTRATION

Last year the committee recommended "that the Department of Defense undertake a thorough study to determine the most effective and economical method of obtaining adequate control over Government-owned property in the possession of defense contractors." I am happy to report the following progress.

First, we have worked closely with the GAO during the past year to develop an improved property accounting system, and have provided the GAO with a number of proposals for review and comment.

We are revising the Armed Services Procurement Regulation (ASPR) to provide our property administrators with more definitive guidelines. The new regulation will require closer surveillance of contractors' property control systems and more frequent utilization surveys.

The Defense Industrial Plant Equipment Center has also made progress during the past year. The Center has expanded its program of reconciling Government and contractor property accounts. More mechanized records have been developed to improve responsiveness and more utilization spotchecks are being made.

Another program that will materially assist in improvement has been the recent formation of contract management review teams in the DSA and the military departments. These teams will survey all contract administration functions and will make property administration a special subject for review. This effort will give us a timely field review of the control and economical use of Government property in the hands of contractors.