

such action is in the interest of the Government and can be justified on economic grounds.

The analysis required to justify the replacement of Government-owned equipment on economic grounds is prescribed in DOD Directive 4215.14. This involves a comparison of projected operating costs to be incurred on Government orders during the next immediate 12-month period using the present equipment with projected operating costs using the proposed replacement equipment. The operating costs considered, include such factors as direct labor, indirect labor, maintenance, power, scrap/rework, tooling, etc. The cost projections are based primarily on the projected machine load for the 12-month period. The projected machine load for the proposed replacement equipment reflects a productivity increase ratio for the new equipment as developed through engineering studies and estimated production potential from machine tool builders.

The annual operating costs savings, if any, resulting from the proposed equipment is then compared to the annual amortization costs of the equipment. DOD Directive 4275.5 states that replacement costs for equipment to be used by the aerospace industry will normally be amortized within 3½ years; in other industries new equipment should normally be amortized within 5 years. If the annual operating costs savings exceeds the annual amortization costs of the new equipment the analysis is considered as favoring replacement.

The economic justification is usually prepared by the Government contractor and is subject to review and approval at various management levels depending on the cost of the replacement equipment. For example, in the Air Force the Systems Command may approve projects up to \$500,000. Projects costing more than \$500,000 must be reviewed and approved by Headquarters USAF. All projects costing more than \$1 million must be approved by the Office of the Assistant Secretary of Defense (Installations and Logistics).

As a result of our report to the Congress on the need for improvements in controls over Government-owned property in contractors plants (B-140389) issued November 24, 1967, the Deputy Assistant Secretary of Defense (Procurement) has indicated that current procedures would be modified to require the specific consideration of and a statement as to the contractor's inability or unwillingness to finance equipment modernization.

CONTRACTORS NOT ASKED TO INVEST IN MODERN TOOLING

Mr. HAMMOND. We found in some cases in review of the tooling modernization program that contractors were not asked to invest in the modern tooling. The Government furnished it without requesting a contractor to make their own investment and in some cases did not find out whether or not he was in a position to do it. Information on this is included in our report. (See app. 4(a), p. 411.)

Chairman PROXMIRE. You say in your report you show that in the past there has not been a policy of requiring or asking the contractor to buy the equipment?

Mr. HAMMOND. There is a policy that they will be required to furnish equipment, but in actual practice they did not, in many cases, ask contractors to furnish it.

Chairman PROXMIRE. Are you reassured that at the present time they do in all cases do everything they can to request the contractor to buy his own equipment?

Mr. HAMMOND. We have recommended that the Department of Defense do that. We do not have the final action that they have taken on it.

Chairman PROXMIRE. You do not have it? You don't know?

Mr. HAMMOND. That is right.

Mr. WEITZEL. Mr. Chairman, the Defense Department policy requires the contractors to submit justifications on the purchase of new equipment. They have a directive which is set out on page 39 of our