

report on the "Need for Improvements in the Controls Over Government-Owned Property in the Contractor's Plants" that says basically the contractor will be encouraged to replace old, inefficient Government-owned equipment or manufacturing processes with modern, more efficient, privately-owned equipment. (See p. 433.)

We found, though, that in submitting justifications contractors generally weren't required to include statements as to their ability or willingness to finance the equipment. Most locations where we inquired into this we found that either the contractors had not been requested to acquire privately owned equipment or the files gave no indication that use of private funds had been considered in evaluating the proposals that we examined.

As to some of these cases, Government officials told us that contractors had been encouraged to use private capital. However, we did not find records of that. At two locations, we did find evidence that the possibility of contractor financing had been questioned in connection with certain submissions, in which cases Government financing was justified because of contractor investment in other equipment or facilities.

It appeared to us, and we so reported, that the Government's investment in this program is sufficiently great that the question of contractor financing should receive positive attention in all cases.

FAILURE TO COMPLY WITH POLICY

Chairman PROXMIRE. The policy apparently on the part of the Department has been that the Government would only procure this equipment for contractors under certain exceptional circumstances. This has been the policy. But the practice has been that they have in many cases, and you don't say how many, you don't say what the proportion is, but in many cases, the Government has not applied this policy, that the Government has gone ahead and purchased this equipment for the contractor.

Mr. WEITZEL. We feel that there should be stronger application of the policy and also of that other part of the policy which directs that replacement of machine tools be justified on economic grounds.

Chairman PROXMIRE. And you have no knowledge that the Defense Department is now pursuing a different policy?

Mr. STAATS. We do not.

Chairman PROXMIRE. Under these circumstances, if the Congress should decide that this is a policy that should be provided in law, a requirement in law, why wouldn't that be desirable and necessary?

Mr. WEITZEL. All we can say at this point is that the Deputy Assistant Secretary of Defense agreed with our proposals in this area, that he said that it was DOD's policy that the contractor be encouraged to replace these old, inefficient Government tools with privately owned ones. He said 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.

Also, he said that they would review the need to revise their guidelines as they apply to both new and existing major defense programs.

That is the latest we have.