curtailed by the time the machines could be installed or would be substantially curtailed during the year following installation of the machines.

Preparation and review of justification data

We found numerous errors in contractors' justifications which, if they had been detected and corrected, would have indicated that the savings anticipated from use of the machines were not sufficient to recover the cost of the machines as specified on the form submitted. Among the errors were estimates of production requirements in excess of requirements shown on contractors' productions forecasts; labor and efficiency rates in excess of the rates warranted on the basis of actual experience and records; and in two cases, inclusion of the savings anticipated on commercial production.

At the one military command headquarters visited, available records indicated to us that a detailed review had not been made of contractors' justifications. Officials at the headquarters advised us that they had relied on the accuracy of the presentation by contractors and the evaluation by the service plant representative. Further, we were advised by these officials that, due to a shortage of manpower, they had been able to perform only limited reviews.

Agency officials at one contractor's plant, in most instances, forwarded the justifications to higher headquarters without specific findings, corrections, or recommendations. Officials at another contractor's plant advised us that their review of justifications consisted of examining, on a selective basis, supporting records such as cost records and purchase order requirements. Although we found in the files at one location reference to reviews by the military service representative, we found no evidence as to the records examined or the extent of the review. The military service representatives stated they had reviewed cost savings information in a few cases, but with little success due to lack of support for the savings estimate.

For example, one contractor submitted a request for an 8,000-ton press valued at about $1.4 million. The justification was based on a projected annual production of 79,380 units of a jet engine blade, including both commercial and Government requirements. A production forecast submitted by the contractor with the justification showed 27,215 units of the blades for about the same period as the 79,380 units used in the justification. The 27,215 units consisted of 14,507 units of the military blade and 12,708 units of the commercial blade.

After installation of the 8,000-ton press, the contractor reported production of 10,118 blades on the press during the first year. Total production was about 24,000 blades on all presses during the same period. After the first year, the press was used extensively for commercial production. Prior to approval of purchase of the press, the contracting officer requested the resident auditor at the contractor's plant to review the validity of the justification data. However, officials at the command headquarters authorized procurement of the press before the review was made. The responsible military service representatives had, in several instances, attempted to verify the savings claimed but found that the contractor was unable to substantiate its computations or to show that the savings were passed on to the Government.

Expenditures of $471,000 for three machines were approved for another contractor on the basis of first-year savings of $272,000. We found that the projected estimated savings data were substantially overstated. This resulted from the contractor's basing the savings computation in part on excessive indirect labor rates and on maintenance charges lower than indicated by experience and failing to include tooling costs attributable to modern machines. After adjustment for these differences, savings of about $154,500 for the first year of operation would have been indicated. Our review of the files on the contractor justifications involved indicated to us that a thorough review of the justifications had not been performed. In most instances, justifications were forwarded to higher headquarters without specific findings, corrections, or recommendations.

Although we are unable to surmise the effect that accurate justification data would have had on the decision to purchase the machines discussed in the above examples, we believe that it is evident that such decisions should be based upon accurate information.

Need for assurance that resulting savings will be passed on to the Government

Savings resulting from the modernization and replacement of machines used under cost reimbursement contracts are passed on to the Government since reimbursement to the contractor is based on costs incurred. For incentive-type