

contracts priced prior to a modernization action, the Government participates in savings resulting from use of new machines only to the extent of its profit-sharing ratio. In the case of firm fixed-price contracts priced prior to modernization action, no return is normally achieved unless special contract provisions are made.

At the time of our review, the Department's procedures did not require a contractual provision for recovery by the Government either of savings, under firm fixed-price contracts or of the full amount of savings under incentive-type contracts. In our reviews, we identified certain contracts where price adjustments seemed to be appropriate to permit the Government to realize the full savings resulting from the provision of new Government-furnished equipment. However, we also found that in many cases the savings reported by the contractor were not supported by sufficient documentation for verification.

For example, as discussed previously, in 1960 a contractor acquired an 8,000-ton press at a cost of \$1.4 million for production of jet engine blades. In May 1963, the contractor submitted a report showing savings of \$450,000 for the 1-year period when the press was in productive use. An Air Force review of the savings disclosed that the savings had been based on judgment and assumptions, and contractor officials agreed with the conclusions of the Air Force review. We found that there had been no price reduction under fixed-price contracts for blades produced on the new machine during the first year of production. Another Air Force review in June 1966 indicated that there had been no improvement in the contractor's accounting system with respect to determination of savings.

Another contractor had a number of multimillion-dollar incentive-type contracts which had been negotiated before various new machines were added to its facilities contract and were in an active status at least a year after the machines were placed in operation. The prices of these contracts had not been specifically adjusted to reflect modernization savings. The utilization of the machines under a contract could not be determined from the contractor's records. Government contracting officials told us, however, that, during the operating period referred to, the machines were utilized almost entirely on Government programs and that they could have been used on the incentive contracts.

The Department currently has in process a proposed new ASPR section 7-705.20 which provides that any savings under certain types of contract that result from the furnishing of new equipment are to be returned to the Government either as direct reimbursements or through contract price reductions. It also prescribes the maintenance of adequate records for this purpose. The section is limited to firm fixed-price contracts or subcontracts or to fixed-price contracts or subcontracts with escalation.

Private investment in plant equipment not always encouraged

DOD Directive 4275.5 states as a general policy that:

"Basically, the contractor will be encouraged to replace old, inefficient Government-owned equipment or manufacturing processes with modern more efficient, privately owned equipment. * * *

In submitting justifications, contractors generally were not required to include statements as to their ability or willingness to finance the equipment. At most locations where we inquired into this matter, 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 we examined.

As to the latter cases, we were informed by Government officials that contractors had been encouraged to use private capital; however, no record of such attempts was found. 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 of facilities. It appears to us that the Government's investment in this program is sufficiently great and that the question of contractor financing should receive positive attention in all cases.

For example, four items of IPE were being furnished to one contractor under modernization programs at a total estimated cost of \$422,000. The contractor's investment in IPE was three times that of the cognizant military service and included his expending \$4.4 million for 110 items of IPE in 1965 and 1966. Contractor officials indicated to us that, if the purchase of the four items had been necessary, they would have been willing to make the investment at that time. Service officials stated that they had made the replacements on the basis of estimated savings anticipated from the provision of more efficient machines and that they were following the replacement guidelines set out under DOD Directive 4275.5 which states, in part: