The evidence received by the subcommittee indicates that the DOD is not adhering sufficiently to its own stated policy with regard to the furnishing of Government-owned property to contractors.

RECOMMENDATION

8. The DOD must make a much greater effort to enforce its stated policy that contractors provide their own facilities, equipment, tooling, and materials incident to the performance of Government contracts.

Replacement of Government-Owned Equipment

One of the reasons for the sharp increase in the amount of Government-owned property furnished to contractors has been DOD's program for modernization and replacement at Government expense of machine tools furnished to contractors. For the period 1958–63, annual expenditures for this program averaged about $27.4 million. But for fiscal year 1966, expenditures increased to $51.5 million, and for fiscal year 1967 expenditures of $65.8 million were forecast.

According to DOD's policy, when a contractor cannot be encouraged to replace Government-owned equipment, the Government may effect the replacement if it is in the interest of the Government and can be justified on economic grounds. But an investigation by GAO of the tooling modernization program has revealed cases where the contractors were not even asked by DOD to invest in modern tooling. In some cases DOD furnished Government-owned equipment to the contractor without even finding out whether the contractor was in a position to purchase it himself. Contractors have not generally been required to submit statements as to their ability or willingness to purchase equipment for use in performance of defense contracts.

In practice, therefore, there has been a failure of compliance with DOD's policy regarding the replacement of Government-owned equipment. Further, where costs of production have been reduced as a result of the modernization of equipment at Government expense, the savings have not been passed on to the Government in the form of contract adjustments.

RECOMMENDATIONS

9. The DOD must make a much greater effort to encourage contractors to replace Government-owned equipment when it becomes inefficient or outmoded, and to require economic justification from any contractor requesting replacement of equipment at Government expense.

10. Where costs of production have been reduced as a result of replacement or modernization of equipment at Government expense, appropriate contract adjustments and price reductions should be made.

11. Immediate steps should be taken to collect full payment for past, present, and future use of Government-owned property, and to establish an adequate system of use records.