

It was alleged that payments were made on the sole authority of the Minister who negotiated the contracts.

The fact is that no government payments under these or any other contracts are made by the department itself. All payments are made by the Department of Finance, after careful inspection of all accounts by trained Treasury Department officials.

It was alleged that there was "no ceiling to costs and no limit to profits."

The safeguard in all cost-plus contracts is rigid inspection and audit of expenditures. This was most carefully provided for in these contracts. Before any payment could be made it had to be certified by engineer inspectors on the ground, by treasury officials on the ground, and then audited and approved by permanent officials of the Department of National Defence and the Department of Finance at Ottawa. A more exhaustive system of checking could hardly be imagined.

The article alleges that one contract was violated in the matter of progress payments. The contract called for progress payments to be made at the end of each month to the extent of 75 percent of the costs incurred and approved, and 75 percent of the profit accruing thereon.

The article states correctly that in certain cases the progress payments were 90 percent. This was not a violation of the contract. The contract was amended, and the amendment was approved by order-in-council for the following good reason.

The object of paying only 75 percent of the incurred costs was to give the government a hold-back against the contractor. Experience in administration showed that the elaborate precautions taken to safeguard the public treasury required from six weeks to two months to function. The result was that the government had an effective holdback of, not 25% but 100% percent for approximately two months. It was considered in fairness to the contractor that, with this amount of delay increasing the government's holdback, it would be proper to pay 90 percent of each account.

There was another reason. As pointed out in the article criticizing these contracts, one of the costs payable by the government, was the interest on capital borrowed for financing the undertaking. The length of time required for approval of accounts had a tendency to increase the amount of borrowing. The ultimate payment of 90 percent instead of 75 percent reduced the amount of the company's bank advance and reduced the amount charged against the government for interest. The increased rate of payment was therefore an economy to the public treasury.

In short, there was no violation of the contract as alleged, and the amendment was in the public interest.

It was also alleged that one contract gave the government no control over the amount of borrowing. This was true on the face of the contract, but since all payments had to be approved by the treasury department there was an effective