

potential for cost savings through breakout would have been highlighted. He stated further that steps were being taken to ensure that tubes and energizers would be purchased directly by the Government and furnished to the prime contractors in connection with the future procurements of variable timing and influence fuzes. This action should result in future significant savings to the Government.

In addition, on October 1, 1965, the Armed Services Procurement Regulation was amended to provide guidance for making decisions on whether or not components should be purchased by the Government directly and supplied to an end-item contractor as Government-furnished material and to provide that the records of the purchasing activity be documented to show the basis for the decisions.

[Index No. 9—B-158193, Feb. 23, 1966]

NEED FOR POSTAWARD AUDITS TO DETECT LACK OF DISCLOSURE OF
SIGNIFICANT COST OF PRICING DATA AVAILABLE PRIOR TO
CONTRACT NEGOTIATION AND AWARD, DEPARTMENT OF DEFENSE

A number of our reports issued to the Congress disclosed situations in which significant cost information that was available or known to a contractor prior to the negotiation of contract prices or to the award of contracts was not disclosed to Government negotiators. As a result, contract prices were increased by the inclusion in price proposals of estimated costs that were substantially higher than the costs that should reasonably have been anticipated on the basis of information known to the contractors.

In some of these cases, agency auditors and other personnel had, prior to price negotiations, performed audits and reviews of available contractor records and of other data submitted to them by the contractors. However, because certain cost information was not disclosed by the contractors or became available after the audits were performed, the preaward audits were not effective in disclosing cost estimates that were excessive in the light of information available at the time of negotiation and at the time of award of the contracts. Further, because of the limited time allowed for performance of preaward reviews of pricing proposals, the scope and depth of the reviews may have been curtailed and the available information may not have been evaluated adequately.

In addition, in instances in which there was a lengthy time span between completion of the audit of the price proposal and commencement of negotiations and between completion of negotiations and award of the contract, significant pertinent information was acquired by contractors during these periods but was not disclosed to Government negotiators. Generally, the contractors certified that complete and current information available at the time of negotiations had been disclosed to Government negotiators.

These situations, all of which adversely affect the Government's financial interests, have been disclosed as a result of postaward pricing reviews performed by the General Accounting Office. Under these circumstances, the defective pricing data clause in the contract provides a contractual basis for adjusting the price after the contract