Representative CURTIS. May I ask what do you have to study this for? Is there any question in your mind of the actual essentiality of postaudit in these cases?

Mr. IGNATIUS. I think the question, Mr. Curtis, has to do with the nature of the firm fixed-price contract. This is the preferred type of contract. It is preferred because it costs the Government the least to administer, and secondly, it provides the greatest incentive to the contractor to reduce costs.

Under this kind of a circumstance, where the contractor bears the risk, if the price is $1 and his costs are $1.05, he is still paid only $1.

If by greater efficiency he is able to bring his cost down, we take the position that he is entitled to the profit he would make as a result of this. If you begin to do too much auditing of costs under a firm fixed-price contract, following award, we believe that you might be damaging the basic intent of the firm fixed-price contract, and in effect converting it to a redeterminable contract, which we have tried to avoid.

ACCOUNTABILITY FOR CONTRACTOR INVENTORY

Representative CURTIS. Well, that is very interesting. One other final point, because my time is up anyway. In our efforts to find the accounting for equipment that is furnished to the contractors, the Defense Department is responsible for a great deal of this. This has been an issue that we have raised continually, and the reports from the GAO indicate almost no system at all. That is what it looks like. Will you comment on that? Do you think that the Defense Department has some system established of accounting for this equipment?

Mr. IGNATIUS. Yes, sir, we do. I pointed out in my statement that this is a difficult area. This last year——

Representative CURTIS. Let's stop there. Why is it so difficult just to have an inventory of what the equipment is? Some of this, of course, is very valuable. Why is that more difficult than some of these other things? Any area is difficult.

REPORTING USE OF EQUIPMENT

Mr. IGNATIUS. Yes. It is not difficult in terms of an inventory. It is difficult in order to maintain an efficient reporting system with regard to the utilization of the equipment by contract.

Representative CURTIS. Well, that is the issue. Why is it difficult to maintain a system of reporting inventory? That is a problem that everybody in business has. What is so difficult about it?

Mr. IGNATIUS. I would say that the number of pieces of equipment involved, the number of contractors involved, and the varying use. Now let me comment on this.

Representative CURTIS. Well, that is what I mean by an evasive answer.

DCAS SURVEYS OF CONTRACTOR'S SYSTEMS

Mr. IGNATIUS. Well, if I could complete my statement, sir. This last year the Defense Department Contract Administration Services surveyed some 4,389 contractors out of the total of some 4,466 that were large enough in terms of the number of pieces of equipment,