supervision in the Navy's Facilities Engineering Command. It comes under my general area of policy surveillance.

I am familiar, as I indicated, in my response earlier, with the contract, with the fact that the CPFF arrangement was converted to a CPAF arrangement. I know generally the terms of it. In specific detail we would need to get this furnished for the record.

Representative RUMSFELD. What is the Government's policy with respect to contracts that are cost-plus a percent cost?

Mr. IGNATIUS. They are illegal. Cost-plus percentage of cost contracts were used in World War I and were declared illegal.

Representative RUMSFELD. That is my understanding, that they are illegal, and I would like to know from you whether or not cost-plus award fee isn't really a euphemism for cost-plus percentage of cost.

Mr. IGNATIUS. No, sir, it isn't.

Representative RUMSFELD. In what way?

Mr. IGNATIUS. It would be an illegal contract if it were.

Representative RUMSFELD. I have studied the contract, and I must confess I don't pretend to be an expert in it, but there is no question in my mind but that it is a cost-plus contract, and the plus, at least a portion of the plus, is a percentage of cost.

Mr. IGNATIUS. What it is, Mr. Rumsfeld, is an attempt to get a little more incentive into what otherwise would have been a situation without any. The cost-plus fixed fee contract is a legal contract, which we don't like to use, incidentally. One of the things we have done in the last 5 years is to reduce the use of the CPFF contract from 38 percent of our dollars in 1961 to less than 10 percent today. Under certain circumstances it is used as in this construction contract, where the nature of the work and the uncertainties involved precluded a firmer type of contract, this CPFF type of contract was first used. Later on, in order to get some kind of incentive for performance, the Navy converted it from CPFF to CPAF, varying the fee in terms of the performance attained. It is not——

LEGALITY OF VIETNAM CONTRACT

Representative RUMSFELD. Do you have a ruling from somebody saying that this is a legal contract?

Mr. IGNATIUS. Well, this was approved within the Facilities Engineering Command and in the Office of the Assistant Secretary of the Navy, and the legal counsel always participates in decisions of this kind.

Representative RUMSFELD. In my study of this contract I note that the Defense Department has had a great deal of difficulty in performing audits, and has been rather slow on it.

Mr. IGNATIUS. In performing audits on this?

Representative RUMSFELD. On the contract.

Mr. IGNATIUS. The Navy Auditor was involved in this. Subsequently the Defense Contract Audit Agency was.

Representative RUMSFELD. They were doing it from the United States and Japan.