contracts which give us the contractual right to request price adjustments from contractors in cases where it is subsequently determined that they did not furnish accurate, current and complete data.

What the Comptroller General apparently is concerned with, and I am referring to his report, is that our people have not left an adequate descriptive record of exactly what cost or pricing data was reviewed and relied upon. This cost or pricing data is not the contract cost or the contractor's cost estimates. It consists of such items as the contractor's historical cost experience on other contracts, or current quotations from suppliers for this contract, which formed the basis upon which the future costs were estimated. It is not the estimates or the pricing decisions which are at issue. In summary, it appears to me that the issue is not—

whether cost data is being obtained for pricing purposes;

whether this data is being analyzed and used;

whether the contract price is being fairly and reasonably negotiated consistent with the Government interest;

whether the cost and pricing certificates are being obtained; or

whether adjustment clauses are being included in the contract.

These things are being done.

In my opinion, the issue is:

(1) What data is considered adequate for proper implementation of Public Law 87–653 to permit a later judgment as to whether or not action should be initiated against the contractor under the certificate, and

(2) Whether our contracting officers and the Defense contractors have described the underlying data in their file memoranda so that it may be readily identified if and when future questions of reliance upon it are raised.

The documentation that is necessary to show the linkage between the amount and kind of data that was submitted by the contractor and relied upon by the negotiator is necessarily a matter of judgment. Basic source accounting documents are not submitted to substantiate the elements of a contractor's price, such as time cards for direct labor. Negotiation and bargaining takes place on the basis of summary data and price analysis, with audit review of the contractor's detailed accounting records to establish the validity and relevance of the cost elements submitted in the proposal. This environment, not fully understood by many, is set forth in more detail in our letter to the GAO, dated 17 December 1964, which is quoted below.

What constitutes the amount of documentation necessary to permit others later to follow the essential elements of the decision is, and must continue to be, a matter of judgment. It is possible that GAO and DOD are using different standards as to what constitutes adequate documentation. Accordingly, it seems clear that a better understanding is required as to what these standards should be. Toward this end, we intend to hold discussions with the Comptroller General at an early date. We are very desirous of evolving a realistic and practical resolution of this issue.

DECEMBER 17, 1964.

Hon. JOSEPH C. CAMPBELL,
Comptroller General of the United States,
General Accounting Office, Washington, D.C.

DEAR MR. CAMPBELL: Certain recent statements of the General Accounting Office raise a basic question about price negotiation techniques in Defense contracting: Should we negotiate fixed-price type contracts to obtain separate agreements on each individual cost element and profit element that may be involved in the price rather than one agreement on the total contract price? Thus, your report B–118663, submitted to the Congress last June stated "Because the total price negotiated is only as sound and equitable as the individual cost elements that make up the total price, we believe that this case illustrates the need for adequate records evidencing the agreements which were reached by the parties with respect to the elements of the negotiations."

Again, your Defense Accounting and Audit Division's draft report of 3 September 1964 on Contract AF 04 (647)–714, with the Boeing Company, states that the Government's interests are not protected where price negotiation "is concluded on a total price basis and questions on significant elements of cost are unresolved * * *." The implication is that contract prices should always be supported by specific agreements on each "significant" cost element, as though we were negotiating dozens of separate prices rather than a single price. We strongly disagree.