

Mr. STAATS. Well, it is my understanding that the memorandum of the Deputy Secretary does not extend to subcontractors, in terms of performance cost.

The objective is to have the documentation extend to the subcontractor level, but my understanding is that we have not yet agreed between us and Defense as to the way in which we would have to document the case of the subcontractor in order to be able for us to say fully that the documentation is adequate.

DOCUMENTATION SHOULD APPLY TO SUBCONTRACTS

Chairman PROXMIRE. You certainly would agree that it should apply to subcontracts?

Mr. STAATS. It should.

Chairman PROXMIRE. Then, in further consultation with the staff, if you would, in the next day or so feel that you would like to revise your initial response, I would appreciate it if you would do so.

Mr. WEITZEL, did you want to read something?

Mr. WEITZEL. We can supply this for the record, Mr. Chairman.

Chairman PROXMIRE. All right.

(See Defense Procurement Circular No. 57, p. 162.)

Mr. WEITZEL. But the latest version of this which we have here this morning does require the contractor to insert the clause in all subcontracts which when entered into exceed \$100,000, with the same exemptions as the contractor has. Is this your understanding, Mr. Bailey?

Mr. BAILEY. Yes.

Chairman PROXMIRE. Mr. Staats, why wouldn't this mean that it would apply to subcontracts?

Mr. WEITZEL. There has been a lot of discussion of this point.

Chairman PROXMIRE. The contractor is required to insert this in his subcontract agreements.

Mr. NEWMAN. Mr. Chairman?

Chairman PROXMIRE. Yes.

Mr. NEWMAN. Pursuant to your question about the problems that are facing DOD with regard to getting performance records and adequate records of cost data under Public Law 87-653, we have instituted a program where we are working very close with the internal auditors in the Services who have the responsibility of reviewing the contracting officer's negotiation files and records, and DCAA, who have the new authority to post audit contractor's performance records. It means a major revision in their audit programs. Up to now their programs, to a great extent, have been limited only to verifying pricing data submitted or acquired from contractors.

Mr. WEITZEL. Mr. Chairman, there are two things involved here in addition to the question of audit of subcontractor's performance. One is the access-to-records clause. The other, to which Mr. Staats was referring, and on which we haven't reached agreement with them and which they are still studying, is, what penalty a subcontractor or a contractor will be subjected to in the event the subcontractor has not furnished current, accurate, and complete pricing data to the contractor.