

With further respect to timing, Mr. Chairman, this review covered the period that was mentioned, but we did our fieldwork from May 1966 through March 1967 and, as a result of that, we sent a draft report to the Defense Department on May 3, 1967, with our findings and our recommendations, and in replying to this in July, on July 21, 1967, Mr. Riley, the Deputy Assistant Secretary of Defense for Supply and Services, in what is now Mr. Morris' area again, did call our attention to the fact that each of the military services and DSA had initiated specific programs to eliminate the deficiencies, many of which they had recognized, and Mr. Riley said, for example:

The Army initiated a six-phase program in September 1966. Three of these phases were completed by the end of December 1966, but not in sufficient time to be reflected in the draft report prepared by the GAO staff.

The major phases, which involve the establishment of new inventory procedures would be phased in between May and October 1967. Likewise, the Navy, Air Force and DSA are in the process—

he said—

of installing new procedures which are aimed at more accurate inventory control.

As we have already testified, they did defer action on the constitution of this high-level task force and have just now determined that they will go forward also with that.

Chairman PROXMIRE. Our experience has been that they are very cooperative, friendly, and responsive and then not much gets done, so often, as you know. So, we hope that we have follow up reports at regular intervals, as comprehensive as possible, so we can stay right on top of the situation.

Mr. STAATS. I have the exact dates that you asked for, Mr. Chairman. Mr. Morris was appointed to the post of Assistant Secretary of Defense for Installations and Logistics in January 1961 and served there until December 1964. He returned to this post in September 1967.

Chairman PROXMIRE. You may proceed.

Mr. STAATS. The second part of our testimony has to do with agency audit rights and recovery from subcontractors.

Chairman PROXMIRE. I am very interested in this.

Mr. STAATS. This is designed to elaborate and bring up to date the the information on this subject.

AGENCY AUDIT RIGHTS AND RECOVERY FROM SUBCONTRACTORS

AGENCY AUDIT RIGHTS

About 2 years ago, we recommended to the Secretary of Defense that a provision be included in all contracts, required to be negotiated on the basis of cost or pricing data, giving agency officials the right to examine all records related to the contract performance. This recommendation was made to provide agency officials a more effective means of implementing the Truth in Negotiations Act, Public Law 87-653.

We had found that significant cost information was often not disclosed to Government negotiators at the time of price negotiations. Such undisclosed information could be more readily detected in post-award reviews of the contract performance records.

Although an examination of such records provided the best means of verifying that the data submitted before negotiations was accurate,