

inherent in obtaining a waiver of the Truth-in-Negotiations Act—in the Department of Defense, waivers can only be granted at the Assistant Secretary level—contracting officers may determine that competition is adequate or that the price is based on a standard catalog price.

Again, the established of uniform standards of accounting would go far to make the Truth-in-Negotiations Act more effective. I also recommend that the Truth-in-Negotiations Act be strengthened to prohibit its being waived for procurements with companies who do large amounts of negotiated defense work, say over \$1 million annually.

RENEGOTIATION ACT DOES NOT PREVENT OVER-PRICING

The Renegotiation Act does not adequately protect the Government against excessive profits because contractors have considerable flexibility in how or in what year they report profits to the Renegotiation Board. They can change their methods of accounting at will so that Government work absorbs a higher or lower proportion of total expenses in relation to commercial work. By shifting costs from commercial to Government work, a contractor can show low profits to the Renegotiation Board. The Board cannot stop this because Internal Revenue Service rules do not prescribe how costs should be assigned to specific contracts or type of work. No matter what method the contractor may use to assign costs, it will probably be found to be "in accordance with generally accepted accounting principles."

Further, profits reported to the Renegotiation Board are lower than actual profits because they are computed on a basis different than is used in establishing contract prices. In renegotiation, Internal Revenue Service rules determines what costs are allowable. These rules relate only to total expenses and total income, not with the method of assigning costs to Government or civilian contracts. Therefore, costs that are inappropriate or not applicable to Government work can be included for purposes of renegotiation, thus enabling firms to understate their real profits.

Costs and profits on all of a contractor's defense work are averaged in renegotiation. The Renegotiation Board never sees what profit contractors realize on individual contracts, regardless of the amounts involved. By averaging high- and low-profit defense work, a company can overcharge the Government on orders where competition is limited, so that he is able to reduce his prices on more competitive product lines. In this way he has a better chance to receive orders that provides engineering or production experience that might have commercial application. This puts the large, multidivisional company in a favored competitive position compared with smaller companies.

Many large Government contracts involving standard commercial articles are exempt from renegotiation. Under this exemption, contractors do not have to report profits on such articles if 35 percent or more of the articles are sold in civilian markets. This could exclude from renegotiation computer sales and perhaps even large equipment items such as propulsion turbine work.

NEED TO STRENGTHEN THE RENEGOTIATION ACT

Representative Gonzalez has introduced a bill before Congress to strengthen the Renegotiation Act in the following manner:

- (a) Make the Renegotiation Act permanent.