

much reported by the auditor's office over the life of the thing. And so when the General Accounting Office raised the question in August 1966, it was not a new problem. It ought to have been a particularly sensitive problem because of the sole-source aspect.

I assume that is the basis for the auditing. What is the basis for auditing? Is it for providing estimation, for determining reasonableness of cost, or what? The fixed-price contract.

Mr. TASSIN. The basis for auditing, sir, is to serve as an assist in the pricing effort as distinguished from auditing the costs after the fact.

Mr. ROBACK. When you have a repeated history of continuous, almost continuous, sole sourcing, that always ought to be a red flag for auditing, I would assume.

Mr. SHILLITO. Certainly.

ACTION TAKEN BY NAVY IN RESPONSE TO AUDIT REPORTS

Mr. HOLIFIELD. And always while enforcing the proper auditing procedures on the contractor. This repeated reference to the fact that they couldn't tell, couldn't give an accurate answer because of the defect in the auditing process of the manufacturer would seem like to me to call for summary action on the part of the Navy, telling them to install the proper kind of auditing system in order that you might obtain those costs to which you are entitled.

But apparently there was no action taken on the part of the Navy, notwithstanding the fact that that was a sole source, and notwithstanding that your auditors repeatedly said they couldn't tell, couldn't give you the information that you were entitled to, because of the defect in their auditing system. Yet nothing was done, apparently.

Mr. TASSIN. I agree, sir. I can't answer the question as to what was done about this. I don't think that the people here can answer that. The only thing I can say is we can look into this and see what was done, if anything, sir.

(The following information was provided for the record:)

Question. What is the Navy response to the two Navy audit reports summed up in the GAO (General Accounting Office) letter dated December 20, 1966, to Rear Admiral Shinn, Commander, Naval Air Systems Command?

Answer. This is a matter that required correspondence with the Defense Contract Administration Services Region, St. Louis, and the Director, Defense Contract Audit Agency for the purpose of checking the GAO statements in context and to determine what action needed to be taken and to implement such action in those cases where it was required.

This research was still in progress at the time when we were requested by the Justice Department to discontinue the operation pending their investigation of representations that had been made to them.

In connection with the Justice Department investigation, our files have been placed at the disposal of their investigators, and it has been extremely difficult to prepare an item-by-item answer to the points raised by GAO.

In general, it may be said that those items reported by GAO that we have been able to confirm have been the subject of corrective action. For example, Chromcraft contract N00019-67-C-0120, dated October 5, 1966, is completely documented as to sole source subcontracts. Copies of certificates of current cost/pricing have been obtained from the subcontractors along with the cost data supporting the certificates. Also, the Chromcraft purchase office procedures have been changed to require the ASPR cost/pricing data subcontract clauses. In addition, the "examination of records" clause is now included in Chromcraft subcontracts in excess of \$2,500.