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UNITED STATES GENERAL ACCOUNTING OFFICE  
 REGIONAL OFFICE  
 ROOM 7054, FEDERAL BUILDING  
 300 NORTH LOS ANGELES STREET  
 LOS ANGELES, CALIFORNIA 90012



GACC0345

NOV 25 1970

Mr. J. G. Weldon, General Manager  
 The Bendix Corporation, Electroynamics Division  
 11600 Sherman Way  
 North Hollywood, California 91605

CNG 150177

Dear Mr. Weldon:

This is to advise you that we have completed our review of the prices negotiated for contract N00604-68-C-0453 and purchase order 8129K41G22 awarded to the Bendix Corporation, Electroynamics Division. The contract was issued by the U. S. Naval Supply Center, Pearl Harbor, Hawaii, on April 19, 1968, for the overhaul and repair of 135 submarine valves. The purchase order was issued by Pan American World Airways, Inc., on May 8, 1968, under a prime contract with the Air Force Eastern Test Range, Patrick Air Force Base, Florida. The purchase order was for 20 acoustic transponders. Our review was directed towards determining the reasonableness of proposed contract costs in accordance with the requirements of Public Law 87-653.

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We found that the proposed material costs for contract -0453 were higher than indicated by available cost information by about \$8,900, including applicable overhead and profit. With respect to purchase order 8129K41G22, we identified cases where the most current, complete, and accurate cost information was not used in estimating proposed material costs resulting in an increase in the purchase order price of about \$1,200.

The results of our review, which were discussed with the Division Controller and other company officials at the completion of our work, are discussed in greater detail as follows.

Contract N00604-68-C-0453

We found that material costs were proposed on the basis of existing information contained in estimating files from prior proposals. In many cases, the information was not updated to reflect the most current purchase history although the data was often 3 and 4 years old. For example, a unit cost of \$6.41 was proposed for part number 3058945 based on a price paid in 1964 for 5 units. However, the most recent

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purchase prior to contract negotiations was 60 units at \$0.68 a unit. Since the proposed quantity for contract -0453 was comparable to the most recent purchase, we believe \$0.68 would have been a more reasonable basis for estimating contract costs for this item.

We also found that the cost of component parts was estimated separately for each contract line item although many of the parts were included in more than one line item. For example, a unit cost of \$55.60 was proposed for three units of part number 1012180 under one line item of the contract based on the following price quotation:

<u>Quantity</u>	<u>Unit price</u>
3	\$55.60
7	29.60
12	25.60

Our review showed that this part number was included in several line items and that at least nine units were required under the contract. We believe, therefore, that a unit price of \$29.60 would have been a more representative estimate of future contract costs for this item.

Based on the results of our review, we estimate that proposed material costs were higher than indicated by available cost information at the date of contract negotiations by about \$8,900, including applicable overhead and profit.

Contractor officials stated that limited time to prepare the cost proposal was the primary reason for not estimating proposed costs on the basis of the most current available cost data. However, we feel that the cost information used, in some cases 4 years old, should have alerted the estimating personnel to consider the availability of more current cost data in preparing the proposal.

Contractor officials also stated that total material requirements had not been considered in computing proposed costs because of the uncertainty that the company would receive a contract for the total quantity in the request for proposal. Nevertheless, we believe that total known requirements at the date of solicitation is the only reasonable basis for estimating contract costs.

Purchase Order 8129K41G22

Although we have no major questions concerning the pricing of this purchase order, we did note several instances in which either non-current cost data were used or inappropriate cost information

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was included in the proposed material costs resulting in an increase of about \$1,200 in the purchase order price.

For your information, this matter is being referred to the attention of the Defense Contract Audit and Contract Administration Services personnel at Bendix for consideration in their continuing surveillance of your cost estimating system.

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We would like to take this opportunity to acknowledge the courtesy and cooperation extended to our representatives during the review. Any comments you may wish to make on the matters discussed in this letter would be appreciated. We would also be pleased to meet and discuss these matters in further detail if you so desire.

For your information, we are also reporting the results of our review to the Commanding Officer, U. S. Naval Supply Center, and to the Commander, Air Force Eastern Test Range.

Very truly yours,

H. L. Krieger

H. L. KRIEGER  
Regional Manager

bcc: Associate Director, DD - J. H. Hammond

Mr. R. A. Bononi

Mr. D. A. McCargar

DAM:ba