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UNITED STATES GENERAL ACCOUNTING OFFICE  
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 LOS ANGELES, CALIFORNIA 90012

6 ASO 00345

NOV 25 1970



Captain Thomas Condon  
 Commanding Officer  
 U. S. Naval Supply Center  
 Box 300  
 FPO San Francisco, California 96610

DLG 01675

CN-EC 1977

Dear Captain Condon:

As part of our review of the negotiation of contract prices under the provisions of Public Law 87-653, we have examined into the price proposed and negotiated for firm fixed-price contract N00604-68-C-0453 awarded to the Bendix Corporation, Electrodynamics Division, North Hollywood, California, by the U. S. Naval Supply Center (NSC), Pearl Harbor, Hawaii. The contract was awarded on April 19, 1968, in the amount of \$158,043 and provided for the overhaul and repair of 135 submarine valves.

Our examination was primarily concerned with, (1) the reasonableness of the price negotiated in relation to cost or pricing data available at the date of contract negotiations, (2) the adequacy of the price analysis performed, and (3) the adequacy of the contractor's cost or pricing data submissions for compliance with pertinent provisions of the Armed Services Procurement Regulation (ASPR).

Our review indicated several weaknesses in the negotiation and pricing of the contract as follows:

1. The proposed contract price was about \$8,900 higher than indicated by available cost information at the date of contract negotiations.
2. The price analysis performed by NSC showed significant price increases over a prior procurement and, under the circumstances, the contracting officer's waiver of the requirement for preaward audit by the Defense Contract Audit Agency (DCAA) did not appear to be justified.
3. The contractor was not required to submit or specifically identify in writing, cost or pricing data in support of proposed costs as required by ASPR.

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4. A record of negotiation documenting the considerations controlling the establishment of the contract price was not in the contract files as required by ASPR.

These matters are discussed in greater detail in the following:

#### BACKGROUND

Bendix submitted a price proposal in the amount of \$148,009 on March 22, 1968, in response to NSC's request for quotation number N00604-68-R-0266 for the overhaul and repair of 135 submarine valves. On April 15, 1968, Bendix revised the proposed contract price to \$158,043 to correct errors in the original submission.

The contracting officer made a price analysis of the proposal, but did not request DCAA to perform a preaward audit or the Defense Contract Administration Services to perform a technical evaluation of the cost proposal. NSC accepted the total proposed price of \$158,043 on April 24, 1968, although the effective date of the contract was April 19, 1968.

The contractor executed a Certificate of Current Cost or Pricing Data and a defective pricing clause was incorporated into the contract.

#### PROPOSED MATERIAL COSTS

We found that material costs were proposed on the basis of existing information contained in estimating files from prior proposals. In many cases the contractor did not update the cost information to reflect the most current purchase history although the data was often 3 and 4 years old. For example, the contractor proposed a unit cost of \$6.41 for part number 3058945 based on a price paid in 1964 for 5 units. However, the most recent 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 that \$0.68 would have been a more reasonable basis for estimating contract costs for this item.

We also found that the contractor estimated the cost of component parts separately for each line item of the contract although many of the parts were included in more than one line item. For example, the contractor proposed a unit cost of \$55.60 for 3 units of part number 1012180 under one line item of the contract based on the following price quotation:

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<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 contractor to consider the availability of more current cost data in estimating material costs.

Contractor officials also stated that total material requirements had not been considered in computing proposed costs because of the uncertainty that Bendix 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.

#### PREAWARD AUDIT OF CONTRACTOR'S COST PROPOSAL

NSC made a price analysis of 78 line items amounting to about \$78,000 of the proposed contract price. The proposed prices were compared with identical or similar parts and services furnished by Bendix under contract N00228-67-C-0878 awarded by NSC, Oakland, on November 22, 1966. The analysis showed that the average proposed prices for the overhaul effort were about 24 percent higher than prices paid under contract -0878 and the average proposed prices for repair parts were about 45 percent higher.

We were advised by contracting officials at Pearl Harbor that the proposed prices were accepted without audit because, (1) Bendix is subject to continuous audit by the DCAA resident auditor, (2) past performance of the contractor had been satisfactory, and (3) there was an urgent need for the contract items. A formal audit waiver was not in the procurement files.

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In view of the significant proposed price increases and the fact that the contract prices used in the price analysis were over a year old, we believe that a preaward audit by DCAA was warranted and would have provided valuable assistance to the contracting officer in negotiating a fair and reasonable price for this contract. Under the circumstances, the contracting officer's waiver of the requirement for preaward audit did not appear to be justified.

#### COST OR PRICING DATA SUBMISSION

Bendix submitted Contract Pricing Proposals, DD Form 633, for several contract line items. However, the contractor did not submit or specifically identify in writing, cost or pricing data in support of proposed costs as required by ASPR. In our opinion, the Government's rights under the defective pricing clause may be impaired since it may be impractical for the contracting officer to establish that erroneous data were relied on in the negotiation if data were not submitted or made a matter of record by the contractor.

#### RECORD OF NEGOTIATION

A record of negotiation was not in the contract files as required by ASPR 3-811(a). The contracting officer advised us that one apparently had not been prepared for this contract. Negotiation proceedings should be a matter of record since it serves to document the significant considerations controlling the establishment of the contract price.

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We believe that the contracting officer should consider the above findings along with any additional information available, to determine the extent to which the Government may be legally entitled to a price adjustment.

We would appreciate being advised of actions taken or contemplated with regard to the matters discussed in this letter. Copies of this letter are being sent to the Regional Manager of the Los Angeles Office of the Defense Contract Audit Agency and to the Commander, Defense Contract Administration Services Region in Los Angeles.

Sincerely yours,

H. L. Krieger

H. L. KRIEGER  
Regional Manager

cc: Regional Manager, DCAA, Los Angeles  
Commander, DCASF, Los Angeles

bcc: Director, Far East Branch, ID  
Associate Director, DD - J. H. Hammond