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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DEFENSE DIVISION

B-152306



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Dear Mr. Secretary:

We have completed the review of pricing of fixed-price architect-engineer contracts (Code 86307) which we announced to you by letters of December 22, 1970, and May 25, 1971.

We examined the pricing of four contracts at the Air Force Space and Missile Systems Organization, Los Angeles, California, and one contract at the Western Division, Naval Facilities Engineering Command, San Bruno, California. We also visited the applicable contractors' offices. Work of a more limited nature was done at the Baltimore District of the Army Corps of Engineers and at the Chesapeake Division of the Naval Facilities Engineering Command, Washington, D. C.

For the five selected contracts, we reviewed (1) the reasonableness of the prices negotiated in relation to cost or pricing data available at the time of contract negotiations, (2) the adequacy of technical and audit evaluations of the cost proposals, and (3) the adequacy of the contractors' cost or pricing data.

We were unable to evaluate the proposed technical labor-hours because of the engineering judgment involved. Accordingly, since the technical labor-hours were a significant element of the proposed prices, we were unable to evaluate the reasonableness of the prices negotiated.

In addition, we found instances of the following weaknesses in compliance with the Truth-in-Negotiations Act (Public Law 87-653) and implementing procedures.

- Failure to obtain certificates of current cost or pricing data.
- Inadequate identification of bases for proposed costs.
- Overhead rates and labor estimates based on noncurrent cost or pricing data.
- Questionable waiver of preaward audits.
- Failure to perform cost analysis of subcontractors' price proposal.

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--Failure to include required clauses in contracts.

Because of the small number of contracts reviewed, the findings did not warrant broad conclusions. We have reported details of the above matters to the respective contracting offices and we may look into this area again at a future date.

Copies of this letter are being sent to the Director, Office of Management and Budget, the Secretaries of the Army, Navy, and Air Force, and the Director, Defense Contract Audit Agency.

Sincerely yours,


Director

The Honorable
The Secretary of Defense