

093223

OPSS



UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 7068 FEDERAL BUILDING
300 NORTH LOS ANGELES STREET
LOS ANGELES, CALIFORNIA 90012

MAR 1 2 1971

Captain K. B. Mattson
Naval Plant Representative
Douglas Aircraft Company
McDonnell Douglas Corporation
3855 Lakewood Boulevard
Long Beach, California 90801

BEST DOCUMENT AVAILABLE

Dear Captain Mattson:

We recently completed a survey of the pricing of negotiated defense contracts at Douglas Aircraft Company, Long Beach, California. The objective of our survey was to review the procurement process and determine the extent of compliance by contractor and Government personnel with the requirements of Public Law 87-653 and the implementing provisions of the Armed Services Procurement Regulation.

We included in our survey 25 firm fixed-price procurements over \$100,000 awarded to the contractor during the period July 1, 1968, to November 30, 1970. Based on the results of our work, we do not plan to perform any detailed examinations of the pricing of these procurements at this time. Although the results of our survey were discussed with you and your staff at the completion of our work, we thought it would be useful to summarize those procurement and contract administration issues which we believe warrant your attention.

Need to improve technical
evaluation procedures

The Naval Plant Representative Office (NAVPRO) performed technical evaluations for 23 of the procurement actions included in our survey. Although these evaluations appeared to cover the significant cost elements, they were performed by nontechnical personnel of the Contracts Division. We noted that evaluations performed for basic ordering agreement (BOA) orders lacked explanation for the conclusions reached and the recommendations made. We also noted that documentation in support of the work performed was not maintained.

713918

093223

MAR 12 1971

A recent Contract Management Review (CMR) of NAVPRO operations identified the same issues. The CMR draft report dated December 1970 recommended that your office issue guidelines for the evaluation of proposals that will assure relevant technical comments and include the rationale used in the proposal evaluation process. We have been advised that your office has recently established a technical evaluation capability in the Industrial Division and are currently in the process of preparing guidelines for use during technical evaluations.

We believe that actions taken in response to the CMR findings will improve the proposal evaluation process and assist the contracting officers in negotiating fair and reasonable prices.

Need to obtain current cost estimates
prior to contract negotiations

BEST DOCUMENT AVAILABLE

We noted that several orders under BOA's had not been negotiated until a substantial portion of the effort had been completed. This occurred primarily on those A-4 aircraft modification kit orders which required considerable developmental effort. Due to the substantial engineering and developmental effort required, the contractor deferred the submission of cost proposals to the Government until the work was substantially complete and a more sound basis existed for estimating production costs. The cost proposals were essentially based on forward pricing data; however, contract price negotiations were conducted on the basis of recorded costs plus an estimate to complete (ETC). Therefore, the cost data in the original proposals were not relied on by the Government contracting officer. These data, however, were certified to by the contractor at negotiations.

We found that prior to negotiations the contractor developed estimates of costs to complete these orders but did not disclose the estimates to the Government contracting officer. Contractor officials advised us that the estimates are not submitted unless the cost of performance plus ETC vary significantly from the original cost proposals. In addition, we were advised that the contractor places greater reliance on the estimates contained in the original proposals.

In our opinion, the ETC's constitute pertinent cost or pricing data that should be disclosed in writing to the Government contracting officer prior to negotiations. Also, we are concerned with the possibility that the Government's rights to recover under the defective pricing clause may be impaired since the certified cost or pricing data are not being relied on by the contracting officer.

Captain K. B. Mattson

- 3 -

MAR 12 1971

Use of firm fixed-price orders for highly developmental aircraft modification kits

As previously discussed, orders for A-4 aircraft modification kits frequently have not been negotiated in a timely manner primarily because of the uncertainty in establishing firm prices at the outset. The use of firm fixed-price orders to procure hardware which requires a high level of engineering and developmental effort has apparently contributed to these delays.

The contractor recognized the need for timely negotiation of these orders and recommended to the Naval Air Systems Command (NAVAIR) that a more flexible contractual arrangement be considered. In May 1967 and March 1968, the contractor requested that future BOA orders be awarded on a fixed-price incentive basis. Although these requests were favorably endorsed by your office, subsequent orders were awarded on a firm fixed-price basis. We plan to bring this matter to the attention of NAVAIR for their consideration in the award of future orders.

We would appreciate whatever comments you may wish to make on the matters discussed in this letter. Also, we wish to acknowledge the courtesy and cooperation extended to our representatives by your staff during this survey.

Sincerely yours,

H. L. KRIEGER

H. L. KRIEGER
Regional Manager

BEST DOCUMENT AVAILABLE