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

March 19, 1971

Mr. Alex Soll  
Regional Manager  
Los Angeles Region  
Defense Contract Audit Agency  
1340 West 6th Street, Second Floor  
Los Angeles, California 90017



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Dear Mr. Soll:

As part of our review of the negotiation of contract prices under the provisions of Public Law 87-653, we have examined into the prices proposed and negotiated for firm fixed-price contracts DAAA09-68-C-0317, DAAA09-69-C-0107, and NO0104-69-C-0092 awarded to Alcan Aluminum Corporation, Riverside, California. Contracts -0317 and -0107 were issued by the U. S. Army Ammunition Procurement and Supply Agency, Joliet, Illinois, in the amount of \$1,191,970 and \$4,631,031, respectively, for the production of Rocket Motors, HE,66MM,M54,MPTS. Contract -0092 was issued by the U. S. Navy Ships Parts Control Center, Mechanicsburg, Pennsylvania, in the amount of \$1,642,500 for the production of Zuni Rocket Motors, 5.0",MK 16, Mod. 1.

The results of our review were discussed with your staff at the Ontario Branch Office. Enclosed for your information are copies of our letter reports to the Commanding Officer, U. S. Army Ammunition Procurement and Supply Agency, and the Commanding Officer, U. S. Navy Ships Parts Control Center, which summarize the results of our review.

During our recent coordination meeting, we advised you that our review indicated a need for improved coverage during preaward audits at Alcan. In addition to the examples cited in the enclosed letters, we also found that the audit staff did not evaluate the reasonableness of other proposed costs for these contracts. Our review, however, disclosed that these proposed costs appeared to be reasonable based on our evaluation of the most current data at negotiations. The Branch Manager agreed that a need exists to more clearly document in the working papers the scope of the audits and the rationale for not reviewing certain proposed costs. He also agreed that, as a minimum, the preaward audit reports should have been qualified in those cases where significant proposed costs were not audited.

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We believe the results of our review indicate a need for improvement in Alcan's cost estimating procedures. While this contractor may not meet your monetary criteria for conducting a formal estimating system survey, you may consider it advisable to work with Alcan to improve its estimating process.

Also, we would like to call your attention to an observation made during our initial pricing survey at Alcan concerning postaward audits performed by your Ontario Branch Office. A postaward audit involving 83 manhours was performed on contract N104-11698A, a formally advertised procurement. You may want to review the selection and screening process at this location to ensure compliance with established agency criteria in the performance of postaward audits.

Your comments on the results of our review at Alcan will be appreciated. We will be pleased to provide you or your staff with further details on the foregoing if you so desire.

Sincerely yours,



H. L. KRIEGER  
Regional Manager

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