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UNITED STATES GENERAL ACCOUNTING OFFICE

REGIONAL OFFICE

ROOM 7054, FEDERAL BUILDING

300 NORTH LOS ANGELES STREET

LOS ANGELES, CALIFORNIA 90012

JUN 30 1971

Rear Admiral Stuart E. Smith
Commanding Officer
U. S. Navy Aviation Supply Office
700 Robbins Avenue
Philadelphia, Pennsylvania 19111



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Dear Admiral Smith:

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 order number 69 to Basic Ordering Agreement W00383-69-A-0005 awarded to North American Rockwell Corporation, Anaheim, California, by the Aviation Supply Office. The order provided for miscellaneous spare parts for the A5 aircraft. The order price was negotiated in the amount of \$178,662.

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 evaluation of the contractor's cost proposal by Government representatives, 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).

With the exception of fabrication labor hours, we found that proposed costs were based on the most current, complete and accurate cost or pricing data available at the date of contract negotiations. The evaluations of the contractor's cost proposal by resident Government personnel were generally adequate. However, the Air Force Plant Representative Office (AFPRO) did not review proposed labor hours in sufficient depth to determine their reasonableness. We found that the contractor's cost proposal submission properly identified the basis for proposed costs as required by ASPR.

BACKGROUND

Basic Ordering Agreement -0005 was awarded on September 11, 1968. Unpriced order 69 was issued on May 1, 1969, for eight line items of ground support equipment (GSE) spare parts. The contractor submitted a firm fixed-price proposal on June 25, 1969, in the amount of \$153,195.

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A revised proposal in the amount of \$182,228 was submitted on April 3, 1970, to reflect a change in the method of estimating fabrication labor hours and to incorporate the latest negotiated pricing formula for labor and material conversion factors. The Defense Contract Audit Agency performed a preaward audit and the AFPC performed a price/cost analysis of the original cost proposal. The AFPC also verified that correct labor hour standards were included in the revised proposal. Negotiations were conducted on May 18, 1970, and resulted in a total order price of \$178,668.

The contractor executed a Certificate of Current Cost or Pricing Data on the negotiation date; also, the basic ordering agreement contained a defective pricing clause.

RESULTS OF OUR EVALUATION

The results of our review of proposed costs, including an evaluation of the adequacy of the proposal reviews performed by Government representatives, are detailed below.

Fabrication labor hours

The contractor proposed 7,780 fabrication hours on the basis of 1,655 standard hours increased by a 4.7 labor realization factor. The AFPC had accepted the factor on March 12, 1970, for use in pricing GSB spares orders issued under Basic Ordering Agreement -0005 through September 30, 1970. The labor realization factor was developed by the contractor based on a comparison of engineered standards to actual fabrication hours experienced in the production of 15/GSB spares during the period September 1969 through January 1970.

We were unable to determine whether the 4.7 labor factor was based on current, complete, and accurate cost or pricing data because the contractor did not retain the records apparently used to develop the factor (Weekly Productivity Report #872-12A and 12B). Contractor officials advised us that the records were normally not retained longer than 1 year. However, they agreed that the records, in this case, constituted pertinent cost or pricing data and should have been retained in accordance with the contract requirements. They further advised us that such records would be retained in the future.

We found that the AFPC did not obtain verification of the 4.7 realization factor nor was documentation retained to indicate the basis for accepting the factor. AFPC officials agreed that there was a need

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for such action. On a more current basis, however, we found that the AFPCO evaluated the contractor's methodology used to prepare labor realization factors, and obtained verification of the same data by the Defense Contract Audit Agency. However, in view of the significant variances that have been experienced between engineered standards and actual fabrication hours, we have suggested to the AFPCO that they consider a "should cost" approach in evaluating future labor realization factors.

No further reporting of the results of our review is contemplated at this time. However, copies of this letter are being sent to the Regional Manager, Defense Contract Audit Agency; the Commander, Headquarters, Air Force Contract Management Division; and the Air Force Plant Representative at North American Rockwell Corporation, for their information.

Sincerely yours,

H. L. KRIEGER

H. L. KRIEGER
Regional Manager

cc: Regional Manager, RCAA, Los Angeles
Commander, Headquarters, AFPCO, Los Angeles
Air Force Plant Representative, North American
Rockwell Corporation, Anaheim

bcc: Associate Director, DD - J. H. Hammond
Regional Manager, Philadelphia