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Chief, Pub Branch, OAPS



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GAO 60 345

NOV 29 1972

Lieutenant General Kenneth W. Schultz
Commander, Headquarters, Space and
Missile Systems Organization (AFSC)
Post Office Box 92960
Worldway Postal Center
Los Angeles, California 90009

DLG 00034

Dear General Schultz

We have completed a review of compliance by contracting officers with the subcontract cost or pricing data requirements of the Armed Services Procurement Regulation (ASPR) at the Space and Missile Systems Organization (SAMS), El Segundo, and Norton Air Force Base, California. Our review was part of an overall evaluation of the Department of Defense compliance with subcontract data requirements in the pricing of noncompetitive contracts. 4600541

The primary objectives of our review were to determine whether (1) subcontract cost or pricing data are being obtained as required by the procurement regulation, and (2) these data and the results of cost analysis are effective aids to contracting officers in negotiating fair and reasonable prime contract prices.

Our review included 32 subcontract proposals amounting to \$74.6 million for which cost or pricing data was required under prime contracts totaling \$368.5 million awarded during fiscal year 1972. The results of our review were discussed with members of your staff at the completion of this assignment. The following matters, however, are being brought to your attention for further consideration in improving the procurement process at SAMS.

SUBCONTRACT COST OR PRICING
DATA SUBMISSIONS

Our review showed that 10 of 24^a subcontract proposals did not contain adequate identification of the bases for proposed costs as required by ASPR and provided for in the Contract Pricing Manual. Consequently, the contracting officers did not have adequate knowledge of the factual and verifiable data upon which the cost estimates and management judgments

^aEight of 32 subcontract proposals were not obtained for evaluation purposes.

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were based. In addition, the Government's rights of recovery under the defective pricing clause may be impaired since it may be impracticable for the contracting officers to establish that erroneous data were relied on in negotiations unless the data were identified and made a matter of record in the subcontract cost proposals.

The results are summarized as follows.

	<u>Subcontract proposals</u>			
	<u>GAO reviewed</u>	<u>Adequate identification</u>	<u>Inadequate identification</u>	<u>Inadequate identification of certain costs</u>
El Segundo ,	8	4	3	1
Norton AFB	<u>16</u>	<u>10</u>	<u>3</u>	<u>3</u>
	<u>24</u>	<u>14</u>	<u>6</u>	<u>4</u>

The specific procurement actions in which the subcontract cost data was not adequately identified are listed in the enclosure to this letter.

Six of the subcontract proposals, DD Form 633, and supporting schedules did not identify the bases for any of the cost estimates totaling \$14.8 million. In four subcontract proposals, about \$2.3 of the \$5.7 million cost estimates did not contain adequate identification or support. These costs consisted of engineering and manufacturing labor hours along with overhead and general and administrative expense rates.

In our opinion, contracting officers need to obtain assurance that prime contractors submit or otherwise disclose prospective subcontract cost or pricing data in accordance with the requirements of ASPR 3-807.3(b) and the data guidelines in the Contract Pricing Manual.

EVALUATION OF SUBCONTRACT COST OR PRICING DATA AS AN AID IN NEGOTIATION

For the most part, the results of Defense Contract Audit Agency (DCAA) evaluations of subcontract estimates aided contracting officers in establishing pricing objectives during prime contract negotiations. In 6 of the estimates, however, the results of the subcontract cost analysis did not effectively aid the contracting officers during prime contract negotiations. In one case, subcontract cost analysis was not performed. Accordingly, there was less than adequate assurance that fair and reasonable contract prices were negotiated in these cases. The seven procurement actions are identified in the enclosure.

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In one case, the contracting officer accepted the negotiated subcontract amount in the prime contract price although an audit evaluation had not been requested or performed on the subcontract proposal. In another case, significant material cost and labor hour estimates were not evaluated by DCAA because the resident auditor at the prime contractor's location only requested an audit of labor and overhead rates. Audit evaluations were of limited use to the contracting officers in two other cases because significant changes in the proposed quantities and hardware specifications came to light subsequent to the audit evaluations but prior to prime contract negotiations. Audit evaluations on three subcontract price proposals were not an effective aid during prime contract negotiations because hardware specifications were not firm and reasonable cost estimates could not be established. Accordingly, less than adequate assurance existed that the subcontract estimates accepted in the prime contract price were fair and reasonable.

In three of the above cases, contracting officers did not request the prime contractors to update subcontract price proposals where it was evident during fact finding and negotiations that the subcontract cost or pricing data was not current due to significant changes in the scope of work, proposed quantities, and hardware specifications. ASPR 3-807.3(b)(2) provides that prime contractors are responsible for updating subcontract data.

OTHER MATTERS

We noted varying practices concerning the submission and retention of subcontract cost or pricing data. In the majority of cases, we were advised that data has been retained by the prime contractors rather than the contracting officers. Without retention by the Government of an official record of subcontract cost or pricing data, it may be difficult for contracting officers to establish what data were relied on during prime contract negotiations in the event of a possible subcontract defective pricing case. Accordingly, the Government's rights under the defective pricing clause may be impaired.

We plan to bring this matter to the attention of the Department of Defense for consideration in establishing policy guidance in ASPR. Pending departmental consideration of this matter, we believe that SAMSO should establish interim procedures for the retention of subcontract pricing proposals and supporting data by the procuring or administrative contracting officers.

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Commander, SAMS0

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In those instances where prime contractors submit subcontract cost or pricing data to the administrative rather than the procuring contracting officers, we believe that the latter should, as part of the request for field pricing support, obtain a determination whether the subcontract pricing proposal contains adequate identification of the bases for cost estimates. Without such action, there is not adequate assurance that the subcontract data requirements of ASPR 3-807.3(b) are being complied with by contracting officers.

ACTIONS TAKEN BY SAMS0

After discussing these issues with the Director of Procurement and Production, interim action was taken through the issuance of a guidance letter on October 18, 1972, to all SAMS0 procurement offices emphasizing the need to comply with the subcontract cost or pricing data requirements in the procurement regulation.

In our opinion, implementation of these guidelines together with the additional recommendations contained in this letter concerning retention of subcontract proposals and the determination of adequacy of subcontract data by field personnel, should provide the necessary assurance that required subcontract data is obtained and effectively used during prime contract negotiations.

We would appreciate your views and comments, together with advice as to any actions taken or planned concerning the matters discussed herein. A copy of this letter is being sent to the Auditor General, United States Air Force.

We wish to acknowledge the courtesy and cooperation extended to our representatives by your staff during the review. We will be glad to provide further information on these matters if you so desire.

Sincerely yours,

S. KLEINBART

S. KLEINBART
For J. H. STOLAROW
Regional Manager

Enclosure

SUBCONTRACT COST OR PRICING DATA SUBMISSIONS AND EVALUATIONS

<u>Prime contract/contractor</u>	<u>Prospective subcontractor</u>	<u>Data identification</u>		<u>Evaluations</u>	
		<u>Inadequate</u>	<u>Less than adequate</u>	<u>Ineffective use</u>	<u>Updating not performed</u>
FO4701-70-C-0202, P00083 Martin Marietta	Delco Electronics Division	x		x	x
FO4701-72-C-0221 RCA	McDonnell Douglas Astronautics Company	x		x	
	Quantic Industries, Inc.	x		x	
	Control Data Corporation		x	x	
FO4701-69-C-0194, P00120 North American Rockwell	Amphenol Space and Missile Systems Division	x		x	x
	Moog Inc., Controls Division	x		x	
FO4701-68-C-0178, PZ0200 General Electric	Brunswick Corporation	x			
	Northrop Corporation, Electronics Division		x		
	Atlantic Research Corporation		x		
FO4701-71-C-0038, PZ0003 Bell Aerospace	Amphenol Space and Missile Systems Division		x		
FO4701-71-C-0175 Aerojet-General	Western Gear, Precision Products Division			x	x