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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

JUN 15 1972

Captain H. B. McCaulley
Commander, Naval Air Development Center
Warminster, Pennsylvania 18974

Dear Captain McCaulley:

As part of our survey of the management of procurements from small contractors in the Washington, D.C., area, we inquired into the procurement of the Model 626C Portable Radar Tracking System by the Naval Air Development Center from Vega Precision Laboratories, Inc., Vienna, Virginia. The systems, related services, and supplies were procured noncompetitively under the following negotiated firm fixed-price contracts:

<u>Contract number</u>	<u>Awarded</u>	<u>Current amount</u>
N62269-71-C-0167	September 1970	\$ 514,531
N62269-72-C-0052	August 1971	88,905
N62269-72-C-0030	December 1971	559,885
		<u>\$1,157,321</u>

Our survey was primarily concerned with the adequacy of Government audit and technical evaluations of the contractor's pricing proposals for contracts -0167 and -0030. We found that the reviews of these proposals by Government representatives were not performed in sufficient depth to determine whether they were adequately supported. In addition, the audit reports on these proposals did not clearly identify limitations on the scope of the audits, which may have had an effect on contract negotiations.

The Defense Contract Audit Agency (DCAA) made a preaward audit and the Defense Contract Administration Services (DCAS) District performed a technical evaluation of the pricing proposals for contracts -0167 and -0030. Although direct labor costs represented about 25 percent of the total proposed price for these contracts and, considering overhead, about 70 percent of the total proposed price was related to the contractor's proposed direct labor hours, it appears that both DCAA and DCAS performed limited reviews in the area of labor hours. The DCAS production engineer accepted the contractor's statements implying that the proposed labor hours were based on historical data. The production engineer did not verify the contractor's statements in expectation that DCAA would do so in its audit.

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During DCAA's audit of the proposal for contract -0167, the audit staff was advised by the contractor that the proposed labor hours were not based on historical data. With respect to labor, DCAA's review of this proposal was limited to verifying the proposed labor wage rates. We were informed by a DCAA official that DCAA relied on DCAS to perform an evaluation of proposed labor hours.

DCAA's audit of the labor hours proposed for contract -0030 included a comparison of the total hours proposed by major labor categories to the total hours charged to the categories under the prior contract, contract -0167. The comparison disclosed significant differences. For example, the contractor proposed 8,264 hours for the production category as compared to 1,927 hours previously charged to that category. We were informed by a DCAA official that because the DCAA audit staff did not consider the contractor's records capable of providing accurate historical data, no attempt was made to verify the relationship between the proposed labor hours and the hours experienced under the prior contract. DCAA included a statement in its report indicating that the proposed labor hours were engineering estimates based on prior experience.

The DCAS price analyst informed us that based on the DCAA reports on the cost proposals for contracts -0167 and -0030, it was his impression that the proposed labor hours were supported by verifiable data. Accordingly, he advised us that the DCAS review of the proposal for contract -0030 was not as extensive as it might have been.

The contracting officer relied on the DCAA and DCAS reports in determining the reasonableness of the proposed prices for contracts -0167 and -0030. Since our review was limited to these proposals, we do not know whether the problem of apparent lack of coordination as discussed above is widespread. We are calling the situation to your attention for whatever action you may deem appropriate to avoid similar situations in the future.

We would appreciate being advised of any actions taken or planned with regard to matters discussed in this letter. Copies of this letter are being sent to the Commander, Baltimore Defense Contract Administration Services District, and to the Branch Manager, Alexandria Branch Office, Defense Contract Audit Agency.

Sincerely yours,

H. L. Krieger

H. L. Krieger
Regional Manager

cc: Commander, DCASD, Baltimore
Branch Manager, DCAA, Alexandria

bcc: Deputy Director, PSAD - J. H. Hammond
Regional Manager, Philadelphia



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Mr. Joseph F. Chojnacki
 Branch Manager, Alexandria Branch Office
 Defense Contract Audit Agency
 P.O. Box 1227
 Alexandria, Virginia 22313

Dear Mr. Chojnacki:

As part of our survey of the management of procurements from small contractors in the Washington, D.C., area, we inquired into the procurement of the Model 626C Portable Radar Tracking System by the Naval Air Development Center from Vega Precision Laboratories, Inc., Vienna, Virginia. The systems, related services, and supplies were procured noncompetitively under the following negotiated firm fixed-price contracts:

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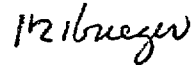
Our survey was primarily concerned with the adequacy of Government audit and technical evaluations of the contractor's cost proposals for contracts -0167 and -0030. As you may recall, at the close of our survey, members of our staff discussed with you various aspects of your audits of these two proposals as well as the content of the audit reports generated by these audits. At that time we expressed our views on what improvements could be made in these reports to more fully describe the scope and results of the work performed, especially with regard to the audit of the contractor's proposed labor hours. You generally agreed that certain sections of the audit reports on these proposals could have been improved.

We believe the results of our review indicate a need for improvement in Vega'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 Vega to improve its estimating process.

Enclosed for your information is a copy of our letter to the Commander, Naval Air Development Center, summarizing the results of our survey. We would appreciate any comments you may wish to make concerning our observations.

We understand tht your office is currently performing a defective pricing review of contract -0167. We will be pleased to provide you or your staff with further details of our survey if you so desire.

Sincerely yours,



H. L. Krieger
Regional Manager

Enclosure



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JUN 15 1972

Lt. Col. Jack W. Gould
Commander, Baltimore Defense Contract
Administration Services District
Building 22, Fort Holabird
Baltimore, Maryland 21219

Dear Colonel Gould:

As part of our survey of the management of procurements from small contractors in the Washington, D.C., area, we inquired into the procurement of the Model 626C Portable Radar Tracking System by the Naval Air Development Center from Vega Precision Laboratories, Inc., Vienna, Virginia. The systems, related services, and supplies were procured noncompetitively under the following negotiated firm fixed-price contracts

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Our survey was primarily concerned with the adequacy of Government audit and technical evaluations of the contractor's pricing proposals for contracts -0167 and -0030. The results of our survey were discussed with you and members of your staff upon completion of our field work. Enclosed for your information is a copy of our letter to the Commander, Naval Air Development Center, summarizing the results of our survey.

We will be pleased to provide you or your staff with further details of our survey if you so desire.

Sincerely yours,

H. L. Krieger
Regional Manager

Enclosure