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

JUN 15 1973

Commander Daniel J Linehan, USN  
Officer in Charge, Naval Regional  
Procurement Office  
312 N Spring Street, Room 965  
Los Angeles, California 90053

Dear Commander Linehan

We have completed a review at the Naval Regional Procurement Office, Los Angeles (NRPOLA) of the pricing of noncompetitive contracts based on certified cost or pricing data. The review was part of an overall evaluation of the Department of Defense management of contract pricing responsibilities under Public Law 87-653

The objectives of our review were to determine (1) the adequacy of cost or pricing data submitted by contractors in support of price proposals, (2) the adequacy of reviews and evaluations of such data by cognizant Government personnel, and (3) the effectiveness of the use of such data and the results of proposal evaluations in price negotiations

The two procurements reviewed at NRPOLA were contracts N00123-72-C-0221 and N00123-72-C-0825. We discussed the results of our review with members of your staff at the completion of the assignment. The following matters are being brought to your attention for further consideration in improving the procurement process at NRPOLA

COST OR PRICING DATA SUBMITTED  
IN SUPPORT OF PRICE PROPOSALS

The cost or pricing data submitted with the contractors' price proposals generally did not identify the bases for proposed costs as required by Armed Services Procurement Regulation (ASPR) 3-807.3 and as outlined in Appendix A to the ASPR Manual for Contract Pricing (ASPM No. 1). The proposal for contract -0221 did not identify the bases for any of the estimated costs and the proposal for contract -0825 did not identify the bases for estimated material, labor, and miscellaneous costs. We were able to determine the bases for the

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cost estimates in other contract file documents such as advisory audit reports or negotiation records, however, this does not relieve the contractor from the responsibility for identifying the data as part of the contract price proposal, DD Form 633

We suggested to your staff that NRPOLA might improve the quality of contractors' cost or pricing data submissions by including in the requests for quotation a statement that the proposals include complete identification of the basis for the cost estimates in accordance with ASPM No 1. Your Technical Assistant advised us that requests for quotations would be revised to provide additional guidance concerning the minimum data requirements necessary to support the cost estimates

REVIEW AND EVALUATION OF  
COST OR PRICING DATA

The technical evaluation reports submitted by the Naval requisitioning activities for these contracts did not identify the bases for the evaluators' conclusions concerning the reasonableness of proposed labor hours and material quantities. NRPOLA requests for technical evaluations of price proposals clearly indicated that the bases for the conclusions should be provided by the technical evaluators.

Both proposals were also evaluated by Defense Contract Administration Services (DCAS) and Defense Contract Audit Agency (DCAA) personnel. Field pricing reports from these agencies identified the bases for conclusions expressed on the reasonableness of each cost element with the exception of one DCAS technical evaluation on contract -0221.

In discussions with your staff, the Technical Assistant advised us that this matter would be brought to the attention of the Naval requisitioning activities in order to improve the quality and utility of technical evaluation reports used in price negotiations.

USE OF COST OR PRICING DATA AND  
ADVISORY FIELD PRICING REPORTS  
IN NEGOTIATIONS

The contracting officers gave adequate consideration to the cost or pricing data and the results of advisory field pricing reports in

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establishing negotiation objectives The price negotiation memorandums were in sufficient detail to show the significant considerations leading to the final negotiated prices

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We would appreciate your views and comments, together with advice as to any action taken or planned concerning the matters discussed herein A copy of this letter is being sent to the Director, Naval Area Audit Service, San Diego, California

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,

E. J. KOLAKOWSKI  
S. KLEINBART  
Acting Regional Manager

cc. Director, Naval Area Audit  
Service, San Diego

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AIRMAIL

Deputy Director, P&AS(OP&A) - J. W. Hammond

E J KOLAKOWSKI

Acting Regional Manager, Los Angeles - M. Kleinbart

Review of pricing of DOD noncompetitive contracts  
based on certified cost or pricing data (S20040)

Enclosed are an original and one copy of a referenced summary report on the subject review at the Space and Missile Systems Organization (SAMSO) Ft. Belvoir and Norton AFB California, and at the Naval Regional Procurement Office (NRP/OA). The review was performed in accordance with the guidelines set forth in the audit program furnished on January 12, 1973, and subsequent guidance.

We were originally assigned 17 procurement actions for review, however, the following four contracts were not evaluated for the reasons stated:

<u>GAO sample number</u>	<u>Contract number</u>	<u>Explanation</u>
30	FO4701-71-C-0021 P00027	Negotiated in fiscal year 1973
135	FO4701-71-C-0066 P0005	Competitive award
138	FO4701-72-C-0001	Negotiated in fiscal year 1971
177	FO4701-72-C-0221	Cost or pricing data not relied on as a basis for award

Our findings are summarized as follows:

1. The majority of the proposed costs (in excess of 90 percent) were supported by adequate cost or pricing data submissions. However, in 3 of 12 cases, the bases for at least one significant element of estimated costs were not identified in the cost proposals. In these cases, we determined the bases for the estimates in field pricing reports or in price negotiation memorandums.

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2. Twelve of 27 technical evaluation reports by program offices were inadequate because the scope of the analyses and the bases for the evaluators' conclusions were not cited. For the most part, DCAA preaward audits, field technical evaluations performed by contract administration specialists, and field price analyses were adequate in that the reports identified the scope of work and the bases for conclusions expressed.

3. The contracting officers generally gave adequate consideration to the field pricing reports when establishing negotiation objectives and in most cases, negotiation objectives were met. In two cases, however, the objectives were not achieved because the contractor refused to negotiate. Significant concessions were made in negotiations in order to maintain production continuity.

4. Internal management controls were generally adequate to assure compliance with prescribed policies and procedures.

Enclosed are copies of our letter reports to the Commander, SAMSO; the Auditor General, U. S. Air Force, the Officer in Charge, SRPOLA; and the Director, Naval Area Audit Service, San Diego. Also enclosed is GAO Form 103. We are transmitting seven bundles of working papers containing the details of our review, including an indexed copy of the enclosed summary.

If we can be of further assistance, please let us know.

Enclosures

cc Director, PSAD, w/o enclosures  
Director, POD, w/o enclosures  
Assistant Director, PSAD - Charles Weinfeld,  
w/copy of summary and letter reports  
Chief, Publications Branch, OAPS, w/Form 103(3)

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Captain J. V. Sherman, USN  
Director, Naval Area Audit Service  
1220 Pacific Highway  
San Diego, California 92132

Dear Captain Sherman

We recently completed a review of the pricing of noncompetitive contracts based on certified cost or pricing data at the Naval Regional Procurement Office, Los Angeles (TRPOLA). Enclosed for your information is a copy of a letter report to the Officer in Charge, TRPOLA, which summarizes the results of our review.

Your attention is directed to comments concerning the cost or pricing data required to support price proposals and the need for technical evaluation reports that can be effectively utilized in price negotiations. You may want to consider including these items in future reviews of procurement actions at TRPOLA.

We will be pleased to provide further details if you so desire.

Sincerely yours,

E J KOLAKOWSKI

S ELIENBART

Acting Regional Manager

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Enclosure

bcc Mr Bononi  
Mr Bullock