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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

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

Dear General Schultz

We have completed a review of the pricing of noncompetitive contracts based on certified cost or pricing data at the Space and Missile Systems Organization (SAMSO), El Segundo, and Norton AFB, California. 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.

Our review included 11 procurements with an aggregate negotiated price of \$285.3 million. The enclosure contains a listing of the contracts reviewed and a summary of our findings. The results of our review were discussed with members of your staff at the completion of this assignment. The following matters are brought to your attention for further consideration in improving the procurement process at SAMSO.

COST OR PRICING DATA SUBMITTED
IN SUPPORT OF PRICE PROPOSALS

We found that the majority of the estimated costs were supported in the price proposals by adequate cost or pricing data. However, in 6 of 11 cases, the bases for at least one significant element of estimated costs were not identified in the proposals.

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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) This amounted to less than 10 percent of the proposed costs for the 11 cases In these cases, we were able to identify the bases for the estimates in other contract file documents such as preaward audit reports, price analysis reports, technical reports, or price negotiation memorandums This does not, however, relieve contractors from the responsibility of identifying the data as part of the contract price proposal, DD Form 633.

REVIEW AND EVALUATION OF
COST OR PRICING DATA

For the most part advisory reports by the field pricing staffs cited the scope of the review and the bases for the evaluators' conclusions and recommendations In 5 of 11 cases, however, SAMSO program office technical reports did not include this information Some of these reports pertain to evaluations of relatively small amounts of proposed costs

Similar findings by the Air Force Audit Agency were reported to SAMSO in audit report 6316-24, dated October 31, 1972, with the recommendation that minimum standards for technical reports be established, along with supervisory controls to assure that the standards were implemented SAMSO concurred with the audit recommendation and on April 12, 1973, issued a change to the SAMSO ASPR Supplement 3-801 2(d) which established technical analysis reporting requirements

In our discussions with staff of the Directorate of Procurement and Production, we recommended that the SAMSO ASPR Supplement be brought to the attention of the system program officials so that technical personnel may be made aware of the reporting requirements We were advised that action would be taken along this line

USE OF FIELD PRICING INPUT
IN PRICE NEGOTIATIONS

The contracting officers generally gave adequate consideration to advisory field pricing and program office technical reports in establishing pricing objectives and in negotiations.

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In most cases, the price negotiation memorandums (PNM's) were in sufficient detail to show the significant considerations leading to a negotiated price. In two cases, however, we found that negotiation objectives were not achieved because the contractor refused to negotiate, and the system program directors agreed to the proposed price to maintain production continuity. In both cases, we were informed that the Defense Contract Audit Agency has defective pricing reviews in process.

Although negotiation objectives were not achieved in the two cases, the contracting officers apparently made every reasonable effort to negotiate fair and reasonable prices, referring the procurements to higher authority only after the contractor refused to negotiate further. In one of the cases, we also found that a substantial increase to the approved negotiation objective was made without the approval of the Directorate of Procurement and Production as required by SAMSO ASPR Supplement 3-801 3(b)(7).

Two Air Force Audit Agency reports issued since July 1969 contained similar findings. The audit agency recommended that SAMSO assure that negotiating teams obtain approval from the Directorate of Procurement and Production before making substantial alterations to approved negotiation objectives. SAMSO concurred with the recommendations and reported that appropriate management action had been taken.

In our discussions with staff of the Directorate of Procurement and Production, we were advised that the SAMSO ASPR Supplement, concerning the authority to approve substantial increases to approved negotiation objectives, would be brought to the attention of all system program office directors.

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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 Auditor General, United States Air Force.

Lt Gen. Kenneth W Schultz

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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
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Acting Regional Manager

Enclosure

cc Auditor General, USAF

SUMMARY OF REVIEW OF PRICING OF DOD CONTRACTS
AWARDED ON THE BASIS OF COST OR PRICING DATA

ENCLOSURE

<u>Contract number</u>	<u>Basis for estimated cost not adequately identified in proposals</u>	<u>Program office technical reports not adequate</u>	<u>Negotiation objectives not achieved</u>	<u>Substantial increase in negotiation objective not approved by appropriate authority</u>
F04701-71-C-0130, P00077 Aerojet General Corp				
F04701-71-C-0073, PZ0001 Aerojet Solid Propulsion Corp	X		X	
F04701-71-C-0175, Aerojet Liquid Rocket Corp	X		X	X
F04701-70-C-0180, PZ0070 The Boeing Co	X	X		
F04701-68-C-0178, P00249 General Electric Corp	X			
F04701-72-C-0229 Control Data Corp	X	X		
F04701-71-C-0064 Thiokol Chemical Corp		X		
F04701-69-C-0176, P00072 Honeywell, Inc				
F04701-71-C-0050 General Electric Corp				
F04701-69-C-0331, PZ0160 Philco-Ford Corp		X		
F04701-71-C-0038, PZ0003 Bell Aerospace Co	X	X		