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

OCT 2 1975

Commanding Officer  
Naval Training Equipment Center  
Orlando, Florida 32813

Dear Sir:

As part of our review of the pricing of Department of Defense noncompetitively awarded contracts, we examined the Naval Training Equipment Center's (NTEC) actions in negotiating contract modification P00009 of contract N61339-73-C-0076. This contract was awarded to Simulation Engineering Corporation (SECOR) and provides for the design, construction, and installation of two A4M Operational Flight Trainers. The contract was originally awarded as a competitive fixed-price contract on December 22, 1972, in the amount of \$1.8 million. More specifically, our review of this modification was directed toward change order ECP 2F108-1 and evolved from a survey undertaken to determine the completeness of the contractor's cost or pricing data used in support of his cost proposals.

Our review disclosed that SECOR, on two different occasions, failed to disclose to NTEC information that may have resulted in a reduction of contract price. We found that contractor-proposed material costs, in the amount of \$10,227, were higher than indicated by current cost data available at the time of negotiation. In addition, we found that materials amounting to \$6,400 were proposed but later deleted by the contractor without notifying NTEC's contracting officer. Further, we noted that SECOR's actual material costs were \$107,417 less than the amount negotiated with NTEC. We believe this resulted because NTEC's contracting officer had no firm basis for negotiating material at proposed contractor prices.

Consequently, we would appreciate obtaining your comments and proposed actions to be taken on this matter. A brief discussion of our findings is presented in the following sections.

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SECOR's failure to include current, complete, and accurate cost or pricing data in its material proposal

Our examination of material estimates and actual material costs of ECP 2F108-1 revealed that SECOR had placed purchase orders with suppliers for seven items and failed to disclose this information at the time of negotiation. This resulted in overpricing these items by \$10,227. The contractor certified that cost or pricing data submitted in support of his cost proposal was accurate, complete and current as of August 6, 1973, the same date the modification was negotiated. The items in question are set forth below.

<u>Item number and description</u>	<u>Amount negotiated (note a)</u>	<u>Date SECOR placed purchase orders</u>	<u>Purchase order price</u>	<u>Difference</u>
12--Chaff/off switch	\$ 100	8- 2-73	\$ 10.46	\$ 89.54
13--ECM display light (3 assy)	600	8- 2-73	144.15	455.85
15--Correlation select switch	170	8- 2-73	11.76	158.24
21--Digital output card	800	8- 3-73	544.00	256.00
22--Master caution light	400	8- 2-73	62.28	337.72
30--Digital input card	300	8- 3-73	195.20	104.80
45--Frame assembly (note b)	<u>9,000</u>	7-13-73	<u>175.00</u>	<u>8,825.00</u>
	<u>\$11,370</u>		<u>\$1,142.85</u>	<u>\$10,227.15</u>

a/ Per the contractor's bill of materials.

b/ SECOR originally estimated that only one material item was necessary for the proposed change and estimated its cost to be \$9,000. However, after negotiations and when the aircraft manufacturer, Douglas Aircraft Corporation (DAC), completed the design of this material part, SECOR found that another part was required. This part was purchased March 20, 1974, in the amount of \$1,426.40.

SECOR management officials agreed that they had placed purchase orders with their suppliers for these items prior to negotiations and had failed to disclose this at the time of negotiations. We were told by a SECOR official that lack of disclosure was attributed to an administrative oversight when preparing the proposal.

Items deleted by SECOR for which no contract price reduction was effected

We also found that SECOR deleted four items from its original estimated bill of materials; however, this was not disclosed to NTEC's contracting officer. The deleted items (shown below) amount to \$6,400.

SECOR's original material list was estimated based on DAC part sketches and proposed drawings of the cockpit console reconfiguration since, at the time the proposal was prepared, DAC did not provide detailed drawings or firm quotes because the required parts were not yet designed. SECOR's contract administrator informed us that at the time SECOR prepared the engineering change proposal and negotiated with the Navy, it appeared that these items were required for the trainer's cockpit reconfiguration. However, when DAC completed its final design of these items, SECOR found that these items were no longer required as part of the cockpit modification and were subsequently deleted. The items in question are:

<u>Item number and description</u>	<u>Contractor's estimate per bill of materials</u>
34--Cover plate	\$1,000
46--Seal, pilot display unit	2,000
66--Radar light plate assembly	400
68--Extension assembly, radiation shield	<u>3,000</u>
Total	<u>\$6,400</u>

A review of the contract modifications issued to date does not show the contract was modified to delete the above items. SECOR's contract administrator told us that the contract price has not been adjusted and that SECOR had not

informed NTEC's contracting officer that the items were deleted. We believe the contract with SECOR should be modified to show that these items are no longer needed and the contract price should be adjusted accordingly.

Significant differences in actual material cost than was originally estimated by SECOR

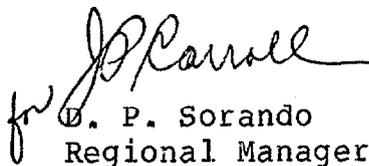
Our review of the actual material costs for this change order showed that negotiated costs for materials to be supplied by vendors exceeded actual costs by \$107,417. We believe this occurred because material costs estimates were not based on actual drawings of the parts required but on preliminary sketches and proposed drawings provided by DAC, and quotations subsequently received from vendors showed these estimates to be greatly overstated.

SECOR's material estimates were based on an estimate of parts that were needed for the simulator since, at the time SECOR prepared its cost proposal, the design of required parts was not completed by DAC. In addition, at the time of SECOR's negotiation with the Navy, no firm quotes, except for those items previously noted above, were received prior to negotiation. Since a good portion of firm material quotes were received shortly after negotiation, it appears that in light of the uncertainty present at the time, the Navy should have delayed negotiations until the majority of the material costs were actually known. We found that delaying negotiations would probably not have been disruptive because a review of some quotes received indicated that long delivery leadtimes were required for some items. For example, a DAC material quotation showed that a delivery leadtime from 126 to 364 days was required. Since the Navy gave SECOR authority to proceed under the subject change order on April 5, 1973, and long delivery leadtimes were required for some items, we see no reason why the Navy could not have delayed negotiation until detail design drawings were received from DAC and the majority of actual material costs were known. We found that shortly after negotiation of ECP-2F108-1, SECOR received the majority of firm material quotes from DAC and from other vendors. To illustrate, 81 percent of firm material quotes were received by October 30, 1973.

We would appreciate any comments you may have in regard to our findings along with notice of whatever action the Navy plans to take. Your timely response is requested.

We are also forwarding copies of this letter to the cognizant Defense Contract Administration Services office and Defense Contract Audit Agency for their review.

Sincerely yours,

  
for J. P. Sorando  
Regional Manager



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WASHINGTON REGIONAL OFFICE  
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803 WEST BROAD STREET  
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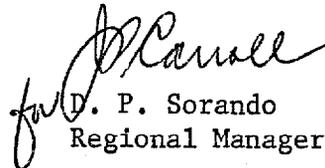
Colonel C. J. Coen (USAF), Commander  
Defense Contract Administration  
Services District Baltimore  
300 East Joppa Road  
Towson, Maryland 21204

Dear Colonel Coen:

We are forwarding for your information a copy of our letter sent to the Naval Equipment Training Center, Orlando, Florida, regarding its actions in negotiating a contract modification with Simulation Engineering Corporation, Fairfax, Virginia. The basic contract was awarded on December 22, 1972, for the construction of two flight trainers.

If you would like to discuss this matter with us, please call Mr. George D. Gearino 703-557-2151.

Sincerely yours,

  
D. P. Sorando  
Regional Manager



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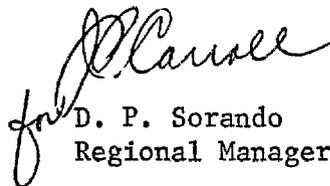
Mr. Joseph F. Chojnacki, Branch Manager  
Alexandria Branch Office  
Defense Contract Audit Agency  
200 Stovall Street  
Alexandria, Virginia 22314

Dear Mr. Chojnacki:

We are forwarding for your information a copy of our letter sent to the Naval Training Equipment Center, Orlando, Florida, regarding its actions in negotiating a contract modification with Simulation Engineering Corporation, Fairfax, Virginia. The basic contract, N61339-73-C-0076, was awarded on December 22, 1972, for the construction of two flight trainers.

If you would like to discuss this matter with us, please call Mr. George D. Gearino 703-557-2151.

Sincerely yours,

  
D. P. Sorando  
Regional Manager