



UNITED STATES GENERAL ACCOUNTING OFFICE  
REGIONAL OFFICE  
ROOM 717, GATEWAY II BUILDING  
4TH AND STATE  
KANSAS CITY, KANSAS 66101

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August 7, 1975

Lieutenant General James T. Stewart  
Commander  
Aeronautical Systems Division (AFSC) 194  
Wright-Patterson Air Force Base, Ohio 45433

Dear General Stewart:

2 We have reviewed the price of Modification Number 72 to contract F33657-73-C-0335 which the Aeronautical Systems Division (ASD) negotiated with the McDonnell Douglas Corporation, St. Louis, Missouri. The basic contract, which provides for the acquisition of F-4 aircraft, contains the cost and pricing data clause required by the Armed Services Procurement Regulation. We made the review to determine whether McDonnell submitted current, accurate, and complete cost and pricing data as required by Public Law 87-653. 01831

The fact-finding and negotiation meetings for Modification Number 72 were held from September 24 to September 27, 1974. McDonnell submitted a proposal of \$3,798,807 to accomplish the work, and the price ultimately negotiated was \$3,610,000. A Certificate of Current Cost or Pricing Data was signed by McDonnell on September 27, 1974.

McDonnell included in the proposed price a Westinghouse Electric Corporation subcontract at its "not-to-exceed" price of \$1,525,726. ASD accepted about \$1,468,500 for the subcontract. However, McDonnell did not inform ASD of indications that the subcontract price would be lower.

Prior to September 13, 1974, Westinghouse had submitted a handwritten, updated DD Form 633, Contract Pricing Proposal, to McDonnell showing a revised value of \$1,306,199. A Westinghouse official attributed the updated quote to a change in costing rates, a revised bill of materiel and consideration of exceptions to the proposal by the Defense Contract Audit Agency. McDonnell purchasing officials said the DD Form 633 was merely a worksheet showing the subcontractor's position on the day it was presented, that the DD Form 633 was not a true proposal as it was not signed or dated, and there were no exhibits, supporting schedules or narrative referenced or attached. For this reason, McDonnell stated ASD was not informed of the updated DD Form 633 from Westinghouse.

More current data was also available pertaining to engineering hours for the Westinghouse subcontract. McDonnell submitted an evaluation of the Westinghouse subcontract price of \$1.5 million to ASD prior to fact-finding and negotiation meetings which included an estimate of 45,210 hours for engineering labor. However, a McDonnell document used in

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negotiations with Westinghouse shows that on September 13, 1974, the engineering estimate was about 37,000 hours, or 18 percent less than that shown in the evaluation provided ASD.

McDonnell records indicate that a final negotiated subcontract price of \$1,026,270 was agreed to with Westinghouse on November 13, 1974. Although Westinghouse officials also stated that the price was not finalized until November 13, 1974, contract files at Westinghouse contained a document signed by the Westinghouse negotiator, which shows that the final price of \$1,026,270 was agreed to by September 13, 1974.

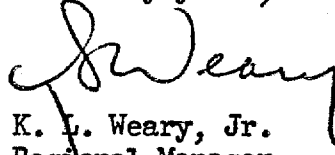
According to ASD procurement officials, during fact-finding meetings on September 24 and 25, 1974, McDonnell informed them that negotiations with Westinghouse had not taken place and only undefinitized orders were available for this subcontract. McDonnell informed us that during the meetings, ASD was advised that there were negotiations but that no settlement of the Westinghouse subcontract had been effected.

Although the price for the subcontract was not formalized until after the negotiations for the contract modification were completed, we believe the evidence shows that the more current data indicated a significant reduction in the proposed subcontract costs. If ASD procurement officials had been furnished this information as required by Public Law 87-653 and the Armed Services Procurement Regulations, they would have had a sound basis for negotiating a substantial reduction in the price of the modification.

We recommend that ASD determine the amount of contract overpricing, which should include the overpriced subcontract costs and the factors and profit added by McDonnell. Also, we recommend that the ASD take the necessary action to adjust the price of the contract for the overpricing.

We request that you review and evaluate the matters presented herein and advise us of the actions contemplated. A reply by September 15, 1975, would be appreciated.

Sincerely yours,

  
K. L. Weary, Jr.  
Regional Manager