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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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B-158450

The Honorable Albert H. Quie
House of Representatives

NOV 30 1976

Dear Mr. Quie:

This is in response to your request of September 8, 1976, to determine whether an unsolicited proposal a constituent submitted to the Department of Defense warrants further consideration. The proposal concerns techniques for improving technical evaluations of contractors' noncompetitive price proposals, with emphasis on estimating direct labor costs. The Department rejected the proposal because it would not improve current procedures.

We reported to the Congress on May 8, 1975, (PSAD-75-80) the results of our review of technical evaluations performed by Government activities on 40 fixed-price noncompetitive price proposals submitted to the Department. We reported that in many instances the evaluators had not adequately reviewed the basis for proposed direct costs, including labor, and that many of the reports prepared by the evaluators did not contain sufficient information to support their recommendations. The information gathered in reviewing these evaluations was used to appraise your constituent's proposal. We also examined the Department's evaluation of the proposal.

Since 1964, your constituent has discussed various versions of his proposed approach with the Department, which has spent considerable time evaluating these proposals. In every case, Department personnel concluded that adopting the proposal was not warranted. The Air Force said that for many years its "should cost" ¹/ teams have been using the same industrial engineering and production management evaluation techniques your constituent proposed. It also stated it would be unreasonable to pay an estimated \$700,000 to \$1,000,000 for the right to use your constituent's techniques when they are already publicly available.

¹/The "should cost" approach analyzes contractor proposals to assure that cost projections and the price negotiated do not include the cost effect of past inefficient or uneconomical performance and management practices.

In our May 8 report we concluded that improvements in performing technical evaluations were needed. We recommended that the Secretary of Defense require that performance and reporting standards be developed and that increased attention be given to the formal training of those performing technical evaluations.

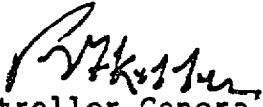
The Department agreed that there is a need for formal training of technical personnel and stated that several newly developed and planned courses for cost analysts and engineers should be helpful in this regard. The Department also stated that our report findings would be referred to Department components as matters to emphasize in their continuing efforts to improve management practices and to the various training activities for use in course instruction. We believe that the actions taken or promised by the Department will improve the performance and reporting of technical evaluations.

In reviewing the proposal, we noted your constituent used an example titled "B-1 Aircraft Production" to demonstrate his proposal. The Air Force believes that this is a fictitious example and that it is not based on the writer's actual experience.

Your constituent also estimated the saving potential of labor costs on defense contracts to be \$500 million a year. This estimate was based on data in our May 8 report. This data, however, was not intended, nor is it valid, for projecting potential cost savings. It was used only to illustrate the need for reviewing the contractor's cost or pricing data submitted to support a proposed contract price.

In summary, we believe that the Department of Defense has adequately considered the proposal and that further review is not warranted.

Sincerely yours,


DEPUTY Comptroller General
of the United States