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UNITED STATES GENERAL ACCOUNTING OFFICE
DALLAS REGIONAL OFFICE
SUITE 800, 1200 MAIN TOWER
DALLAS, TEXAS 75202

094276

JUN 08 1976



Commander
U.S. Army Aviation Systems Command
P. O. Box 209
St. Louis, Missouri 63166

Dear Commander:

Our review of pricing of selected contracts at Bell Helicopter Textron (formerly Bell Helicopter Company), Fort Worth, Texas, indicates action should be taken to recover overpayments and to prevent future overpayments to Bell and its affiliate, the Fafnir Bearing Company. These overpayments occurred when Bell's noncompetitive procurements from Fafnir were not charged to military contracts on a transfer at cost basis, i.e., without profit to Fafnir, as required by the Armed Services Procurement Regulation (ASPR), Section 15-205.22(e).

Bell, a division of Textron, Inc., manufactures military and commercial helicopters. As of August 31, 1975, Bell held open Government contracts totaling \$2.2 billion. Of that amount, about \$1.8 billion were incentive type contracts negotiated on a noncompetitive basis. About \$890 million of the incentive type contracts were fully delivered but administered as open contracts because final price negotiations had not been conducted.

We found that although Bell awards subcontracts for substantial portions of Government contract work to other Textron divisions on a transfer at cost basis, it awards certain noncompetitive procurements to one Textron division (Fafnir Bearing Company) on a nontransfer at cost basis. Thus, contrary to the requirements under ASPR, such procurements are probably resulting in two tiers of profit - one to Bell and one to Fafnir.

Bell's negotiated profit rates on major incentive-type Government contracts have generally varied from 9 to 14 percent since January 1, 1967, the approximate date that Fafnir became a corporate entity of Textron, Inc. Total noncompetitive purchases from Fafnir for Government contracts during the period January 1, 1967 through May 31, 1975, amounted to at least \$2.85 million.

Fafnir's costs of goods sold and profit margins were not determined during our review. However, assuming a profit margin for Fafnir of at

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least 10 percent which compares with the average overall profit margin of 11 percent for several major bearing companies during calendar years 1972 through 1974, we believe the unauthorized profits on noncompetitive procurements from Fafnir could amount to about \$280,000.

We also believe corrective action is needed in the area of split procurements to assure that the Government approves all such procurements by Bell and provides Bell criteria on the proper ratio of a split procurement between the low and high bidder.

To the extent that Bell provided the actual purchase orders relative to the statistics used in this letter, we used such purchase orders. When purchase orders were not provided we used the information shown on Bell's purchase order history cards. Certain cases were noted where the purchase order data was inconsistent with that on the purchase history cards. However, the instances of error rate were considered minor. Furthermore, the data obtained is sufficient for identifying the deficiency involved. And any financial settlement of the matter will have to be negotiated by AVSCOM and Bell.

Because the U.S. Army Aviation Systems Command (AVSCOM), St. Louis, Missouri, administers these contracts through its resident personnel at the Bell plant, this matter is directed to you.

NONCOMPETITIVE PROCUREMENTS FROM FAFNIR

The Bell Procurements from Fafnir which we identified during our review as being noncompetitive were defined and categorized by us as follows:

- (1) Sole Source--Fafnir is the only qualified vendor, and therefore, the only vendor contacted.
- (2) Single Source--Two or more vendors were qualified but,
 - (a) no quotation was solicited--Bell negotiated the price with Fafnir.
 - (b) quotations were solicited from two or more vendors but Fafnir was the only vendor to respond.

Sole Source Procurement

During our review we identified 16 bearings which Bell has been purchasing from Fafnir on a sole source basis. As shown in Appendix I, Bell's total procurement of these bearings for military contracts amounted to at least \$1.25 million for the period January 1, 1967 through May 31, 1975. Our review may not have disclosed all procurements of these bearings, or for that matter, all of Bell's sole source procurements from Fafnir.

ASPR, Section 15-205.22(e) requires that materials, supplies and services which are sold or transferred between any division, subsidiary or affiliate of the contractor under a common control shall be on the basis of cost incurred, except when: (a) the price is based on established catalog or market price of commercial items sold in substantial quantities to the general public, or (b) the price is the result of "adequate price competition." Our review of the purchase files disclosed no documentation as to why 13 of the 16 items were considered exempt from the ASPR requirements for transfer at cost; nor was there any evidence that the Government had approved such purchases. And the reasons which Bell furnished us as to why the other three bearings met the exemption provisions of ASPR were inadequately supported.

Recent purchases of two of the 13 bearings have been substantial. For example, individual purchase orders of \$71,581 and \$61,555 were issued during April 1975 for part numbers 212-040-143-001 and 212-040-456-001, respectively. Purchase orders exceeding \$10,000 have not been uncommon for these bearings.

During our review, Bell provided us with no evidence that the items met ASPR's criteria for exemption, although Bell officials informally told us that they had contacted Fafnir in an effort to determine if the items met the criteria for exemption.

For the three remaining items, Bell furnished us data which it believes supports its contention that Fafnir sells two of the items to the general public. In our opinion, however, this data does not show conclusively that the sales to parties other than Bell were not procured for purposes of resale to the Government, either directly or indirectly, as components of other end items produced for the Government. Such sales are not recognized by ASPR as being sales to the general public for purposes of exempting the item from the applicable cost transfer provision.

With respect to the third bearing (part number 204-040-136-009), an Army official had authorized the sole source procurement of the bearing on a nontransfer at cost basis. However, the Army's approval was based on Bell's notification that a competitor's bearing had failed qualification tests while a bearing manufactured by Fafnir had not failed the same qualification tests. The competitor bearing and the Fafnir bearing had an identical specification and the same Bell part number (204-040-136-007). Bell's justification for sole source procurement of the -009 bearing was also based on its contention that no cost savings could be realized by adding the vendor for the -007 bearing as a qualified source because (1) the competitive vendor would have to "beef-up" his -007 bearing at his own expense, (2) Fafnir had historically been successful in approximately 95 percent of all orders placed for the -007 bearing and (3) Fafnir's price for the -009 bearing remained the same as its price for the identical -007 bearing.

We believe the competitive vendor may have been unreasonably denied an opportunity to compete for the -009 bearing under provisions of ASPR 3-807.1(b)(1)b.(i) and that competition for the -009 bearing should be considered for the following reasons:

- the qualification test consisted of only one test of one bearing from each vendor and therefore, the test was too limited to provide conclusive evidence that the Fafnir bearing is superior,
- the specifications for manufacture of both the -007 and the -009 bearings are the same for both vendors, therefore, no "beef-up" of the competitive bearing would be necessary,
- an analysis of the procurement history of the -007 bearing disclosed that Fafnir was awarded only 74 percent of total procurement value of the bearing from January 1, 1967 through May 31, 1975,
- the sole source procurement of the -009 bearing amounting to \$242,084 may have given Fafnir a competitive advantage for the -007 bearing by substantially increasing the quantities ordered from Fafnir (the only difference in the bearings is the assignment of two different part numbers), thereby allowing Fafnir to take advantage of economies usually associated with high volume production.

Most of the \$1.25 million of sole source bearings were procured after Army officials had repeatedly informed Bell by letters in 1971 and 1973 that such procurements were not exempt from ASPR. Fact finding teams from AVSCOM also made inquiries concerning sole source procurements, however, no disclosure of unauthorized sole source procurements was made by Bell.

We believe Bell officials were duly informed that sole source procurements from Fafnir must be on a basis of transfer at cost. Bell officials should have been aware of the impropriety of their purchases from Fafnir on a non-transfer at cost basis because, if for no other reason, the costs of those purchases were handled inconsistently with costs of sole source purchases from other corporate entities of Textron, Inc.

In our opinion, all of the purchases of these bearings should have been on the basis of transfers at cost. And to the extent that Fafnir included profit in the sales to Bell and Bell added profit thereto, the Government has overpaid Bell for these materials.

Single Source Procurement

Analysis of procurement of 14 part numbers which Bell considered competitive revealed that for the period January 1, 1967 through May 31, 1975, Bell awarded 79 percent of the \$5.1 million in military procurement of these items to Fafnir. Of that amount, Fafnir obtained \$2.5 million in competition with other vendors. On the other hand, Fafnir was awarded about \$1.6 million of the procurement on a single source basis (see App. II).

As previously stated, we classified as single source procurement those in which there were two or more qualified vendors, but where

- (a) no quotation was solicited and Bell negotiated the price with Fafnir, or
- (b) quotations were solicited from two or more vendors but Fafnir was the only vendor responding.

We believe many such procurements by Bell were not competitive, and should have been procured on a basis of transfer at cost because of one or more of the following reasons:

- responses from at least two qualified vendors were not obtained in accordance with ASPR, Section 3-807.1(b)(1)a(i),
- the requirements for Price Analysis were not satisfied, for all non-competed purchases, in accordance with ASPR, Section 3-807.1.c.

Furthermore, we believe that requirements to assure adequate price competition should be diligently adhered to when purchases are made from an affiliated company.

Further analysis of the procurement history for the 14 selected parts shows that of the total purchases from Fafnir, only about 61 percent were made on a competitive basis. For the remainder, or about \$1.6 million, Bell either did not solicit a quote from other vendors or did not receive a response to its request for quotations from other vendors. Unless Bell can show that it justified each of these latter procurements by price analysis, we believe they should have been transferred at cost because the procurements do not meet the ASPR criteria for adequate price competition.

As described in ASPR, price analysis is a process of examining and evaluating a prospective price and considering the price competitive by showing clearly that the price is reasonable in comparison with current or recent prices for the same or substantially the same items procured in comparable quantities under contracts awarded as a result of adequate price competition. We found no evidence that Bell performed the price analysis process at the time the single source purchases were made. Furthermore, in reviewing the purchase history for the 14 parts, we found that for many of the parts, there were no recent competitive purchases of similar quantities and prices at the time some of the single source purchases from Fafnir were made. Consequently, we do not believe the prices paid for such purchases could be considered competitive from a price analysis standpoint. For example, we found that from June 1971 to April 1975 only Fafnir submitted quotations for the purchase of bearing 204-040-424-001. During this period, Fafnir was awarded nine military procurements of this bearing amounting to about \$53,000.

We believe that the single source procurements from Fafnir which were not properly justified by price analysis and not properly reviewed and approved by the military, were non-competitive and should have been procured on a transfer at cost basis.

SPLIT PROCUREMENT PRACTICES

For purposes of this letter, a split procurement is one for which quotations are solicited and two or more vendors respond but shares of the total procurement are arbitrarily placed with the low and high bidders, such as 60 percent of the quantity to the low bidder and 40 percent to the high bidder.

Although Bell's Procurement Department Instructions authorize split procurements, such procurements require prior written consent of the U.S. Army Bell Plant Activity when the proposed award to one supplier or vendor is to be made at a higher unit cost than the award to the other supplier.

However, we found that Bell has not obtained the required reviews and approvals on all split procurements. Furthermore, we found no established criteria at Bell for determining the proper split arrangement between vendors on split procurements approved by the military. For example, during February 1974 Fafnir and two other vendors submitted bids on 26 different bearings and/or roller assemblies, amounting to \$1.6 million, in which Fafnir was low bidder on 13 parts. (See app. III for list of part numbers.) The low bidder for each part was arbitrarily awarded 60 percent of the quantities purchased and the high bidder 40 percent. Had the low bidder received a higher percentage, such as an 80-20 sharing arrangement, and assuming unit prices would not have changed, savings amounting to \$45,940 would have been achieved.

Furthermore, in the case of this example, it is questionable whether a 60-40 split arrangement, or even a split procurement, was necessary. The stated purpose of the split procurement was to assure production schedule performance by minimizing the risk of a particular bearings's failure to meet minimum expected requirements and to avoid problems by establishing two geographically separate manufacturers. However, as shown in appendix IV, two of the vendors had each previously produced small quantities of 21 of the 26 parts for military contracts. Therefore, two qualified sources had already been established for most of the parts. In our opinion, having two established sources lessened the need for a split procurement because production could be shifted from one source to the other in a relatively short time, if necessary. Moreover, if the low bidder for each part had been awarded all orders on the parts for which he was low bidder, the volume of business would have been approximately the same as that actually awarded, but savings amounting to about \$84,287 could have been obtained.

CORRECTIVE ACTION TAKEN OR
PROMISED DURING OUR REVIEW

By letters, dated August 13, 1975 and October 23, 1975, and by discussion with Bell on September 2, 1975, the U.S. Army Administrative Contracting Officer (ACO) notified Bell that:

- (a) the ACO must receive advance notification and also give his consent before any subcontract(s) for military purchases are awarded to any corporate entity of Textron, Inc., which are not on the basis of transfer at costs or on the basis of adequate price competition, with two or more responsive bids having been received,
- (b) Bell will issue instructions to its procurement personnel to document purchase order files fully to show whether purchases are competitive or noncompetitive,
- (c) Bell will maintain a summary data file on sole source procurements for the ACO's review and also provide the ACO a copy of Bell's report entitled "Procurement Follow-up Vendor Monthly," and
- (d) the ACO wants Bell to provide a list each month of all subcontracts with any corporate entity of Textron, Inc. which are awarded on the basis of transfer at cost.

In addition, the ACO's letter dated October 23, 1975, also extended his approval of Bell's procurement system for three months to allow time for Bell to take the above mentioned corrective action before the ACO approves the procurement system for another year.

Fafnir and Bell entered into an overriding agreement to Bell's purchase orders on January 25, 1965, that denies Bell access to Fafnir's accounting records. Bell officials expressed to us the belief that Fafnir would refuse to sell to Bell on a cost transfer basis even at the risk of losing some sales to Bell. Thus, Bell has proposed resolving the two tier profit problem in the future by foregoing its profits on Fafnir bearings in lieu of transferring the bearings to Bell at Fafnir's costs.

RECOMMENDATIONS

We recommend that AVSCOM take action to:

- (1) Obtain an appropriate settlement, including interest due, from Bell for overpayments to Fafnir and any other related companies which resulted from procurements that should have been made on a transfer at cost basis,
- (2) Assure that adequate competition is attained or appropriate transfer at cost is effected on future Bell procurements from Fafnir or other related companies for military contracts, and

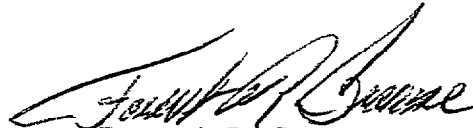
- (3) Establish appropriate criteria for determining the proper split arrangement between vendors on any necessary split procurements approved by the military.

In our opinion, the corrective action taken by the ACO and Bell should, if properly implemented and enforced, substantially provide the protection to the Government that was contemplated under our second recommendation. However, we do not believe Bell's recent proposal for resolving future noncompetitive procurements appropriately meets the intent of ASPR. We believe that the ASPR provision for transfer at cost for noncompetitive procurements between affiliate companies is not only intended to delete one tier of profit but also to assure the Government pays a fair and reasonable price for such purchases. This latter part cannot be accomplished unless the affiliate company's cost is known.

Bell's comments on our findings are discussed in further detail in appendix V.

We would appreciate a reply within 45 days expressing your views and comments on the matters discussed herein. Copies of this letter are being sent to Bell Helicopter Textron, the ACO, and the Defense Contract Audit Agency's resident staff at Bell's plant in Fort Worth, Texas.

Sincerely yours,



Forrest R. Browne
Regional Manager

Attachments:
Appendixes I through V

BEARINGS PROCURED FOR MILITARY CONTRACTS FROM
FAFNIR ON A SOLE SOURCE BASIS
JANUARY 1, 1967 THROUGH MAY 31, 1975

<u>Part Numbers</u>	<u>Amounts Paid to Fafnir</u>
212-040-143-001	\$ 361,834
212-040-456-001	284,647
204-040-136-009	242,084 (a)
204-040-623-001	88,811 (b)
212-040-144-001	84,218
206-031-590-001	54,586 (b)
206-040-438-001	43,737
214-040-105-005	34,371
214-040-109-005	18,830
206-040-339-007	18,491
214-040-109-003	8,298
206-031-594-001	4,555
47-150-242-003	2,894
214-040-105-003	1,911
222-310-719-001	378
206-040-339-009	124
	<u>\$1,249,769</u>

- (a) This part is a sole source item but was approved by Army officials at the U.S. Army Bell Plant Activity for exemption to ASPR 15-205.22(e).
- (b) Bell officials believe these bearings qualify as commercial catalog items sold to the general public and are therefore exempt from ASPR.

BEST DOCUMENT AVAILABLE

COMPARISON OF MILITARY BEARINGS PROCURED FROM FAFNIR ON A SINGLE SOURCE BASIS WITH TOTAL MILITARY PROCUREMENTS OF SELECTED BEARINGS January 1967 through May 1975

Part Number	Total military procurements from all vendors	Total military procurements from Fafnir		Total competitive from Fafnir	Percent of total from Fafnir	Total single source from Fafnir	Percent of total from Fafnir	Classification of Single Source Procurements			
		Amount	Percentage					No quotes(1) solicited	Percentage	Fafnir Only Bidder(2)	Percentage
204-011-310-001	\$ 28,170	\$ 6,903	25	none	none	\$ 6,903	100	\$ 2,887	42	\$ 4,016	58
204-040-136-007	1,848,032	1,358,336	74	\$1,077,644	79	280,692	21	200,670	15	80,022	6
204-040-143-001	424,180	406,907	96	267,384	66	139,524	34	69,696	17	69,828 (3)	7
204-040-424-001	144,804	144,804	100	45,532	31	99,272	69	23,416	16	75,856	52
204-011-769-001	64,093	12,946	20	3,820	30	9,126	70	9,126	70	none	none
205-040-245-001	767,107	681,085	89	374,903	55	306,182	45	300,933	44	5,249	1
205-040-246-003	1,690,536	1,331,136	79	687,833	52	643,303	48	165,640	12	477,663	36
206-040-031-003	2,036	2,036	100	none	none	2,036	100	2,036	100	none	none
206-040-408-001	25,417	23,299	92	4,862	21	18,436	79	14,748	63	3,688	16
206-040-410-001	27,113	27,113	100	2,015	7	25,098	93	22,330	82	2,768	11
209-071-292-001	5,233	1,213	23	1,213	100	none	none	none	none	none	none
214-001-049-001	17,876	17,876	100	none	none	17,876	100	17,876	100	none	none
214-010-714-001	16,179	5,596	35	none	none	5,596	100	5,596	100	none	none
214-040-101-003	23,000	13,399	58	none	none	13,399	100	2,119	16	11,280	84
Totals	\$5,083,776	\$4,032,649	79	\$2,465,206	61	\$1,567,443	39	\$837,073	21	\$730,370	18

(1) No quotations were solicited. Bell negotiated price with Fafnir.

(2) Fafnir was the only qualified vendor that responded to Bell's Request for Quotations.

(3) For one procurement of this part amounting to about \$62,080 (P.O. #237163, dated 12/27/1968), Bell did request quotes from the 3 qualified vendors for the part. However, in addition to Fafnir's quote, only one other quote was received by Bell before the closing date of its request for quotations. In our opinion, the additional quote is not valid for establishing competition because (1) the applicable vendor had historically quoted prices for the bearing that ranged from 2 to 5 times higher than the prices quoted by Fafnir and the second qualified vendor, and (2) the applicable vendor did not receive any of the \$424,612 military procurements for the part. Therefore, we have classified the purchase as a single source procurement, Fafnir only bidder.

COMPARISON OF MILITARY BEARINGS PROCURED FROM FAFNIR ON A SINGLE SOURCE BASIS WITH TOTAL MILITARY PROCUREMENTS OF SELECTED BEARINGS January 1967 through May 1975

Part Number	Total military procurements from all vendors	Total military procurements from Fafnir	Percentage	Total competitive from Fafnir	Percent of total from Fafnir	Total single source from Fafnir	Percent of total from Fafnir	Classification of Single Source Procurements			
								No quotes(1) solicited	Percentage Bidder(2)	Fafnir Only	
204-011-310-001	\$ 28,170	\$ 6,903	25	none	none	\$ 6,903	100	\$ 2,887	42	\$ 4,016	58
204-040-136-007	1,848,032	1,358,336	74	\$1,077,644	79	280,692	21	200,670	15	80,022	6
204-040-143-001	424,180	406,907	96	267,384	66	139,524	34	69,696	17	69,828 (3)	7
204-040-424-001	144,804	144,804	100	45,532	31	99,272	69	23,416	16	75,856	52
204-011-769-001	64,093	12,946	20	3,820	30	9,126	70	9,126	70	none	none
205-040-245-001	767,107	681,085	89	374,903	55	306,182	45	300,933	44	5,249	1
205-040-246-003	1,690,536	1,331,136	79	687,833	52	643,303	48	165,640	12	477,663	36
206-040-031-003	2,036	2,036	100	none	none	2,036	100	2,036	100	none	none
206-040-408-001	25,417	23,299	92	4,862	21	18,436	79	14,748	63	3,688	16
206-040-410-001	27,113	27,113	100	2,015	7	25,098	93	22,330	82	2,768	11
209-071-292-001	5,233	1,213	23	1,213	100	none	none	none	none	none	none
214-001-049-001	17,876	17,876	100	none	none	17,876	100	17,876	100	none	none
214-010-714-001	16,179	5,596	35	none	none	5,596	100	5,596	100	none	none
214-040-101-003	23,000	13,399	58	none	none	13,399	100	2,119	16	11,280	84
Totals	\$5,083,776	\$4,032,649	79	\$2,465,206	61	\$1,567,443	39	\$837,073	21	\$730,370	18

(1) No quotations were solicited. Bell negotiated price with Fafnir.

(2) Fafnir was the only qualified vendor that responded to Bell's Request for Quotations.

(3) For one procurement of this part amounting to about \$62,080 (P.O. #237163, dated 12/27/1968), Bell did request quotes from the 3 qualified vendors for the part. However, in addition to Fafnir's quote, only one other quote was received by Bell before the closing date of its request for quotations. In our opinion, the additional quote is not valid for establishing competition because (1) the applicable vendor had historically quoted prices for the bearing that ranged from 2 to 5 times higher than the prices quoted by Fafnir and the second qualified vendor, and (2) the applicable vendor did not receive any of the \$424,612 military procurements for the part. Therefore, we have classified the purchase as a single source procurement, Fafnir only bidder.

PARTS PURCHASED FROM FAFNIR AND OTHER VENDORS
UNDER A SPLIT PROCUREMENT

Part Number

214-040-101-001 (a)
214-040-102-001 (b)
214-040-103-001 (a)
214-040-104-001 (a)
214-040-104-003 (a)
214-040-108-001 (b)
214-040-108-003 (b)
214-040-112-001 (b)
214-040-115-001 (b)
214-040-116-001 (a)
214-040-118-001 (b)
214-040-121-001 (a)
214-040-122-001 (b)
214-040-123-001 (a)
214-040-124-001 (b)
214-040-125-001 (a)
214-040-220-001 (b)
214-040-221-001 (a)
214-040-222-001 (a)
214-040-223-001 (b)
214-040-320-001 (b)
214-040-321-001 (a)
214-040-421-001 (a)
214-040-422-001 (b)
214-040-423-001 (a)
214-040-606-001 (b)

- (a) Fafnir was high bidder on these parts. High bid awards to Fafnir amounted to \$261,233.
- (b) Amount of business Fafnir would have received if awarded all orders for parts on which it was low bidder: \$716,538 for 7,850 units.

SCHEDULE OF INITIAL SINGLE SOURCE AWARDS TO FAFNIR AND COMPETITORS
FOR 26 BEARINGS SUBSEQUENTLY PURCHASED UNDER A SPLIT PROCUREMENT

Part Number (a)	Awards to Fafnir			Awards to Competitors		
	Number	Unit Cost	Total	Number	Unit Cost	Total
214-040-101-001	8	\$798.44	\$ 6,387.52	21	\$207.30	\$ 4,353.30
102-001	21	220.25	4,625.25	8	408.64	3,269.12
103-001	-0-	-0-	-0-	8	629.20	5,033.60
104-001	-0-	-0-	-0-	126	173.35	21,842.10
104-003	36	115.37	4,153.32	-0-	-0-	-0-
108-001	-0-	-0-	-0-	84	180.40	15,153.60
108-003	24	31.72	761.28	-0-	-0-	-0-
112-001	84	11.25	945.00	20	21.32	426.40
115-001	20	593.42	11,868.40	8	742.46	5,939.68
116-001	9	951.10	8,559.90	19	333.80	6,342.20
118-001	21	666.47	13,995.87	8	778.80	6,230.40
121-001	8	647.43	5,179.44	20	162.95	3,259.00
122-001	20	499.75	9,995.00	8	285.52	2,284.16
123-001	8	666.40	5,331.20	20	138.03	2,760.60
124-001	40	277.28	11,091.20	16	276.08	4,417.28
125-001	21	460.14	9,662.94	8	991.74	7,933.92
220-001	19	422.80	8,033.20	9	338.93	3,050.37
221-001	25	216.52	5,413.00	102	40.72	4,153.44
222-001	7	602.76	4,219.32	18	222.33	4,001.94
223-001	19	366.93	6,971.67	9	266.15	2,395.35
320-001	38	282.55	10,736.90	16	141.64	2,266.24
321-001	16	562.07	8,993.12	34	195.33	6,641.22
421-001	8	562.46	4,499.68	17	148.47	2,523.99
422-001	19	297.19	5,646.61	8	163.98	1,311.84
423-001	8	780.87	6,246.96	17	251.86	4,281.62
606-001	74	77.71	5,750.54	16	127.37	2,037.92
Totals	<u>553</u>		<u>\$159,067.32</u>	<u>620</u>		<u>\$121,909.29</u>

- (a) These part numbers are the same as listed in appendix III, but purchases shown above were initial procurements of these parts and were not part of the split procurement shown on appendix III.

SUBSTANCE OF BELL HELICOPTER TEXTRON'S
COMMENTS ON GAO'S FINDINGS

Bell concurs that sole source procurement from Fafnir or any other Textron Company is to be accomplished in accordance with the requirements of ASPR 15-205.22(e). Bell points out that exceptions are allowed by ASPR to cost transfers between Textron affiliates when: (a) items are based on established catalog or market price of commercial items sold in substantial quantities to the general public or (b) "adequate price competition" in accordance with ASPR 3-807.1 exists.

Bell agrees that corrective action is needed to assure adequate competition on all future procurements from Fafnir and/or to assure the elimination of one of the two tiers of profits accumulating to Textron, Inc. on non-competitive procurements from Fafnir.

However, Bell officials do not have access to Fafnir's accounting records and, therefore, do not know whether Fafnir's cost accounting records reflect adequately the costs and profits on Fafnir's sales to Bell.

Bell maintains that competition has been adequate for the purchases of most bearings as stated in their letter no. IM:RGH:kad-442 dated 27 October 1975 entitled, "BHC Reply to GAO Statements." The aforementioned contractor's letter reply reports that competition for the purchase of a few bearings has not been in accordance with ASPR. The contractor points out several single source procurements achieved adequate competition in accordance with ASPR 3-807.(b)(1)c. by "Price Analysis." In addition, the contractor's reply pointed out that some procurements were placed based upon the ability of subcontractor's current and past record of performance and on the basis of delivery schedules.

Fafnir and Bell entered into an overriding agreement to Bell's purchase orders on January 1, 1965, that denies Bell access to Fafnir's accounting records. However, the agreement does not deny the Government access to Fafnir's records. Bell believes that Fafnir is not willing to contract with Bell on a cost transfer basis even if it means losing some sales to Bell. Qualifying a vendor to replace Fafnir would be both costly and time consuming as well as impractical.

Bell and local Army officials have discussed, informally, the possibility of obtaining a waiver to the ASPR wherein bearings are required to be transferred at Fafnir's costs and establish a procedure to eliminate Bell's profit in lieu of Fafnir's profit. Bell also believes that prices paid were fair and reasonable at the time of procurement, notwithstanding the differences in prices paid to Fafnir and other vendors for the initial production of bearings.

Bell is unable to explain, due to the lack of fully documented records, why it had not obtained required military reviews and approvals for all split procurements and for procurements awarded to Fafnir as the high bidder; nor, can it explain why Fafnir was the only vendor solicited for several months and sometimes for several years before a second source was requested to bid. Bell speculates, however, that production capacity delivery schedules and/or past performances of vendors may have been the reason(s).

Bell does not agree that large price differences between bids submitted by Fafnir and other vendors necessarily indicate that Fafnir somehow had a cost advantage over other vendors. Bell does not favor Fafnir over other vendors who are not corporate entities of Textron, Inc.

On September 8, 1975, Bell issued written instructions to their procurement personnel reiterating their existing Procurement Department Instructions that all purchase orders for Government contract requirements placed with Fafnir that are not based on competition will require prior approval of the U.S. Army Bell Plant Activity. On November 10, 1975, Bell notified purchasing agents, supervisors and buyers that it was imposing additional special requirements for advanced notification and prior consent to placement of proposed purchase orders.

All subcontracts (purchase orders) awarded to any corporate entity of Textron, Incorporated, which are not on the basis of either transfer of cost or on the basis of adequate competition, with two or more responsive bids having been received, will require the prior consent of the contracting officer.

For this special requirement "no bid" is not a response. The procurement personnel were also instructed to document records to indicate whether orders were competitive or non-competitive.