

**DOCUMENT RESUME**

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**Pricing of Noncompetitive Contracts Subject to the Truth-in-Negotiations Act. PSAD-77-91; B-39995. April 11, 1977. 16 pp.**

**Report to the Congress; by Robert P. Keller, Acting Comptroller General.**

**Issue Area: Federal Procurement of Goods and Services: Reasonableness of Prices Under Negotiated Contracts and Subcontracts (1904).**

**Contact: Procurement and Systems Acquisition Div.**

**Budget Function: National Defense: Department of Defense - Procurement & Contracts (058).**

**Organization Concerned: Department of Defense.**

**Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services; Congress.**

**Authority: Truth-in-Negotiations Act (P.L. 87-653).**

GAO conducts a continuing review and evaluation of how purchasing offices carry out the purposes of the Truth-in-Negotiations Act for pricing negotiated noncompetitive contracts and the reasonableness of the contract prices. The pricing of 10 prime contracts and 18 subcontracts with a value of about \$400 million was examined at the Department of Defense (DOD). Findings/Conclusions: Generally, DOD procurement personnel are effectively using the system established. However, in reviewing available cost information, 28 contracts and subcontracts were found to be valued about \$22 million higher than could be supported by cost or pricing data available at the time of negotiations. Overpricing was attributed to: inaccurate, incomplete, or noncurrent data submitted by contractors and subcontractors; prime contractors inadequately evaluating subcontractor proposals; and Government personnel inadequately evaluating contractor proposals. DOD purchasing offices are acting on GAO reports of overpricing. Procedural improvements have been made or promised. Recommendations: The Secretary of Defense should emphasize to all purchasing offices and field pricing support agencies the need for strict compliance with established procurement procedures and regulations in negotiating noncompetitive contract prices. (Author/QM)

01142

# REPORT TO THE CONGRESS



*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

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## Pricing Of Noncompetitive Contracts Subject To The Truth-In-Negotiations Act.

### Department of Defense

Generally, Department of Defense procurement staff are effectively carrying out the system established for pricing noncompetitive contracts. However, some contracts still are overpriced.

GAO's review of 28 noncompetitive prime contracts and subcontracts valued at about \$400 million indicated they were overpriced by about \$22 million. Procurement personnel are usually responsive to GAO recommendations for corrective action.



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20543

B-39995

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report to the Congress entitled "Pricing of Noncompetitive Contracts Subject to the Truth-in-Negotiations Act." This review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53); the Accounting and Auditing Act of 1950 (31 U.S.C. 67); and the authority of the Comptroller General to examine contractors' records, as set forth in contract clauses prescribed by the United States Code (10 U.S.C. 2313(b)).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; the Director, Defense Contract Audit Agency; and the Director, Defense Logistics Agency.

  
ACTING Comptroller General  
of the United States

D I G E S T

Based on its continuing review and evaluation of (1) how purchasing offices carry out the purposes of the Truth-in-Negotiations Act for pricing negotiated noncompetitive contracts and (2) the reasonableness of the contract prices, GAO concludes that, generally, Department of Defense procurement personnel are effectively using the system established.

However, in reviewing available cost information, GAO still found some overpriced contracts. The 28 contracts and subcontracts reviewed were valued about \$22 million higher than could be supported by cost or pricing data available at the time of negotiations. (See p. 4.)

These contracts were valued at about \$400 million; they were selected for review after a preliminary examination of 31 prime contracts and 29 subcontracts, valued at about \$815.4 million, indicated deficiencies in obtaining; reviewing; and using accurate, complete, and current cost or pricing data in negotiating contract prices. (See p. 13.)

The act requires, with some exceptions, that contractors submit cost or pricing data supporting proposed prices of noncompetitive contracts over \$100,000. It also requires contractors to certify that the supporting data is accurate, complete, and current. (See p. 2.)

Overpricing was attributed to

- inaccurate, incomplete, or noncurrent data submitted by contractors and subcontractors (see pp. 5 to 8 and 10);
- prime contractors inadequately evaluating subcontractor proposals (see pp. 5 and 6); and,

--Government personnel inadequately evaluating prime contractor proposals. (See pp. 8 and 10.)

Reviewing contracts is one way GAO monitors the Department of Defense's adherence to prescribed laws, regulations, and procedures in negotiating noncompetitive contracts. The results of GAO reviews of the 23 contracts and subcontracts have been reported to the purchasing offices responsible for contract negotiation and to the Secretary of Defense, when appropriate. (See pp. 1, 4, and 13.)

Defense purchasing offices are usually responsive to GAO recommendations for determining whether the Government is legally entitled to a price reduction and whether improvements are needed in carrying out prescribed policies and procedures. Eight contracts have been reduced by a total of \$7.8 million, and actions are being taken to reduce the prices of two others by \$650,000. Purchasing offices are evaluating actions required on the remaining contracts on which we reported overpricing of \$5.3 million. A clause in each contract gives the Government the right to a price reduction when it is determined that the price was increased because the data submitted were not in accord with the certification. Procedural improvements have been made or promised. (See pp. 3, 9, and 10.)

Accordingly, the Secretary of Defense should emphasize to all purchasing offices and field pricing support agencies the need for strict compliance with established procurement procedures and regulations in negotiating noncompetitive contract prices. (See p. 12.)

#### AGENCY COMMENTS

The Defense Department expressed general agreement with the information presented in this report. In regard to GAO's recommendation, the Department said that all levels of procurement management responsibility had emphasized, and would continue to stress, the need for close attention to the submission and analysis of cost or pricing data. (See p. 12.)

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<u>ABBREVIATIONS</u>	
ASPR	Armed Services Procurement Regulation
DCAA	Defense Contract Audit Agency
DOD	Department of Defense
GAO	General Accounting Office

## CHAPTER 1

### INTRODUCTION

This report summarizes our reviews of the Department of Defense's (DOD's) effectiveness in pricing noncompetitive contracts and subcontracts over \$100,000. Our reviews during fiscal years 1974-76 were made to (1) determine if prices negotiated by DOD were reasonable considering information available to the contractor at the time of price negotiations, (2) identify the causes of any overpricing, and (3) suggest corrective action.

We examined the pricing of 10 prime contracts and 18 subcontracts with a value of about \$400 million. In reports to agency officials responsible for the pricing of these contracts and to the Secretary of Defense when appropriate, we explained the basis for our conclusions that there was overpricing of about \$22 million, or 5.8 percent, of the total negotiated value.

These individual contract reviews represent part of our effort to monitor DOD's adherence to prescribed laws, regulations, and procedures in negotiating noncompetitive contracts. We identify areas where we can assist DOD in improving its contracting activities, and we make recommendations for new laws and regulations and for improvements in implementing the procurement process.

While reviewing DOD's pricing activities, for example, we identified an area, operational audits performed by the Defense Contract Audit Agency (DCAA), where we believed improvements were needed. Our report to the Congress on this area (PSAD-76-35, Dec. 18, 1975) stated that operational audits have resulted in large reductions in contract costs, and we discussed recommendations we believed would make these audits more effective.

DCAA officials agreed with our recommendations and evaluation of their operational audits in the December 18, 1975, report and sought to improve performance before and during our review by partially implementing some recommendations and considering others.

During fiscal years 1971 - DOD noncompetitive procurements accounted for about percent of its total procurement dollars spent. method of procurement does not have the built-in safeguards against unreasonable prices afforded by adequate price competition between suppliers.

## CONTRACT PRICING LAWS, REGULATIONS, AND PROCEDURES

DOD policies and procedures on pricing noncompetitive contracts are defined in the Armed Services Procurement Regulation (ASPR), which implements the Armed Services Procurement Act of 1947 requirements (10 U.S.C. 2301 et seq.). The policies and procedures cover (1) obtaining cost or pricing data from the contractor to support proposed costs, (2) preparing for contract negotiations, and (3) conducting negotiations and preparing a record of them.

The Truth-in-Negotiations Act (Public Law 87-653) and ASPR require, with some exceptions, that contractors submit cost or pricing data to support proposed prices for noncompetitive contracts expected to exceed \$100,000. ASPR also provides, in some cases, that prime contractors support estimated cost of proposed subcontracts with subcontractor cost or pricing data. Prime contractors must certify that, at the time of prime contract negotiations, the data submitted, including applicable subcontract data, was accurate, complete, and current.

Estimated contract costs are normally categorized by direct materials, direct labor, other direct costs, and various indirect expenses. ASPR states that cost or pricing data consists of all facts existing up to the time of agreement on price, which prudent buyers and sellers would reasonably expect to significantly affect price negotiations. This includes such factors as vendor quotations; nonrecurring costs; changes in production methods; production or procurement volume; unit cost trends, such as those associated with labor efficiency; make-or-buy decisions; or other management decisions which could reasonably be expected to significantly affect costs under the proposed contract.

It is the policy of DOD to procure supplies and services from responsible sources at fair and reasonable prices calculated to result in the lowest overall costs to the Government. Each contracting officer is responsible for performing or having performed all administrative actions necessary for effective contracting. The contracting officer avails himself of all appropriate managerial tools, such as the advice of specialists in the fields of contracting, finance, law, contract audit, and price analysis. ASPR requires, for noncompetitive contracts over \$100,000, cost analyses of the data submitted in support of the proposed price, unless adequate information is available to determine the reasonableness of the price. Cost analysis is the review and evaluation of a contractor's



cost or pricing data and the judgmental factors applied in estimating the cost of performing the contract, assuming reasonable economy and efficiency. It is usually performed by DCAA auditors, and by technical personnel from the Defense Contract Administration Services offices or the military services.

The results of each analysis are submitted in an advisory report to the contracting officer for use in developing the price objective.

Meetings between the contracting officer or his representative and the contractor are held to discuss the difference between the proposed price and the Government's negotiation objective and to decide on a final price. ASPR requires that the contracting officer prepare, or have prepared immediately upon completion of negotiations, a memorandum of negotiations, setting forth the principal elements considered during negotiations. If cost or pricing data was submitted and a certificate obtained, the memorandum must show the extent of any nonreliance on the contractor's cost or pricing data in deciding on the final price.

The contract must include a clause giving the Government a right to reduce the contract price if the price was increased because the contractor submitted certified data that was not accurate, complete, or current (defective data).

CHAPTER 2

NONCOMPETITIVE CONTRACT PRICES ARE HIGHER THAN  
COST DATA, AVAILABLE AT NEGOTIATIONS,  
INDICATES THEY SHOULD BE

Upon review of 10 prime contracts awarded by 7 purchasing offices and 18 subcontracts awarded by 9 prime contractors under DOD noncompetitive contracts, we found that negotiated prices were about \$22 million, or 5.8 percent, higher than indicated by cost or pricing data available to contractors and/or Government officials at the time of prime contract negotiations.

In some cases, contractors did not furnish procurement officials all pertinent information in accordance with the law and regulation. In other cases, procurement officials and support personnel inadequately evaluated or considered information that was available.

The percent of overpricing by individual contract ranged from 0.5 percent to 26.3 percent. The largest procurement examined, awarded by the Air Force's Aeronautical Systems Division for missiles, accounted for 74 percent of examined costs and 62 percent of the total estimated overpricing. A copy of our report on this contract's pricing was sent to the Secretary of Defense.

Overpricing by cost element for all contracts reviewed follows.

<u>Cost element</u>	<u>Overstated costs</u>
Materials	\$ 5,348,532
Labor	5,672,466
Overhead and general and administrative expenses	3,984,490
Other costs	<u>7,223,237</u>
Total	<u>\$22,228,725</u>

As shown, overpricing was not limited to one cost element but to all cost elements. Some examples of overpricing in prime contracts and subcontracts follow.

## MATERIALS

The Naval Air Systems Command awarded a contract for \$5,309,989 for target drones based on a firm fixed-price proposal. We concluded that the price was about \$175,300 higher than indicated by available cost information. About \$12,800 related to proposed material costs for a new part based on a unit price quotation of \$226 received from a supposedly sole-source supplier. On the same day the contractor received the \$226 quotation, he also received a lower unit price quotation of \$196.52 from a second solicited source.

According to the contractor, the contracting officer was told (1) of the second source and the quoted price during negotiations, (2) that the higher price was proposed because, although the new part had been purchased for a prior contract, it had not been flight-tested, and (3) that the decision on the part to be used had not been made.

We found no evidence that the contractor submitted, or otherwise disclosed, in writing the lower price quotation to the contracting officer. We believe the second source price quotation and the prior purchase at the lower price constitutes pertinent cost data that should have been disclosed during negotiations. The parts were subsequently purchased at the lower price for the contract.

The purchasing office advise us that the contracting officer had taken action to settle the \$175,300 defective pricing claim against the contractor.

The Air Force Space and Missile Systems Organization negotiated a fixed-price incentive contract for the production of guidance and control systems. The prime contract price included \$3,620,700 for materials (cables) to be provided by a subcontractor. The prime contract price was overstated by about \$986,000 because the subcontractor's proposal was not based on accurate, complete, and current cost or pricing data.

This subcontractor proposed, for example, a wire requirement for each cable based on a parts list issued by the prime contractor. We learned that before prime contract negotiations, the prime contractor issued two revisions to the parts list which reduced the wire requirement for each cable. The subcontractor did not, however, revise its proposed wire requirement. This overstated quantity resulted in increased proposed costs of about \$13,800. The bill of material was not audited before prime contract negotiations, even though the prime contractor told DCAA that it would review direct costs.

The purchasing office agreed with our findings. The contract price has been reduced by \$962,978.

### LABOR

The Department of the Army's Picatinny Arsenal awarded a firm fixed-price contract for the production of arm/safe devices for \$586,202. A contract option was exercised for the production of more devices at an additional cost of \$317,350. The contract price, including the option price, was overstated by about \$135,000 because the contractor did not tell the Army pertinent fabrication labor cost information.

The contractor proposed, for example, fabrication costs based on engineering estimates instead of on experience. This contract was a follow-on contract to an initial production contract for the devices. At the time of the follow-on contract's proposal, actual fabrication costs under the initial contract were available for more than half of the parts that the contractor proposed to fabricate.

Had the actual fabrication costs experienced with the initial contract been used as a basis for proposing fabrication costs for the follow-on contract, the follow-on contract's price would have been reduced by \$26,604. Use of the actual fabrication cost experienced would have resulted in an additional reduction of \$16,530 in the proposed and negotiated price of the option.

The prices of the follow-on, option, and another contract were reduced by \$200,000.

The Space and Missile Systems contract discussed on page 5 includes a \$214,500 overstatement for subcontractor labor costs.

The subcontractor proposed 110,130 hours to manufacture the cables, 80,112 hours for direct labor, and 30,018 hours for variance. However, the subcontractor had included an allowance for the variance in overhead expenses. As a result, allowance for variance was included in both direct labor and overhead.

The prime contractor did not audit the subcontractor's proposed direct labor hours before negotiations. Subcontractor officials agreed that the proposal included duplicate cost for the labor hour variance. The prime contractor and the subcontractor, however, had negotiated a subcontract price of \$1,266,700 less than the amount negotiated in the

prime contract price. Some of this reduction may have been for the duplicative labor hours. The prime contract was not, however, initially adjusted for this difference but, as stated on page 6, the contract price has been reduced by \$962,978.

#### OVERHEAD AND GENERAL AND ADMINISTRATIVE EXPENSES

As mentioned on page 5, the Navy's contract for \$5,309,989 for target drones was overstated by about \$175,300. About \$83,400 relates to overhead costs based on higher rates than indicated by available data at the time of contract negotiations.

We noted that the contractor's forecast-direct-cost bases were underestimated because they did not include about \$369,000 of direct costs for three projects and inter-division work orders. Since overhead rates generally vary inversely with the direct costs in the bases used to compute the rates, the understated base in the case resulted in overstated rates. This information was available before contract negotiations, and contractor officials agreed that the additional direct costs should have been included in the proposed contract price. They said, however, that because they had been achieving only about 85 percent of forecast direct costs for several years, they most likely would have proposed the same rates negotiated regardless of the lower rates indicated by our review.

The contracting officer told us he was unaware of the understated base costs and would have attempted to negotiate lower rates if this information had been disclosed. As stated on page 5, the contracting officer is proceeding to settle the \$175,300 defective pricing claim against the contractor.

#### OTHER COSTS

The Naval Air Systems Command awarded a \$156,800,000 fixed-price incentive contract for the production of 11 Model E-2C aircraft and related testing, materials, and technical data.

The contract was overstated by about \$615,000 because the price was not based on accurate, complete, and current cost data.

The proposed and negotiated cost for 24 subcontracted production data items was \$467,300 higher than warranted

because the prime contractor included costs for 14 items that should not have been included in the prime contract price negotiated. The prime contractor's proposal stated that the proposed price did not include these data costs. Some of the 14 production data items were also ordered by the administrative contracting officer under a separately priced modification to the contract, as was originally intended and stated in the prime contractor's proposal.

In its preaward audit, DCAA was apparently unaware that the proposed production data cost included the 14 items. The prime contractor furnished DCAA only those pages of the subcontract purchase order containing the original option provisions; these pages did not describe the data making up the total production cost. It also appears that the purchasing office was unaware of what data made up the proposed cost.

In response to our report, Navy officials said that they and DCAA would investigate the matter.

The factors contributing to the overpricing in the examples we cited, and in general to all the contracts known to be overpriced, can be identified as follows:

- Inaccurate, incomplete, or noncurrent data submitted by contractors and subcontractors.
- Prime contractors inadequately evaluating subcontractor proposals.
- Government personnel inadequately evaluating prime contractor proposals.

## CHAPTER 3

### AGENCY ACTIONS ON OUR REPORTS

In each of 18 reports issued to Government purchasing offices, we recommended that the head of the office consider our findings and determine if the Government is legally entitled to a price reduction under contract terms. Further, we made recommendations for needed improvements in implementing established purchasing procedures. Procedural deficiencies by field pricing support personnel found during our reviews were reported to the appropriate purchasing offices and to the support agencies. We issued seven such reports to agencies supporting the purchasing office in reviewing and evaluating the contractor's proposals, such as DCAA and the Defense Contract Administration Services.

### PURCHASING OFFICE RESPONSES TO OUR REPORTS

Although based on factual information available at the time of contract negotiation, our findings of overstated costs may not represent defective pricing for which the Government is legally entitled to a price reduction. The contracting officer makes this determination based on whether inaccurate, incomplete, or noncurrent data was submitted to him or his representative at the time of negotiations and whether such data was relied on in negotiating the contract price. Where overpricing results because of the Government's improper use of the contractor's certified cost or pricing data or other relevant information, a price adjustment is not legally required.

In all cases, purchasing officials have responded to our reports. For eight prime contracts with overpricing of \$15,788,080 the contractors have agreed to price reductions of \$7,870,404. The difference between the total reported amount of overpricing and the total amount of the contract price adjustments resulted from instances where the contracting officers determined that adjustments were not required because the overpricing was not caused by the contractors' action and other instances where lesser amounts are agreed to.

For two other contracts, for which we reported overpricing of about \$700,000, the contracting officers have acted to reduce the contract prices by about \$650,000. As of January 1977, purchasing officials had not resolved a \$5.3 million reported overpricing on the remaining contracts.

The purchasing offices are usually responsive to our recommendations on needed improvements in implementing prescribed policies and procedures.

FIELD PRICING SUPPORT AGENCY ACTIONS AND IMPROVEMENTS IN EVALUATION PROCEDURES

Support agencies also responded positively to our recommendations.

In reviewing the contract awarded by the Picatinny Arsenal, we found that DCAA's failure to comment on the preaward audit's limited scope may have contributed to the overpriced contract. The preaward audit did not include, for example, a comparison of the cost to fabricate (make) items with prior purchase cost information for these same items. The contractor prepared the proposal on the basis of making four parts. Parts for a prior contract had been purchased at a unit price less than the proposed fabrication cost. Considering indirect expenses, the proposed fabrication cost was \$78,391 more than the buy cost. The contractor did not disclose this historical cost information.

The DCAA regional manager responsible for the preaward audit told us that the audit's scope was curtailed because of the limited time allowed by the purchasing office to complete it--7 working days after the audit request was received. We found, however, that the preaward audit report did not include a notice, although it is required by DCAA audit guidance, that the audit results might be affected by time constraints. The DCAA regional manager agreed that the report's qualification could have included comments on the impact of the time constraints.

Consequently, in a memorandum to the audit staff, the DCAA branch manager stated that, as a minimum, the audit report should have mentioned the inability to adequately evaluate available cost data because of time limitations set by the purchasing office. He also stated that complete disclosure of any adverse condition affecting the audit should be made. In addition we were told by the Picatinny Arsenal commander that responsible purchasing personnel have been instructed to permit DCAA a longer period of time to adequately evaluate all cost factors concerning the contract or to consider using letter contracts when the urgency of awarding the contract limits the audit and negotiations leadtime. The final contract prices can then be negotiated when adequate information is available.



In some cases, support agencies involved did not agree with needed improvements or did not propose specific actions regarding our recommendations. We plan to follow up on these cases to determine if further action is warranted.

## CHAPTER 4

### CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS

#### CONCLUSIONS

Based on continued review and evaluation of the purchasing offices' implementation of the Truth-in-Negotiations Act and the reasonableness of contract prices, we conclude that, generally, purchasing personnel are effectively implementing the system established for pricing and negotiating noncompetitive contract prices. However, we continue to identify overpriced contracts. In some cases the contractors do not provide the required accurate, complete, and current cost or pricing data. In other cases, procurement officials are inadequately considering all the information available or are not fully complying with established policies and procedures.

Accordingly, purchasing offices, support agencies, and internal review groups should continue to give attention to noncompetitive contract pricing.

#### RECOMMENDATION

We recommend that the Secretary of Defense emphasize to all purchasing offices and field pricing support agencies the need for strict compliance with established purchasing procedures and regulations in pricing and negotiating noncompetitive contract prices.

#### AGENCY COMMENTS

DOD's comments in its letter dated January 10, 1977, (see app. I), indicated general agreement with the information presented. In regard to our recommendation, DOD stated that all levels of procurement management responsibility had emphasized, and would continue to stress, the need for close attention to the submission and analysis of cost or pricing data.

## CHAPTER 5

### SCOPE OF REVIEW

We summarized the results of our reviews made during fiscal years 1974-76 of 28 DOD noncompetitively awarded contracts--10 prime contracts awarded by 7 purchasing offices and 18 subcontracts awarded by 9 prime contractors. These contracts have a value of about \$400 million. For each contract reviewed, our results were submitted to the contracting officer responsible for the award and appropriate DOD agencies.

The 28 prime contracts and subcontracts were reviewed after a survey of 60 contracts--31 prime contracts and 29 subcontracts--valued at about \$815.4 million indicated deficiencies in obtaining; reviewing; and using current, accurate, and complete cost or pricing data in negotiating contracts. The 60 contracts were judgmentally selected for review.

We examined contractor price proposals, cost or pricing data submitted to support estimated costs, and the latest cost information available to contractors at the time of negotiations. We reviewed the adequacy of data verification, cost estimate evaluations by agency audit and technical personnel, and the acceptance and use of their findings by negotiators and contracting officers. We also tried to identify the causes or management weaknesses contributing to the overpricing noted in our reviews.



ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301

10 JAN 1977

INSTALLATIONS AND LOGISTICS

Mr. R. W. Gutmann  
Director, Procurement and  
Systems Division  
U. S. General Accounting Office  
Washington, D. C. 20540

Dear Mr. Gutmann:

This is in reply to your letter to Secretary Rumsfeld of October 18, 1976, concerning your draft report entitled "Pricing of Noncompetitive Contracts Subject to the Requirements of the Truth-in-Negotiations Act: A Summary Report." (OSD Case #4397-D)

This draft report summarizes the results of General Accounting Office (GAO) reviews over three years of 10 prime contracts awarded on a noncompetitive basis and 18 subcontracts awarded on a noncompetitive basis by prime contractors. These contracts and subcontracts were valued at about \$400 million. GAO concluded that these transactions were about \$22 million higher than supported by contractor cost or pricing data available at the time of negotiations. GAO recommends that the Secretary of Defense continue to emphasize to all procurement activities the need for strict compliance with established procurement procedures and regulations.

The results of individual reviews were reported to the cognizant procurement activities for comment. As the draft report notes, "In all cases, procurement officials have responded to our reports." Further, the draft report indicates that these activities were generally responsive to the recommendations made. Contract price reductions of \$8.6 million have already been negotiated. Actions on other contracts are either underway to reduce prices or the facts are being evaluated to determine the extent of any overpricing.



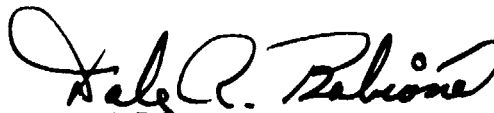
As to several of the specific cases mentioned in the draft report, the Air Force advises that a price reduction of \$4,351,000 has been obtained with regard to the contract mentioned on page 5 and a price reduction of \$962,978 has been obtained with regard to the contract discussed on page 7. The Navy advises with reference to the contract discussed on pages 6 and 11 that current action is underway to obtain a price reduction.

It is evident from comments in the draft report as well as the comments from the Military Departments that responsive action is being taken on the GAO findings. As to your recommendation to emphasize compliance with procurement procedures and regulations, all levels of procurement management responsibility have and will continue to emphasize close attention to these matters in the submission and analysis of cost or pricing data. This comes about in the day-to-day operations as well as the periodic conferences and meetings on procurement matters where this subject is frequently on the agenda. The prompt and responsive attention by the procurement activities to the individual reports clearly reflects that appropriate concern is being given this matter. Particular note is taken of the statement in the draft report conclusion, "...we have concluded that procurement personnel are generally doing an effective job in implementing the system established for negotiating noncompetitive contracts."

The Defense Contract Audit Agency (DCAA) provided us with comments on the draft report. DCAA suggests a number of clarifying points be made in certain parts of the report. We have attached a copy of their comments for your consideration. [See GAO note below.]

We appreciate this opportunity to comment on your draft report.

Sincerely,

  
DALE R. BABIONE  
Acting Principal Deputy Assistant  
Secretary of Defense (I&L)

Enclosure  
a/s

GAO note: The deleted comments have been considered in this report.

PRINCIPAL OFFICIALS  
OF THE DEPARTMENT OF DEFENSE  
RESPONSIBLE FOR ADMINISTERING  
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<b>SECRETARY OF DEFENSE:</b>		
Harold Brown	Jan. 1977	Present
Donald H. Rumsfeld	Nov. 1975	Jan. 1977
James R. Schlesinger	July 1973	Nov. 1975
William P. Clements, Jr. (acting)	May 1973	June 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
<b>SECRETARY OF THE ARMY:</b>		
Clifford L. Alexander, Jr.	Feb. 1977	Present
Martin R. Hoffman	Aug. 1975	Feb. 1977
Howard H. Callaway	May 1973	July 1975
Robert F. Froehke	July 1971	Apr. 1973
<b>SECRETARY OF THE NAVY:</b>		
W. Graham Claytor, Jr.	Feb. 1977	Present
J. William Middendorf II	June 1974	Feb. 1977
John W. Warner	May 1972	June 1974
<b>SECRETARY OF THE AIR FORCE:</b>		
Thomas C. Reed	Jan. 1976	Present
James Plummer (acting)	Nov. 1975	Jan. 1976
John L. McLucas	May 1973	Nov. 1975
Robert C. Seamans, Jr.	Jan. 1969	Apr. 1973
<b>DIRECTOR OF THE DEFENSE LOGISTICS</b>		
<b>AGENCY:</b>		
Lt. Gen. Woodrow W. Vaughan	Jan. 1976	Present
Lt. Gen. Wallace H. Robinson, Jr.	Aug. 1971	Dec. 1975
<b>DIRECTOR, DEFENSE CONTRACT AUDIT</b>		
<b>AGENCY:</b>		
Frederick Neuman	Aug. 1976	Present
Bernard B. Lynn	Nov. 1972	July 1976
William B. Petty	July 1965	Nov. 1972