

DOCUMENT RESUME

03587 - [A2723941]

[Impact of Navy Report of F-18 Ejection Seat Contract].
PSAD-77-167; B-183851. September 28, 1977. 5 pp.

Report to Rep. John J. McFall; by Robert F. 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 the Navy; Martin-Baker
Aircraft Co., Ltd.; McDonnell Douglas Corp.; Stencel Aero
Engineering Corp., Inc.

Congressional Relevance: Rep. John J. McFall.

Nothing in the Navy's report nor the comments from an unsuccessful bidder changes GAO's original conclusions concerning award of the F-18 ejection seat contract to McDonnell Douglas Corp. Findings/Conclusions: The principal issues in the procurement are: the better seat, from a technical standpoint, was not selected in favor of an acceptable but less costly seat; the price upon which this decision was based was only a small portion of the total costs, including technical assistance costs incurred by prime contractor; and there was no assurance that the lower initial price would not be offset by either higher life cycle costs or recovery of development contract losses on follow-on production and spare parts contracts. Prime contractor's liability to its subcontractor was limited by the contract to \$126,326.32 through September, 1977. The costs to the Government for terminating the present subcontract and awarding it to another source would also include the prime contractor's nonrecoverable costs. As a matter of sound procurement policy, the apparent "buy-in," without adequate basis for assuring that future prices do not include initial award losses, should not be allowed. There is no objection to the termination of the present subcontract unless the costs involved become excessive or the new contractor cannot meet the required delivery schedule. (Author/SS)



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

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B-183851

SEP 28 1977

The Honorable John J. McFall
House of Representatives

Dear Mr. McFall:

On August 9, 1977, you requested us to review and to comment on the Navy report prepared in response to our April 11, 1977, report "Should the Navy Reverse McDonnell Douglas Corporation's Award of the F-18 Ejection Seat Contract?" Specifically, you asked us to respond to the following question: Is there anything in the Navy report which would cause you to alter your conclusions and recommendations including whether you would now recommend termination of the Martin-Baker F-18 ejection seat contract? You also requested confirmation of the cost of \$126,326.32 for terminating the Martin-Baker contract through September 1977.

Also, on August 22, 1977, you furnished comments prepared by Counsel for Stencel Aero Engineering Corporation, Inc., on the Navy report for our consideration. We considered both the Navy report and Stencel's comments in our evaluation.

Basically, there isn't anything in the Navy report or Stencel's comments which would cause us to change our previous conclusions. In our opinion, the principal issues in this procurement are as follows:

- The better seat from a technical standpoint was not selected in favor of an acceptable but less costly seat.
- The price upon which this decision rests is only a small portion of the costs that will ultimately be incurred during follow-on production and operation.
- There is no assurance that the initial price advantage, upon which the decision was made, will not be offset through either higher life

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cycle costs or through recovery of development contract losses on follow-on production and spare parts contracts.

Inherent in this procurement, therefore, are the factors of (1) the relative merits of technical superiority and costs, (2) life cycle cost, and (3) "buying in." Other factors to be considered are the adequacy of domestic sources and assistance to Martin-Baker.

TECHNICAL VERSUS COST

Our report suggested that the Navy consider the relative worth of Stencel's technical advantage and Martin-Baker's cost advantage because McDonnell selected the cost advantage even though its source selection scoring process suggested the opposite.

The Navy report states that its technical evaluation concluded that the Stencel seat was superior for reasons of better ground safety and more attention to maintainability and reliability, but that both seats were technically acceptable and equal in lifesaving potential. The report states that the technical advantages of the Stencel seat were not considered to be overriding. Apparently the Navy is satisfied that the lower cost of the Martin-Baker ejection seat is preferred over the technical advantages offered by the Stencel ejection seat.

LIFE CYCLE COST

The Navy's evaluators made an independent life cycle cost analysis of the two seats which shows a lower cost of about \$6.4 million for the Martin-Baker seat. The major differences in cost are the full-scale development and acquisition cost of seats for production aircraft. The areas where costs for the Stencel seat were lower were not sufficient to offset the lower Martin-Baker price proposal. After McDonnell had selected the Martin-Baker proposal, Stencel offered to submit a lower price proposal which was rejected. Life cycle costs computed by the Navy, on the basis of the revised proposal, show \$1.1 million lower costs for the Stencel seat. The Navy evaluators stated, however, that sufficiently reliable data for life cycle cost analysis and for influencing the procurement decision did not and does not exist at this time, largely due to the lack of reliable acquisition cost data for seats following Option III.

"BUYING IN"

Our report stated that there are strong indications that Martin-Baker's development prices will not be sufficient to recover all of the costs it will have to incur in developing and qualifying its seat for the F-18 aircraft.

The Navy report acknowledges that this is so but states that this is no apparent violation of the Armed Services Procurement Regulation because Martin-Baker has agreed not to recover any full-scale development contract losses on follow-on production contracts. However, the Navy report does express concern about the quality of the cost or pricing data that Martin-Baker has agreed to provide.

Based on (1) the inability of the Martin-Baker accounting system to accumulate costs on individual projects and contracts; and (2) Martin-Baker's prior actions in denying access to its records; it is our opinion that the Navy will not be able to assure itself that unrecovered development costs are not recovered under follow-on production and spare parts contracts.

DOMESTIC SOURCE

As part of our recommendation, we stated that the Navy should consider the need to maintain a domestic source for this critical component. The Navy report states that, because of the recent and continuing decline in military requirements, the number of ejection seat suppliers has been reduced to the point where the market is dominated by two suppliers, Martin-Baker and Douglas Aircraft Company (a division of the McDonnell Douglas Corporation). Although it expressed concern that more than one producer should be available as a mobilization requirement, Navy evaluators did not consider it within their purview to determine the industrial base requirements for ejection seats, but suggested that the Office of the Secretary of Defense should make such a determination.

We share the Navy's concern about industrial base requirements, but feel that these requirements should have been given some consideration in the selection.

ASSISTANCE TO MARTIN-BAKER

McDonnell engineers estimated during the evaluation of the Martin-Baker and Stencel proposals that McDonnell would incur \$1.3 million in support costs to develop the Martin-Baker seat

over what it would incur to develop the Stencil seat. McDonnell recognized that Martin-Baker would need technical assistance in meeting integrated logistical support, reliability and maintainability requirements and assistance in recordkeeping.

Although the need for McDonnell assistance was recognized during technical negotiation with Martin-Baker, there is no evidence of a decrease in Martin-Baker's proposed price to recognize the value of any direct assistance to be received. Since Martin-Baker was awarded a fixed-price subcontract to perform in accordance with stated requirements, we have grave doubts that the costs incurred by McDonnell to augment known deficiencies in the subcontractor capability will be reimbursable under the prime contract. The rules pertaining to prime contract awards by Government agencies are not ordinarily applicable to subcontract awards by Government prime contractors. If this were a direct award by a Government agency, we would be required to question seriously the legality of an award to one competitor with the understanding that some portion of the awarded work would not be the contractor's complete responsibility without giving other competitors the opportunity to compete on the same basis.

MARTIN-BAKER TERMINATION COSTS

In regard to your request for confirmation of the cost of terminating the Martin-Baker contract, McDonnell's liability to Martin-Baker for termination is limited by the contract to \$126,326.32 through September 1977. The costs to the Government for terminating the Martin-Baker contract and award to another source would also include McDonnell's nonrecoverable costs associated with the design and test of Martin-Baker seats and aircraft redesign to accommodate a different seat.

CONCLUSIONS

As a matter of sound procurement policy we believe that an apparent "buy-in," without an adequate basis for assuring that future prices do not include losses on the initial award, should not be allowed.

We would see no objection to termination of the Martin-Baker contract unless the costs involved become excessive or Stencil could not now meet the Navy's required delivery schedule. With the continued running of the Martin-Baker contract, the costs of termination increase daily.

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As arranged with your office, we are sending copies of this report to the Chairmen of the Senate Committee on Governmental Affairs and the House Committee on Armed Services; the Secretary of Defense and the Secretary of the Navy. Copies will also be available to other interested parties who request them.

Sincerely yours,


Acting Comptroller General
of the United States