

**GAO**

Report to the Commander, Naval Sea  
Systems Command  
Department of the Navy

May 1986

# CONTRACT PRICING

## Material Prices Overstated on the Amphibious Assault Vehicle Contract



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United States  
General Accounting Office

San Francisco Regional Office  
B-219741

1275 Market Street  
Suite 900  
San Francisco, CA 94103

May 16, 1986

Vice Admiral William H. Rowden  
Commander, Naval Sea Systems Command  
Department of the Navy  
Washington, D.C. 20362

Dear Admiral Rowden:

As part of a nationwide review of contract pricing at 10 Department of Defense (DOD) contractor locations, we recently completed a review of subcontract pricing at FMC Corporation's Ordnance Division, San Jose, California. During this review we examined subcontract pricing on the 1984 option buy of amphibious assault vehicles, contract number N00024-82-C-2185. Our overall objective was to determine if subcontract costs included in the prime contract price were fair and reasonable. As part of this effort, we assessed whether the contractor complied with Public Law 87-653 in providing accurate, complete, and current cost or pricing data.

We believe FMC overstated the proposed prices it gave the Navy's contracting officer for two of the eight subcontracted items we reviewed. FMC received lower quotations but did not disclose them to the procuring office. Prices for the two items were overstated by about \$1.4 million, including overhead and profit.

In the first case (\$552,353 of the \$1.4 million), FMC officials told us they disclosed the updated quotation during the final negotiation process. However, the Navy's negotiator told us that the updated price quotation was not disclosed. Further, the contracting officer's memorandum of negotiations shows that the contract price was not based on the latest quotation.

In the second case (the remaining \$828,366), FMC officials acknowledge that a lower price was available which should have been disclosed and have proposed a contract price reduction. The amount of the reduction remains to be negotiated. Detailed information concerning the two cases is presented in appendix I.

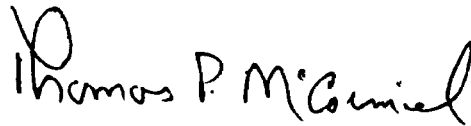
We believe this information provides a basis for your initiating action to obtain recovery of funds from FMC and we recommend you take such recovery action. We would appreciate being informed of any actions taken on this matter. If you or your staff need additional information or

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would like to discuss these matters, please call me or Mr. Steven G. Reed on (415) 556-6200.

Copies of this report are being sent to the Vice President and General Manager of FMC's Ordnance Division, San Jose, California; the DOD Office of the Inspector General, Washington, D.C.; the Regional Director, Defense Contract Audit Agency, San Francisco, California; and the Commander, Defense Contract Administration Services Region, Los Angeles, California. Copies will also be available to others upon request.

Sincerely yours,

A handwritten signature in black ink that reads "Thomas P. McCormick". The signature is written in a cursive style with a large initial "T" and "M".

Thomas P. McCormick  
Regional Manager



# Subcontract Prices Included in FMC's Amphibious Assault Vehicle Contract Number N00024-82-C-2185, 1984 Option

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## Background

Public Law 87-653, as amended, requires that, with certain exceptions, contractors submit cost or pricing data in support of proposed prices for noncompetitive contracts. Contractors are also required to certify at the time of agreement on price that the data submitted are accurate, complete, and current. In cases where Public Law 87-653 is applicable, a clause is included in the contract which gives the government a right to a price reduction if it is determined that the price was overstated because the data submitted were not in accordance with the statute and the certification.

The Naval Sea Systems Command (NAVSEA) awarded a fixed-price incentive contract, N00024-82-C-2185, to FMC in fiscal year 1982 for the conversion and production of amphibious assault vehicles for the Marine Corps. The contract provided a fiscal year 1984 renewal option which was subsequently negotiated in December 1983 for a target price of \$280.9 million.

FMC's Certificate of Current Cost or Pricing Data for the 1984 option was executed on December 21, 1983, and certified that data supplied to the government were accurate, complete, and current as of December 16, 1983.

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## Noncompliance With Public Law 87-653 Results in Overstated Prices

FMC did not submit accurate, complete, and current data for two of the eight subcontracted items we reviewed for the 1984 amphibious assault vehicle contract. As described below, FMC had received lower quotations but did not disclose these quotes to the procuring office.

In the first case, FMC proposed to furnish 274 rebuilt transmissions, part number 2600087-SR, at \$38,934 each, based on a May 26, 1983, price quotation from Twin Disc. The contracting officer accepted this proposed price during prime contract negotiations completed on December 16, 1983.

FMC received an updated price quotation of \$37,268 per unit in August 1983, but did not disclose it to the contracting officer. As a result, FMC's estimate included in the prime contract proposal for the transmissions was overstated by \$456,484, or \$552,353 with add-on pricing factors and profit included. FMC officials told us that the \$37,268 unit price offered by Twin Disc was disclosed during final negotiations. The NAVSEA negotiator disagrees with FMC's position and maintains that the higher unit price discussed in NAVSEA's negotiation memorandum represents the amount disclosed by FMC.

In the second case, FMC proposed to furnish 11,784 wheels, part number 2584507-S, at \$305.85 each, based on a March 28, 1983, price quotation from B and C Corporation. The contracting officer accepted the proposed unit price. FMC received a price quotation of \$249 per unit from Jay-Em Corporation on March 29, 1983, but did not disclose the quote to the contracting officer. As a result, FMC's subcontract proposal was overstated by \$699,920, or \$828,366 with overhead and profit included.

FMC officials acknowledge that the lower price quotation for wheels from Jay-Em Corporation should have been disclosed. They attribute their failure to disclose the lower price to systemic weaknesses in FMC's purchasing system and said they have improved their procedures and management controls to address these weaknesses. We did not evaluate FMC's actions to correct these weaknesses because at the time of our review they were still in the process of being implemented. On September 10, 1985, FMC told the contracting officer that our review had found that the lower price for the wheels had not been disclosed and proposed a contract price reduction. The amount of the reduction remains to be negotiated.

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## Objective, Scope, and Methodology

Our overall objective was to determine if subcontract costs included in prime contract prices were fair and reasonable. As part of this effort, we assessed whether FMC complied with Public Law 87-653 by providing accurate, complete, and current cost or pricing data on selected subcontracts. We conducted our review at FMC's Ordnance Division Operations, San Jose, California; NAVSEA, Washington, D.C.; and the Defense Contract Administration Services and the Defense Contract Audit Agency resident offices at FMC.

We reviewed prime contract file documentation, negotiation records, purchase order files, and related price proposals. We also interviewed contractor representatives and government officials responsible for procurement, contract administration, and contract audit.

We limited our review to a judgmentally selected sample of subcontract purchases over \$1 million. We examined purchases for 8 of the 19 subcontracted items in the contract priced over \$1 million. Total value of the eight purchases amounted to \$88.6 million, or 72 percent of the \$122.3 million in material proposed for the 1984 contract.

Our review was performed in accordance with generally accepted government auditing standards.





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