

GAO

Report to the Director, Cruise Missiles
Project, Naval Air Systems Command

October 1988

CONTRACT PRICING

Overpricing of Joint
Cruise Missiles
Automatic Test
Equipment



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United States
General Accounting Office
Washington, D.C. 20548

Detroit Regional Office

B-219741

Room 865
Patrick V. McNamara Federal
Building
477 Michigan Avenue
Detroit, MI 48226

October 24, 1988

Rear Admiral William C. Bowes, Director
Cruise Missiles Project
Code PDA 14-00
Naval Air Systems Command
Department of the Navy
Washington, D.C. 20361

Dear Admiral Bowes:

We reviewed the pricing of contract N00032-86-C-6125 awarded to Williams International Corporation, Walled Lake, Michigan. A letter contract for automatic test equipment was awarded on June 27, 1986, by the Joint Cruise Missiles Project Office. Our objective was to determine whether Williams complied with the Truth in Negotiations Act (Public Law 87-653), as amended, by providing accurate, complete, and current cost or pricing data.


The contract price was overstated by \$1,239,361, including overhead and profit, because subcontracting cost or pricing data included in Williams' proposal was not accurate, complete, and current. This overstatement occurred because (1) a subcontractor, Aero Systems Engineering, Inc., did not provide Williams with its most current pricing information for materials and (2) Williams did not use the most current pricing information it had for five Power Management Centers.

Although we did not obtain agency comments on this report, we discussed our results with the contracting officer, the contractor, and the subcontractor. The contracting officer and Aero officials agreed that we had accurately summarized the facts surrounding the contract negotiations. Williams officials did not comment on the accuracy of our summary but did provide several specific comments which we considered in preparing this report.

We believe the information in appendix I of this report provides a basis for you to initiate action to recover the overstated price from Williams, and we recommend that you take such action. We would appreciate being informed of any actions you take on this matter. If you or your staff need additional information, please call me or Mr. Lawrence L. Charron at (313) 226-6044.

Copies of this report are being sent to the Director, Contract Administration, Williams International Corporation, Walled Lake, Michigan; the Vice President, Government Marketing, Aero Systems Engineering, Inc., St Paul, Minnesota; the Department of Defense, Office of the Inspector General, Washington, D.C.; the Regional Director, Defense Contract Audit Agency, Boston, Massachusetts; and the Commander, Defense Contract Administration Services Region, Cleveland, Ohio. Copies will also be made available to others upon request.

Sincerely yours,



Milo L. Wietstock
Acting Regional Manager

Contents

Letter		1
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Appendix I		6
Overpricing of Joint	Background	6
Cruise Missiles	Subcontract Price Included in Williams' Proposal Was Not	6
Automatic Test	Accurate, Complete, and Current	
Equipment Contract	Objective, Scope, and Methodology	8
<hr/>		
Appendix II		9
Major Contributors to	National Security and International Affairs Division	9
This Report	Detroit Regional Office	9

Overpricing of Joint Cruise Missiles Automatic Test Equipment Contract

Background

The Truth in Negotiations Act (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. The act also requires contractors to certify that data submitted are accurate, complete, and current. Noncompetitive contracts are required to include a clause that gives the government a right to a price reduction if it is determined that the price was overstated because the data submitted were not accurate, complete, or current.

The Joint Cruise Missiles Project Office awarded a noncompetitive letter contract—N00032-86-C-6125—to Williams International Corporation for automatic test equipment on June 27, 1986. On September 19, 1986, the Joint Cruise Missiles Project Office and Williams agreed to a price of \$14,604,291. Williams provided a Certificate of Current Cost or Pricing Data on September 22, 1986, and certified that the data submitted were accurate, complete, and current as of the price agreement date.

Subcontract Price Included in Williams' Proposal Was Not Accurate, Complete, and Current

A major part of Williams' proposal related to test equipment was to be acquired from a prospective subcontractor—Aero Systems Engineering, Inc. On June 23, 1986, Williams proposed \$10,144,174 for equipment and material to be supplied by Aero. After a series of revisions, Williams entered negotiations with the Joint Cruise Missiles Project Office on September 16, 1986, with a reduced proposal of \$9,705,869 for equipment and material to be supplied by Aero.

We found that the cost or pricing data supporting Williams' contract proposal were not accurate, complete, and current because (1) Aero did not give Williams its most current pricing information for materials and (2) Williams did not use the most current pricing information it had for five Power Management Centers to be acquired from Aero. The defective data were included in Williams' proposal to the Joint Cruise Missiles Project Office and, according to the record of negotiations, were used by the Navy contracting officer to negotiate the prime contract price. As a result, the contract price was overstated by \$1,239,361, including overhead and profit.

Updated Aero Cost Data Not Disclosed

Williams' final proposal to the Joint Cruise Missiles Project Office included \$2,957,775 for materials to be used by Aero. We found that these material costs were overstated by \$651,688 (\$1,134,315, including overhead and profit).

Prime contractors are required by the Federal Acquisition Regulation to obtain and evaluate subcontractor's cost or pricing data and submit the evaluation results to the government as part of its cost and pricing data. Based on data submitted by Aero on August 25, 1986, and updated on September 9, 1986, Williams' proposal to the Joint Cruise Missiles Project Office included \$2,957,775 for materials. Williams attempted to evaluate the subcontract on September 9, 1986, when it sent a fact-finding team to Aero to evaluate the subcontractor's cost and pricing data, including Aero's Bill of Material supporting the \$2.9 million. On September 12, 1 week before prime contract negotiations were completed, the Williams' fact-finding team concluded that Aero's records were inadequate to reach an opinion on the reasonableness of Aero's proposed material prices. However, Williams did not document the results of its fact-finding efforts. According to Williams officials, they told the contracting officer that "there were some problems" with the Aero cost data but did not tell the contracting officer the specific problems or their effect on Williams' proposed prices.

After Williams' fact-finding visit, Aero reevaluated its subcontract proposal. Aero updated its material prices, eliminated duplicate costs, and prepared a revised Bill of Material. Although available before prime contract price agreement, Aero did not disclose the cost or pricing data to Williams until it submitted a revised proposal on September 25, 1986—1 week after the Joint Cruise Missiles Project Office and Williams agreed to the prime contract price. This updated cost or pricing data showed that Aero's material costs were \$651,688 (\$1,134,315, including overhead and profit) less than the amount included in Williams' proposal to the Joint Cruise Missiles Project Office.

Aero officials confirmed that the cost data were available by September 19, 1986. Williams officials said that they provided the contracting officer with the cost information they had at the time of price agreement.

Williams Did Not Disclose Lower Costs for Power Management Centers

Williams' proposal included \$128,771 for Power Management Centers to be brought from Aero. The price was based on cost or pricing data Aero submitted to Williams in June 1986. However, before completing prime contract negotiations, Aero provided Williams a cost spreadsheet reducing the cost to \$37,427 and, according to Aero officials, told Williams of the reduced price. Williams did not disclose the lower price to the contracting officer. Williams officials stated that they did not know why the revised costs were not included in their proposal to the contracting

officer. As a result, the contract price was overstated by \$91,344 (\$105,046, including overhead and profit).

Objective, Scope, and Methodology

Our objective was to determine whether Williams complied with Public Law 87-653, as amended, by providing accurate, complete, and current cost or pricing data. We performed our review at Williams International Corporation, Walled Lake, Michigan; Aero Systems Engineering, Inc., St. Paul, Minnesota; Defense Contract Administration Services Plant Representative Office, Walled Lake, Michigan; Defense Contract Audit Agency, Detroit, Michigan; and the Joint Cruise Missiles Project Office, Washington, D.C.

We reviewed Aero's price proposals and supporting documents. We also reviewed Williams and government contract file documents, such as price proposals, cost analyses, and proposal evaluation reports and negotiation memorandums. Our review results were discussed with Williams and Aero representatives, Joint Cruise Missiles Project Office contracting officials, and Defense Contract Administration Services and Defense Contract Audit Agency representatives. Our review was performed in accordance with generally accepted government auditing standards from February 1988 through August 1988.

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