

United States General Accounting Office

GAO

Report to the Commander, U.S. Air Force
Aeronautical Systems Division

December 1988

CONTRACT PRICING

Material Prices Overstated on AN/APG-68 Radar Production Buys





**United States
General Accounting Office**

Philadelphia Regional Office

B-219741

**841 Chestnut Street,
Suite 760
Philadelphia, PA 19107**

December 15, 1988

Lieutenant General John M. Loh
Commander, Aeronautical Systems Division
Wright-Patterson Air Force Base, OH 45433

Dear General Loh:

We reviewed material prices under contracts F33657-85-C-2126 (P00003 and P00010) and F09603-84-G-1496 (QP4L05) awarded to Westinghouse Electric Corporation's Defense and Electronics Center in Baltimore, Maryland. The Air Force Aeronautical Systems Division awarded the contracts for production of the AN/APG-68 radar systems. Our objective was to determine whether Westinghouse complied with the Truth in Negotiations Act, Public Law 87-653, as amended, in providing accurate, complete, and current cost or pricing data.

The contract prices were overstated by \$254,399, including overhead and profit because Westinghouse did not disclose actual purchase prices for two parts and made an error in pricing another part. Westinghouse's Manager, Financial Policies and Procedures, agreed that the purchase prices were not disclosed and an error was made. According to the Manager, the company is prepared to contractually resolve this matter. Detailed information concerning the overstated prices is in appendix I.

We believe this report provides a basis for you to initiate action to recover the amounts by which the contracts were overstated, and we recommend that you do so. We would appreciate being informed of any actions taken on this matter.

Actual Purchase Prices
Were Not Disclosed

Westinghouse proposed to provide 12,936 capacitors at a unit price of \$11.47. However, Westinghouse purchased the capacitors before price agreement at an actual purchase price of \$11.31. Westinghouse did not disclose the lower prices. As a result, the part was overpriced by \$2,070 (12,936 units x \$0.16).

Westinghouse also proposed to provide voltage controlled oscillators at a unit price of \$2,200. While Westinghouse did buy 88 units at the proposed unit price, 173 additional oscillators were purchased before price agreement at a unit price of \$2,040. The lower purchase price was not disclosed. As a result, the part was overpriced by \$27,680 (173 units x \$160).

Mathematical Error

Westinghouse proposed to provide 253 multi-chip hybrid packages at a unit price of \$980.26. However, when calculating the unit price, Westinghouse made a mathematical error¹ that caused the unit price to be overstated by \$588.47. The error caused the hybrid packages to be overpriced by \$148,883.

Objective, Scope, and
Methodology

Our objective was to determine whether Westinghouse complied with the Truth in Negotiations Act by submitting accurate, complete, and current cost or pricing data. We performed our work at Westinghouse Electric Corporation's Defense and Electronics Center in Baltimore, Maryland; U.S. Air Force Aeronautical Systems Division, Wright-Patterson Air Force Base, Dayton, Ohio; and the Defense Contract Audit Agency and the Air Force Plant Representative Offices at the Defense and Electronics Center.

We reviewed a judgmental sample of 27 material items. To achieve our objective, we reviewed contract file documents, 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.

Our review was performed from April to September 1988 in accordance with generally accepted government auditing standards.

¹Westinghouse purchased 633 hybrid packages on October 10, 1986, at a cost of \$248,005, or \$391.79 per unit. Westinghouse incorrectly divided the total purchase price by the 253 units required for contract P00003 instead of the 633 units actually purchased.

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Background

With certain exceptions, the Truth in Negotiations Act, Public Law 87-653, as amended, requires contractors to submit cost or pricing data to support proposed prices for noncompetitive contracts. The act also requires contractors to certify that the data submitted are accurate, complete, and current. When the act is applicable, the government has a right to a price reduction if it is determined that the contract price was overstated because the data submitted were not accurate, complete, or current.

We reviewed the pricing of 27 parts included in three firm fixed-priced AN/APG-68 radar systems contracts. Contract details are in table I.1.

Table I.1: Contracts Reviewed

	Contract amount	Price agreement date
F33657-85-C-2126 (P00003)	\$262,593,368	10-23-86
F33657-85-C-2126 (P00010)	217,292,471	6-19-87
F09603-84-G-1496 (QP4L05)	150,707,529	6-19-87

Noncompliance With Public Law 87-653 Resulted in Overstated Material Prices

Westinghouse's material prices were overstated by \$254,399, including overhead and profit, because the company failed to disclose actual purchase prices for two parts and made a mathematical error in pricing another part. Table I.2 lists the three parts and the amount of overpricing.

Table I.2: Overstated Material Prices

Item	Part number	Amount of overpricing
Contract P00003		
Capacitor	582R432H07	\$2,070
Multi-chip hybrid package	585R587A03	148,883
Contracts P00010 and QP4L05		
Voltage controlled oscillator	12604339	27,680
Total		\$178,633
Overhead and profit		75,766
Total		\$254,399

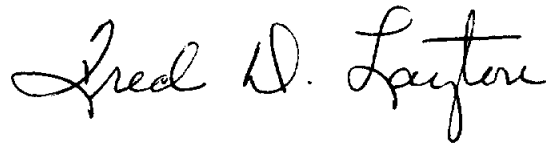
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Copies of this report are being sent to the Manager, Financial Policies and Procedures, Westinghouse Electric Corporation, Defense and Electronics Center; the Department of Defense Office of the Inspector General, Washington, D.C.; the Defense Contract Audit Agency Resident Office, Westinghouse Electric Corporation, Baltimore, Maryland; and the Air Force Plant Representative, Westinghouse Electric Corporation, Defense and Electronics Center, Baltimore, Maryland. Copies will be made available to others upon request.

The major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads "Fred D. Layton". The signature is written in dark ink and is positioned above the typed name.

Fred D. Layton
Regional Manager

