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Dear Senator Proxmire:

Reference is made to your letter of December 18, 1969, transmitting a report prepared by Ernst & Ernst which you received from the Consulting Engineers Council of Wisconsin. The report contains a study of the cost of the Federal Aviation Administration's airport obstruction charts program. In your letter you requested our comments relative to this study and suggested that it might be of some assistance to us in a study we are presently conducting to compare the advantages and logic of various interest and discounting techniques used for project and program evaluation.

As indicated to you in our letter dated August 11, 1969, we made a study of the comparative costs of procuring 150 airport obstruction charts required for 1969 on an in-house basis versus a contracted basis. Our study consisted primarily of a review of cost data prepared by the Coast and Geodetic Survey and furnished to Federal Aviation Administration for use in its cost comparison. In addition, Federal Aviation Administration obtained bids from private industry and selected the lowest technically responsive proposal for use in its cost comparison. The results of our study were included in our report to the Chairman, Committee on Merchant Marine and Fisheries, House of Representatives (B-165504, dated December 10, 1968).

The Ernst & Ernst study differs in certain material respects from the cost comparison included in our report. The Ernst & Ernst cost comparison includes in-house costs on the basis of a full-cost allocation concept, whereas, our report includes in-house costs computed by the incremental cost method prescribed in Bureau of the Budget Circular No A-76, a method which we considered appropriate.

Our cost comparison showed that it would have been more costly to the Federal Government if Federal Aviation Administration had contracted for the airport obstruction charts with the private company which submitted the lowest technically responsive proposal. The Ernst & Ernst basic cost comparison produced results similar to ours in that it showed that procurement of the charts from private industry was more expensive than from Government sources. However, in its report Ernst & Ernst indicated that the financial effect on the Government of contracting airport obstruction charts to private industry could range from increased costs of \$200,000 to possible

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savings of \$135,000. The possible savings were contingent upon two additional considerations. (1) the avoidance of procurement costs of \$197,500 and (2) the elimination of \$335,000 representing the entire amount provided for Government inspection of contractor work.

The first consideration resulted in a downward adjustment of the cost of obtaining airport obstruction survey services from private contractors by about \$197,500 based on the assumption that one technically nonresponsive proposal to Federal Aviation Administration's request for bids could have been amended by negotiation to make it technically responsive without increasing the price proposed by the contractor. We believe that it is logical to assume that further negotiation may have made this proposal technically acceptable, however, we have no basis for concluding that such negotiation would not have resulted in increasing the contractor's price proposal.

The second consideration resulted in the elimination of the entire cost for Government inspection of work performed under the private contractor alternative, which was estimated to be \$335,000. It is our opinion that some costs for inspection and verification are necessary for consideration in the computation of costs for contractor-furnished services as we indicated in our previously cited report and in our letter to you, dated August 11, 1969. An adjustment which eliminates all costs associated with inspection and verification is not, in our opinion, appropriate.

Thank you very much for the Ernst & Ernst report and your continued interest in the work by our Office.

Sincerely yours,



Assistant

Comptroller General  
of the United States

The Honorable William Proxmire  
United States Senate

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INQUIRY RELATIVE TO ERNST & ERNST COST STUDY  
OF THE FEDERAL AVIATION ADMINISTRATION'S  
AIRPORT OBSTRUCTION CHARTS PROGRAM

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Letter report to Senator William Proxmire pursuant to his request.

The report contained information relative to the material differences between the Ernst & Ernst cost study of the Federal Aviation Administration's airport obstruction charts program and our cost comparison of the same program as set forth in a ~~Report of 1968~~ report to ~~Congressman Edwards~~.

~~the~~ <sup>the</sup> Chairman of the House Committee on Merchant Marine and Fisheries.

(B-165504, dated December 10, 1968).

Information On The Ernst & Ernst Study And Cost Comparison  
For The FAA Airport Obstruction Survey Programs - - Federal  
Aviation Administration, Department Of Transportation

9/15/48