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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

B-169434

JUL 25 1973

The Honorable James C. Fletcher
Administrator, National Aeronautics ³⁶
and Space Administration

Dear Dr. Fletcher:

We recently reported to the Secretary of Defense on our review of subcontract estimates included in Department of Defense (DOD) prime contract prices negotiated on the basis of cost or pricing data submitted and certified as required by Public Law 87-653. We wanted to find out if contracting officials had required prime contractors to support major subcontract estimates with subcontractor cost or pricing data. In conjunction with this review, we made a limited inquiry into National Aeronautics and Space Administration (NASA) policies on obtaining subcontractor cost or pricing data to support subcontract estimates in prime contractors' proposals and examined several subcontract estimates in prime contracts awarded by the Lyndon B. Johnson Space Center, Houston, Texas.

We found that NASA, unlike DOD, does not have a mandatory requirement for prime contractors to support major subcontract estimates in noncompetitive proposals with subcontractor cost or pricing data, although it has instructed its procurement officials to obtain such data when appropriate. NASA officials feel that a mandatory requirement would delay procurement. This, however, has not been a problem for DOD.

Our review of three subcontract estimates included in two prime contracts awarded by the Space Center showed that the supporting subcontractor cost or pricing data obtained was incomplete in all respects for two of the estimates and was partially complete for the third. We believe that making submission of subcontractor data mandatory would improve the subcontractor data received from prime contractors and aid the contracting officers in evaluating the reasonableness of

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subcontract estimates. Further, it seems reasonable that prime contractors should be required to submit and to certify cost or pricing data supporting subcontractor estimates to the same extent as the prime contractors certify data supporting their own estimates.

DOD's REQUIREMENTS FOR SUBMITTING
SUBCONTRACTOR COST OR PRICING DATA

On October 10, 1969, DOD issued Defense Procurement Circular (DPC) Number 74, effective January 1, 1970. This DPC, incorporated into the Armed Services Procurement Regulation (ASPR), provides that prime contractors required to submit cost or pricing data under Public Law 87-653 must also submit to the contracting officer and certify cost or pricing data from prospective subcontractors to support each subcontract estimate included in the prime contractor's submission that is (1) \$1 million or more, (2) both more than 10 percent of the prime contractor's proposed price and more than \$100,000, or (3) considered necessary by the contracting officer for proper pricing of the prime contract. Exemptions from this requirement can be granted when the subcontract price is to be based on adequate price competition, established catalog or market price of a commercial item sold to the general public in substantial quantities, or prices set by law or regulation.

NASA's POSITION ON DPC-74

Although NASA is subject to Public Law 87-653, it did not incorporate DPC-74, as it has other DOD regulations, into its procurement regulations. NASA advised its procurement officials that DPC-74 would be studied for future application, but in the interim major subcontract efforts should continue to be closely reviewed and, when appropriate, prospective subcontractor cost or pricing data and related audit advisory reports should be obtained. NASA personnel advised us that this is still NASA's policy.

We were further advised by NASA personnel that mandatory implementation of DPC-74 requirements would delay procurements because prime contractors would need additional time to obtain

and verify cost or pricing data from subcontractors. They also emphasized that most of NASA's work is research and development, whereas DOD's procurements are heavily production oriented, and that firm cost information is generally not available for this type of work.

DOD's IMPLEMENTATION OF DPC-74

Our review of DOD's efforts to implement DPC-74 requirements showed that some problems exist, related primarily to the quality of the subcontractor cost or pricing data received. We found, however, that the subcontractor cost or pricing data that was obtained aided the contracting officers in evaluating the reasonableness of the subcontract estimates and in negotiating with the prime contractors.

Contracting officers and prime contractors with whom we spoke indicated the new requirements had not caused significant administrative problems. We did not find that the procurement leadtime was significantly increased because of the data submission requirement. We found that this requirement was imposed even when firm cost information was not available.

INFORMATION OBTAINED AT SPACE CENTER

Space Center officials advised us that local directives have not been issued requiring prime contractors to support major subcontract estimates with cost or pricing data from prospective subcontractors. We were told, however, that, when substantial subcontract effort is involved, Space Center contracting officers require prime contractors to support subcontract estimates with subcontractor cost or pricing data.

To evaluate the adequacy of subcontractor cost or pricing data being received by the Space Center, we reviewed three subcontract estimates included in the prices of two prime contracts. Two of the subcontract estimates were over \$1 million and one was both over \$100,000 and 10 percent of the prime contract price.

Supporting cost or pricing data for two of the subcontractor proposals was incomplete in all respects and for the third proposal it was partially complete. For the two proposals we considered incomplete, the basis or rationale used in preparing the estimate was not explained or the source data from which the estimate was derived was not identified. This was particularly notable for the labor-hour estimates. For most of the estimates in the third proposal, information was submitted to identify the source data used as a basis for estimating.

Most of the contracting officers we spoke with did not object to NASA's adopting requirements similar to DPC-74, nor could they foresee any significant administrative problems. They felt that their practice was essentially in keeping with the intent of the DOD requirement. They indicated, however, that a formal requirement for submission of subcontractor cost or pricing data would probably result in upgrading the quality of subcontractor data furnished by the prime contractors and would aid in negotiating with the prime contractors.

However, the Space Center's Assistant Director for Procurement and the Deputy Chief, Program Procurement Division, rejected adopting these requirements, stating they would not be feasible or practicable because most of NASA's work is in research and development. The Assistant Director said that at the beginning of a major program, such as Apollo, Skylab, and Space Shuttle, only general program objectives are known; thus, it is impossible at that time to define ultimate program cost or the extent of subcontracting.

Overall, these officials characterized any attempts to implement the DOD requirements in the early phase of a major program as an "administrative nightmare." They stated, however, that applying these requirements would not be totally unrealistic once a program had progressed to the point that requirements were more clearly defined and subcontractors had been selected.

CONCLUSIONS

Space Center contracting officers would generally support NASA's adopting mandatory requirements, similar to DOD's, that prime contractors submit and certify subcontractor cost or pricing data to support major subcontract estimates. Space Center procurement officials and NASA personnel generally would oppose such mandatory requirements, primarily because they feel NASA's research and development work is not susceptible to accurate costing and because they fear a significant amount of additional time would be required for the prime contractors to obtain this data.

Nevertheless, Public Law 87-653, which applies to NASA, requires that cost or pricing data and a certificate be obtained from contractors prior to award of any negotiated non-competitive contract exceeding \$100,000 and does not exempt research and development contracts. When subcontract estimates are a substantial portion of a contractor's proposed costs, we believe prime contractors should be required to submit and to certify subcontractor cost or pricing data to support such estimates to the same extent as they support their own cost estimates.

We recognize that research and development work may not be susceptible to accurate costing because prior cost experience may not be available and cost estimates would be based on judgments unsupported by factual data. However, submission of cost or pricing data would make these circumstances known to the contracting officers.

We believe that NASA's adopting requirements similar to DOD's would improve the data packages being received from the contractors. This would aid the contracting officers in evaluating the reasonableness of the subcontract estimates and in negotiating with the prime contractors.

RECOMMENDATION

We recommend that NASA further consider adopting requirements for submission by prime contractors of subcontractor cost or pricing data to support major subcontract estimates.

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We shall appreciate your comments on this matter and shall be pleased to furnish any additional information we have on this review.

Copies of this letter are being sent to the Director, Office of Management and Budget, and to the Chairmen of the Senate and House Committees on Government Operations, Appropriations, and Armed Services.

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Sincerely yours,



R. W. Gutmann
Director