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UNITED STATES GENERAL ACCOUNTING OFFICE  
REGIONAL OFFICE  
ROOM 7054, FEDERAL BUILDING  
300 NORTH LOS ANGELES STREET  
LOS ANGELES, CALIFORNIA 90012

JUN 30 1971

Mr. J. C. Cozad  
Vice President, Financial Management  
North American Rockwell Corporation  
Electronics Group  
3370 Miraloma Avenue  
Anaheim, California 92803



Dear Mr. Cozad:

This is to advise you that we have completed our review of the prices negotiated for contract N00024-68-C-5253, order number 97 to Basic Ordering Agreement (BOA) N00104-68-A-0004, and order number 69 to BOA N00383-69-A-0005 awarded to North American Rockwell Corporation. Contract -5253 was issued by the Naval Ship Systems Command and provided for component parts for the MK2 Ships Inertial Navigation Systems (SINS). Order 97 was issued by the U. S. Navy Ships Parts Control Center for MK11 SINS spare parts. Order 69 was issued by the U. S. Navy Aviation Supply Office for miscellaneous spare parts for the A5 aircraft.

Our review was primarily directed towards determining the reasonableness of proposed contract costs in accordance with the requirements of Public Law 87-653 and the implementing provisions of the Armed Services Procurement Regulation.

We found that the proposed material costs for order 97 were higher than indicated by available cost information by about \$7,000, including add-on pricing factors. Although we have no major questions regarding the negotiated prices of contract -5253 and order 69, we found that proposed material costs for contract -5253 were not updated to reflect current purchase history despite substantial time lapses between the dates of the original cost proposal and contract negotiations. With respect to order 69, we are unable to express an opinion as to the reasonableness of proposed fabrication labor hours because pertinent contractor records were not retained.

The results of our review, which were discussed with company officials at the completion of our work, are presented below.

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Order 97 to BGA N00104-68-A-0004

We estimate that proposed material costs were higher than indicated by available cost information by about \$4,100 or about \$7,000, including add-on pricing factors. This resulted because the proposal was not updated to reflect purchases made under order 97 prior to contract negotiations on October 25, 1968. For example, a unit cost of \$52.34 was proposed for part number 261-0137-001 based on a purchase of 19 units on May 6, 1968. However, 25 units were purchased at \$22.77 each on July 25, 1968, 3 months prior to negotiations to fulfill the requirements of order 97. As another example, a unit cost of \$30.25 was proposed for part number 141-0119-001 based on the average inventory value at April 17, 1968. However, 20 units were purchased at \$12.80 each on September 25, 1968, 1 month prior to negotiations to fulfill the requirements of order 97.

In our opinion, such information should have been disclosed to the contracting officer at negotiations. Company officials agreed with our observations on the need to update the proposal and stated that there had been an oversight in the estimating process.

Contract N00024-68-C-5253

We found that proposed material costs were not updated to reflect current purchase history despite substantial time lapses between the dates of the original proposal submission and contract negotiations as follows:

<u>Contract line item</u>	<u>Date of proposal</u>	<u>Date of negotiations</u>
Gyro Monitor Gimbal	8/11/67	5/31/68
Gimbal Support Assembly	11/22/67	5/31/68

In our review of selected part numbers, we found several cases where more current cost data was available at the date of contract negotiations but was not disclosed to the contracting officer. Although the use of more current data would not have made a significant difference in the overall proposed price, the delays in the negotiation process should have alerted the contractor to consider the availability of more current material cost data.

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Company officials agreed with our observations and stated that there had been an oversight in the estimating process.

Order 69 to BOA N00383-69-A-0005

North American proposed 7,780 fabrication labor hours on the basis of 1,655 standard hours increased by a 4.7 labor realization factor. The Air Force Plant Representative Office had accepted the factor on March 12, 1970, for use in pricing ground support equipment (GSE) spares orders under BOA -0005 through September 30, 1970. The labor realization factor was developed based on a comparison of engineered standards to actual fabrication hours experienced in the production of A5/GSE spare parts during the period September 1969 through January 1970.

We were unable to determine whether the 4.7 labor factor was based on current, complete, and accurate cost or pricing data because the records apparently used to develop the factor were not retained (Weekly Productivity Report #R672-12A and -12B). Company officials advised us that these records were normally not retained longer than 1 year. However, they agreed that the records, in this case, constituted pertinent cost or pricing data and should have been retained in accordance with the contract requirements. They further advised us that the records would be retained in the future.

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We would like to take this opportunity to acknowledge the courtesy and cooperation extended to our representatives during the review. We would appreciate any comments you may wish to make on the matters discussed in this letter, including actions taken or planned concerning the retention of pertinent pricing records and the need to update cost proposals. We would also be pleased to meet and discuss these matters in further detail if you so desire.

For your information, we are also reporting the results of our review to the Commanding Officers, Naval Ship Systems Command, U. S. Navy Ships Parts Control Center, and U. S. Navy Aviation Supply Office.

Mr. J. G. Gozad

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In addition, copies of the letter reports to these activities are being sent to the Regional Manager, Defense Contract Audit Agency, the Commander, Headquarters, Air Force Contract Management Division, and the Air Force Plant Representative at North American Rockwell Corporation, for their information.

Very truly yours,

H. L. KRIEGER  
H. L. KRIEGER  
Regional Manager

cc: Mr. Laurence Kittle  
Management Systems, Dept. 011

bcc: Associate Director, DD - J. H. Hammond



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JUN 30 1971

Rear Admiral Nathan Sennsheim  
Commanding Officer  
Naval Ship Systems Command  
Department of the Navy  
Washington, D. C. 20360

Dear Admiral Sennsheim:

As part of our review of the negotiation of contract prices under the provisions of Public Law 87-453, we have examined into the price proposed and negotiated for firm fixed-price contract N00021-68-C-5253 awarded to North American Rockwell Corporation, Anaheim, California, by the Naval Ship Systems Command. The contract was awarded on June 11, 1968, in the amount of \$302,700 and provided for component parts for the ME2 Ships Inertial Navigation Systems.

Our review was primarily concerned with (1) the reasonableness of the price negotiated in relation to cost or pricing data available at the date of contract negotiations, (2) the adequacy of the evaluations of the contractor's cost proposal by Government representatives, and (3) the adequacy of the contractor's cost or pricing data submissions for compliance with pertinent provisions of the Armed Services Procurement Regulation (ASPR).

Although we have no major questions concerning the negotiated price, we noted that the contractor did not update proposed material costs to reflect current purchase history despite substantial time lapses between the dates of the original proposal, preaward audit, and contract negotiations. This matter has been referred to cognizant Defense Contract Audit Agency personnel at the contractor's plant for consideration in their continuing surveillance of the contractor's cost estimating system.

We also found that the contractor's cost proposal submission properly identified the basis for proposed costs as required by ASPR and the evaluations of the cost proposal by Government representatives were generally adequate.

Dear Admiral Nathan Rosenblatt  
Commanding Officer, RSCC

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No further reporting of the results of our review is contemplated at this time. However, copies of this letter are being sent to the Regional Manager, Defense Contract Audit Agency; the Commander, Headquarters, Air Force Contract Management Division; and the Air Force Plant Representative at North American Rockwell Corporation, for their information.

Sincerely yours,

H. L. KRIEGER

H. L. KRIEGER  
Regional Manager

cc: Regional Manager, DEAA, Los Angeles  
Commander, Headquarters, RSCC, Los Angeles  
Air Force Plant Representative, North American  
Rockwell Corporation, Anaheim

bcc: Associate Director, DD - J. H. Hammond  
Regional Manager, Washington