



087447



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

PROCUREMENT AND SYSTEMS  
ACQUISITION DIVISION

B-168450

PCP 1 10

Army Library  
Law Section

SEP 29 1975

The Honorable  
The Secretary of Defense

Attention: Assistant Secretary of Defense  
(Comptroller)

Dear Mr. Secretary:

Title

We completed a limited examination of techniques used by Defense procurement personnel to determine the reasonableness of noncompetitive fixed-price contract proposals within the \$10,000 to \$100,000 range. Our objective was to determine whether the Government's evaluation of contractors' price proposals was adequate to assure the negotiation of fair and reasonable prices.

We made our examination at the Naval Sea Systems Command, Washington, D.C., and the Army Aviation Systems Command, St. Louis, Missouri. We selected these activities because they awarded many noncompetitive contracts within this price range.

We reviewed 24 contracts with a total value of approximately \$1.3 million. We estimate the military departments awarded noncompetitive fixed-price contracts valued at approximately \$1.7 billion in the \$10,000 to \$100,000 range during fiscal year 1974.

In many of the contracts we examined, the information in the contract file did not support the contracting officer's determination that the price was reasonable. In determining the reasonableness of prices, the contracting officers generally relied on (1) recommendations by technical personnel, such as engineers from the requisitioning office, (2) comparisons of the price offered to previous prices paid, or (3) other price analysis techniques. The Armed Services Procurement Regulation (ASPR) states that those techniques can be used to determine the reasonableness of price if less than \$100,000 is involved. However, we found that these techniques were not always properly accomplished. In many cases recommendations received from technical personnel were not supported and the reasonableness of previous prices, which were used for comparison, had not been established. In addition, other price analysis techniques used were not adequate to support a reasonableness determination.

770310/087447

PSAD-76-30

6-168450

CONTRACTING OFFICER'S RESPONSIBILITY

ASPR states that some form of price or cost analysis is required for every negotiated procurement action. Cost analysis, however, is generally reserved for procurements over \$100,000. Price analysis--the process of examining and evaluating a prospective price without evaluating separate cost elements and profit of the individual prospective supplier whose price is being evaluated--is used in all other instances to determine price reasonableness. ASPR further states that price analysis may be accomplished by (1) comparing price quotations, (2) comparing previous prices and quotations with current quotations for the same or similar items, (3) using rough yardsticks (dollars a pound, etc.) to point out gross inconsistencies, (4) comparing proposed prices with estimates of cost independently developed by personnel of the purchasing activity, or (5) evaluating limited cost data obtained from the contractor.

The method and degree of analysis depends on the facts surrounding the particular procurement and pricing situation. ASPR emphasizes, however, that the contracting officer should remain responsible for determining the suitability of the contract price to the Government.

INADEQUATE EVALUATIONS

In 17 of the 24 contracts we reviewed, the contracting officer did not have a sound basis for determining that the proposed price was fair and reasonable. In 4 of these 17 contracts, primary reliance was placed on unsupported recommendations by engineering or other technical personnel; in 7 contracts primary reliance was placed on a comparison of the proposed price to previous prices paid even though the reasonableness of previous prices had not been established; and in the remaining 6 contracts other price analysis techniques used were not adequate to support a reasonableness determination. A summary of our findings follows.

B-168450

<u>Contracts reviewed</u>		<u>Determination of reasonableness of price</u>			
<u>Number</u>	<u>Value</u>	<u>Adequate support</u>		<u>Inadequate support</u>	
		<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
24	\$1,300,900	3	\$348,126	17	\$952,774

Unsupported technical recommendations

ASPR states that the contracting officer **must** evaluate the performance of the specialists used to negotiate contracts. For four of six contracts where engineering personnel in the requisitioning office were asked to help evaluate the proposed price, we found no evidence that recommendations received were evaluated by the contracting officer even though in each case no **substantive** rationale was **provided** to support the recommendation. Generally, the recommendations received from the engineers **did** not adequately describe the scope or detail of the evaluation performed, the specific data analyzed, or the facts developed. Apparently most of the recommendations were **based** on the engineer's judgment rather than on a systematic evaluation of the **proposed** price. Such a limited evaluation, especially when it **represents** the primary evaluation of the proposal, does not assure the contracting officer that the proposed price is reasonable. **An** example follows.

The requisitioning office received an unsolicited proposal for radar related equipment with a quote of \$31,740. The office released a procurement request 2 months later with an estimated cost, based on an unsupported engineering estimate, of \$32,000. Later the procurement activity received a revised proposal for \$30,942 from the contractor. This proposal was sent to the requisitioning office for evaluation. The office commented that the labor and overhead appeared reasonable and that the price for material was moderate. The **proposed** price was less than the office's original estimate of \$32,000.

Although the requisitioning office **said** the proposal was reasonable and acceptable, we found no accompanying rationale or support for either the original government estimate or the favorable technical recommendation of the contractor's labor, material, and overhead costs. Without this support and rationale, the contracting officer could not effectively evaluate the recommendations. Nevertheless, the contracting officer relied on these recommendations and awarded the contract for \$30,942.

B-168450

Reasonableness of previous prices ~~not~~ determined

ASPR states that the comparison of previous quotations and contract prices with current quotations for the same or a similar item may not detect an unreasonable quotation unless (1) the reasonableness of the previous price was established and (2) changes in the general level of business and prices have been considered.

In seven of the eight cases where this technique was used to evaluate the reasonableness of the proposed price, we found no evidence that the contracting officer confirmed the price used for comparison had ever been determined to be reasonable. In most cases, the previous prices we reviewed were determined to be reasonable based on still other previous prices the reasonableness of which was not indicated. Further, in some instances the price used as comparison had been awarded 2 or 3 years earlier. An example follows.

In November 1973 the \$94,000 proposed price for geared adapter assemblies was determined fair and reasonable by (1) reference to unsupported statements by the contractor relative to the price charged commercial customers and (2) comparison of the price to previous prices awarded in January 1973 and August 1971. This price comparison, as shown below, indicated a substantial rise in price,

<u>Date of award</u>	<u>Quantity</u>	<u>Unit price</u>	<u>Shipping</u>
Contract under review November 1973	210	\$449.25	FOB Origin
Prior prices used for comparison:			
January 1973	98	401.25	FOB Destination
August 1971	210	385.60	FOB Destination

We reviewed the previous contracts and found that these prices were determined to be fair and reasonable based on comparison to other previous prices and the contractor's unsupported claim that the item was a commercial product. We found no evidence that these prices were otherwise determined to be fair and reasonable.

Other inadequate price analysis techniques

In 10 cases the determination of price reasonableness was based on a combination of various price analysis techniques. In six of these cases the techniques used were not adequate to support the determination of price reasonableness. An example follows.

For a procurement of one air compressor, the proposed price of \$64,000 was determined to be fair and reasonable on the basis of (1) an offer from a second source, (2) an independent Government estimate, and (3) a comparison with a recent price for similar compressors. On the basis of our review of available data in the contract files and discussions with agency personnel, we do not believe these techniques clearly established that the proposed price was fair and reasonable. The comparison bid was withdrawn because the contractor could not meet the required specifications. The engineer who prepared the Government estimate said it was only a rough estimate which could have Seer, off by several thousand dollars. The most recent price used for comparison was about \$9,000 less than the current offer. Although it was stated that the proposed price was within a reasonable range of the competitive price data when taking into consideration the significant difference in quantities (1 versus 22), the early delivery (10 months versus the normal lead time of 18 to 24 months), and the time period between procurements (12 months), no support was given as to the cost associated with these factors. Further, the engineer who evaluated the price said the only pricing information available to him was the quotes from the two sources. He also said a breakdown of engineering and manufacturing Labor hours would have helped him to effectively evaluate the proposed price.

Because these price analysis techniques did not clearly establish the reasonableness of the price, we believe the contracting officer should have supplemented them, as permitted by ASPR, with an analysis of the contractor's supporting cost data for the major material and labor cost.

AGENCY ACTIONS AND COMMENTS

While our examination was in progress, the Naval Sea Systems Command, as a result of inadequate and Limited in-house pricing support being received from requisitioning offices, issued a mandatory instruction requiring the cognizant engineer to provide rationale and data to support his recommendations.

B-168450

We discussed our findings informally with each procuring activity and considered their comments while preparing this report.

RECOMMENDATIONS

We recommend that your Department reemphasize to all procurement offices the need to adequately analyze nonecompetitive price proposals even though relatively small dollar amounts--\$10,000 to \$100,000--are involved.

We also recommend that copies of this report be distributed to all Defense procurement offices as an example of matters which should be given special attention during the evaluation of non-competitive proposals in this price range.

- - - -

We would appreciate receiving your comments on these matters and would be pleased to discuss any questions that you may have.

We are sending copies of this letter to the Director, Office of Management and Budget; the Secretaries of the Army, Navy, and Air Force; and the Director, Defense Supply Agency. We are also sending copies to the Chairmen of the Senate and House Committees on Government Operations, Appropriations, and Armed Services.

Sincerely yours,



R. W. Gutmann  
Director