

DOCUMENT RESUME

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[Examination of the Pricing of a Negotiated Fixed-Price Incentive Contract Awarded on a Noncompetitive Basis]. August 1, 1977. 2 pp.

Report to Robert S. Cooper, Director, National Aeronautics and Space Administration: Goddard Space Flight Center, Greenbelt, MD; by Gilbert P. Stromvall, Manager, Field Operations Div.: Regional Office (Chicago).

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Organization Concerned: International Telephone and Telegraph Corp.: Aerospace Optical Div.  
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International Telephone and Telegraph (ITT) failed to provide accurate, complete, and current cost or pricing data at the time of negotiation of a fixed-price incentive contract for flight models and flight model parts for the National Aeronautics and Space Administration (NASA).  
Findings/Conclusions: Examination of the NASA procurement files and the cost and pricing data submitted by ITT showed that the contract price was overstated by about \$62,000 because of ITT's misrepresentation of pricing of integrated circuits. Although ITT indicated in its technical proposal that it would use integrated circuits from Texas Instruments, Inc., they priced out the proposal using much higher priced integrated circuits from National Semiconductor. After the contract award, ITT purchased the lower priced Texas Instrument parts. The estimated difference between the proposed purchase price included in the proposal and the actual purchase price amounted to about \$33,300. The total overpricing included the proposed ITT factors for such items as material escalation, normal parts replacement, and general overhead and profit. Had ITT provided appropriate data, the contracting officer would have had a sound basis for negotiating a lower contract price. Recommendations: The Director of the Goddard Space Flight Center should direct the contracting officer to evaluate the available data to determine whether the Government is entitled to a price adjustment under the contract. (SC)

03244.



UNITED STATES GENERAL ACCOUNTING OFFICE  
REGIONAL OFFICE  
FEDERAL BUILDING, 16TH FLOOR WEST  
230 SOUTH DEARBORN STREET Street  
CHICAGO, ILLINOIS 60604

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Dr. Robert S. Cooper  
Director, Goddard Space Flight Center  
National Aeronautics and Space  
Administration  
Greenbelt, Maryland 20771

Dear Dr. Cooper:

We have examined the pricing of negotiated fixed-price incentive contract NAS5-22497. Your agency awarded the contract on a noncompetitive basis to International Telephone and Telegraph (ITT) Aerospace Optical Division, Fort Wayne, Indiana, on July 31, 1975. The contract is for the fabrication, assembly, test, and delivery of four Advanced Very High Resolution Radiometer (AVHRR) flight models and common parts for four additional flight models. The target price, which includes a target profit of \$364,817, is \$3,296,784.

This work represents part of our program to monitor efforts of Government agencies to obtain goods and services at reasonable prices. The objectives of the examination were to determine whether (1) contracting officials obtained cost or pricing data as required by Public Law 87-653 and implementing NASA Regulations, (2) data obtained was evaluated and relied on in negotiating the contract prices, and (3) the negotiated price is reasonable based on cost or pricing data available to the contractor at the time of contract negotiation. We examined the NASA procurement files, the ITT submitted cost or pricing data, and, on a selected basis, the ITT costs incurred as of March 16, 1977.

Public Law 87-653 and NASA Regulations require contracting officials to obtain from contractors certified cost or pricing data in support of proposed prices for all negotiated contracts expected to exceed \$100,000, with certain exceptions. Contractors are required to certify that cost or pricing data used as a basis for negotiating contract prices is accurate, complete, and current. The Regulations also provide for postaward reduction of the contract price when the certified data is shown to be defective and the result is a significant increase in the negotiated price.

Our examination showed that the contract price was overstated by about \$62,000 because of ITT's misrepresentation of pricing of integrated circuits. In its technical proposal, ITT indicated that integrated circuits from Texas Instruments, Inc. (TI), Fort Wayne, Indiana, would be used in meeting contract requirements. Further, if original TI integrated circuits were not available, ITT stated that successor TI circuits would be used, but provided no indication of the potential price differential. However, ITT priced out the proposal using much higher priced integrated circuits from National Semiconductor in Santa Clara, California. After contract award, ITT purchased the lower priced successor TI parts.

We estimate the difference between the proposed purchase price included in the proposal and the actual purchase price amounted to about \$33,300. With the addition of the proposed ITT factors for material escalation, normal parts replacement, qualifications of alternate sources, bulk materials, material overhead, indirect expenses, general overhead, and profit, total overpricing amounted to about \$62,000.

ITT personnel advised us that they used the National Semiconductor quote because NASA had doubt about the performance of the TI circuits. However, NASA's contracting officer told us that ITT was advised during negotiations that the TI integrated circuits, both the original and successor, fully met NASA's requirements. NASA's contracting officer told us that he was not aware that substantially higher National Semiconductor quotes were used in the ITT proposal.

#### CONCLUSIONS AND RECOMMENDATIONS

We believe that ITT failed to provide accurate, complete, and current cost or pricing data at the time of negotiation. Had ITT provided appropriate data the contracting officer would have had a sound basis for negotiating a lower contract price.

We recommend that you direct the contracting officer to evaluate data we obtained, and any other available data, to determine whether the Government is entitled to a price adjustment under the contract.

Your comments on these matters will be appreciated.

Sincerely yours,  
G. F. Strowvall

G. F. Strowvall  
Regional Manager