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Lieutenant General James T. Stewart
Commander, Headquarters
Aeronautical Systems Division
Wright-Patterson Air Force Base, Ohio 45433



Dear General Stewart:

We recently completed a survey of the pricing of major subcontract R-798200-9558 awarded by The Boeing Company to Rockwell International Corporation, Autonetics Group, Anaheim, California. The subcontract was awarded under Air Force contract F33657-71-C-0918 for the fiscal year 1972 production buy of SRAM master computers used in the B-52 and FB-111 aircraft.

Our survey disclosed that pertinent lower-tier subcontract cost or pricing data apparently was not disclosed by Autonetics to the prime contractor or the Air Force prior to or during subcontract negotiations. Nondisclosure of the data may have adversely impacted the prime contract price. The data was identified during a Defense Contract Audit Agency (DCAA) postaward audit of the subcontract proposal. Agency auditors at the time, however, did not believe a sound basis existed for a contract price reduction.

We believe that the ASD contracting officer should determine whether the Government is entitled to a price reduction under the provisions of Public Law 87-653. Enclosed for your information is a copy of our letter to the Regional Manager, DCAA, Los Angeles, requesting a reevaluation of the position taken in the postaward audit.

We would appreciate being advised of any future actions taken or planned on this matter. If you have any questions, please let us know.

Sincerely yours,

J. T. HALL, JR.
Regional Manager

Enclosure:
Letter to DCAA Regional Manager, Los Angeles

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UNITED STATES OF AMERICA
REGIONAL OFFICE
ROOM 706A, FEDERAL BUILDING
300 NORTH LOS ANGELES STREET
LOS ANGELES, CALIFORNIA 90012

OCT 9 1971

Mr. Alex Soll
Regional Manager
Defense Contract Audit Agency
1340 West Sixth Street, 2nd Floor
Los Angeles, California 90017

Dear Mr. Soll:

We recently completed a survey at the Rockwell International Corporation, Autonetics Group, Anaheim, California, to determine whether a sufficiently sound basis existed for performing a detailed examination of the pricing of Boeing subcontract R-798200-9558. The award was made to Autonetics in July 1971 under Air Force contract F33657-71-C-0918 for the manufacture of SRAM master computers used in B-52 and FB-111 aircraft.

Your resident staff had performed a postaward audit of the pricing of the subcontract proposal. The review procedures followed were essentially in compliance with agency audit guidelines. The audit report, No. 429-164-0117 dated March 28, 1974, concluded that the final negotiated subcontract price was not significantly increased because the cost or pricing data submitted was incomplete or noncurrent as of June 18, 1971, the date of the Autonetics Certificate of Current Cost or Pricing Data. The audit working papers, however, contained information which indicated that Autonetics did not disclose pertinent cost or pricing data to Boeing and the Air Force prior to and during subcontract negotiations conducted June 8 through June 18, 1971.

Autonetics included in its proposal to Boeing a sole-source (Ampex) lower-tier subcontract price quotation dated March 23, 1971, for 155 computer core memories at \$11,695 a unit or a total of \$1,812,725.

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The following information included in the postaward working papers apparently was not disclosed:

- On June 1, 1971, Autonetics sent letters to Fabri-Tek and Electronic Memories (EMI) soliciting price proposals for the computer core memory hardware and two prototypes.
- On June 4, 1971, Autonetics advised Ampex that alternate source proposals for future requirements had been solicited, and that the probability existed at least a portion of the future requirements may be purchased from another supplier.
- On June 8, 1971, Autonetics received a quotation from EMI at a unit price of \$5,872 for hardware and \$35,000 for the two prototypes.
- On June 9, 1971, Autonetics received a quotation from Fabri-Tek at a unit price of \$7,432 for hardware and \$30,500 for the two prototypes.
- On June 10, 1971, in an internal letter from the Autonetics Major Subcontract Administrator, various program and contract officials were advised of receipt of the Fabri-Tek and EMI price quotations. The letter stated that the quotations offered an extremely attractive opportunity for cost savings over the present supplier's price. He suggested that an immediate plan of action be developed in conjunction with the program office to react to the new situation. The subcontract administrator also recommended that as a minimum the offers be evaluated at once for capability, accuracy, reasonableness, and compliance with requirements.

On July 15, 1971, subsequent to subcontract negotiations, Autonetics issued a TWX order to EMI for two prototypes. The order also provided for option purchases of hardware units. On July 16, 1971, Ampex lowered its unit price to \$7,500 and on July 23, 1971, Autonetics awarded Ampex a subcontract for the computer core memory hardware at the lower price.

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Mr. Alex Soll

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It appears that Fabri-Tek and HII price quotations and related correspondence constitute pertinent cost or pricing data which should have been disclosed by Autonetics to the prime contractor for consideration during subcontract negotiations. Accordingly, we have asked your resident office staff to reevaluate the position taken in the postaward audit report. Mr. Finn advised us that the matter was under consideration and the possibility existed that a supplemental audit report may be issued.

We would appreciate being advised of the disposition of this matter. If you have any questions, please let us know.

An information copy of this letter is being submitted to the Commander, Headquarters, Aeronautical Systems Division, Wright-Patterson Air Force Base, Ohio.

Sincerely yours,

J. T. HALL, JR.
Regional Manager

bcc: Assistant Director, PSAD/GP - C. Weinfeld

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