



UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
RICHARD W. FEDERAL BUILDING
300 NORTH LOS ANGELES STREET
LOS ANGELES, CALIFORNIA 90012

JUL 26 1973

Captain Stanley Gary
Commanding Officer
U. S. Naval Ordnance Station
Indian Head, Maryland 20640

Dear Captain Gary:

As part of our review of the ~~negotiation~~ of contract prices under the provisions of Public Law 87-653, we have examined into the price proposed and negotiated for firm fixed-price contract N00174-71-C-0289 awarded to Talley Industries of Arizona, Mesa, Arizona, by the U. S. Naval Ordnance Station. The contract was awarded on March 12, 1971, in the amount of \$656,064 and provided for the production of rocket catapults. The contract price was subsequently increased to \$700,578 for additional units.

Our examination was primarily concerned with the reasonableness of the price negotiated in relation to cost or pricing data available at the date of contract negotiations and the adequacy of technical and audit evaluations of the contractor's cost proposal. Our review of proposed labor hours was limited to historical data on completed job orders for previous procurements as the contractor prematurely disposed of cost accounting records and supporting documents reflecting labor hours experienced on substantially or partially completed contracts for the same items. Accordingly, we were unable to completely determine if the most current experienced labor hour data was disclosed by the contractor in support of proposed costs.

Although we have no major questions concerning the reasonableness of the contract price, we noted that prior to negotiations the contractor did not disclose to the contracting officer labor hour data experienced on the most recently completed production contract for identical units. Nondisclosure of this data, however, did not significantly affect the pricing of this contract.

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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 Commander, Defense Contract Administration Services Region, and the Regional Manager, Defense Contract Audit Agency, Los Angeles, for their information.

Sincerely yours,

JAMES T. HALL, JR.
JAMES T. HALL, JR.
Regional Manager

cc: Commander, DCASR, Los Angeles
Regional Manager, DOAA, Los Angeles

bcc: Deputy Director, PSAD/GPM - J. H. Hammond
Regional Manager, Washington
Assistant Director, PSAD/GPM - Charles Weinfeld