



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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PROCUREMENT AND SYSTEMS  
ACQUISITION DIVISION



LM096066

SEP 18 1973

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~~74-0009~~

The Honorable George M. White, FAIA  
Architect of the Capitol

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Dear Mr. White:

As requested by your letter of May 30, 1973, we have performed an evaluation of the price proposal of May 10, 1973, amounting to \$2,704,000, submitted by the Diamond Power Specialty Corporation for definitizing letter contract ACbr-605 dated December 15, 1972.

Our evaluation included an examination of the contractor's data and records in support of all significant cost elements and the methods used in projecting from the available data to the cost estimates. As agreed with officials of your office, we relied on determinations by your project engineering officer, Mr. Benjamin Markert, and by the United States Secret Service personnel who assisted him, that the quantities and types of material and labor are needed for performing the contract.

The enclosed schedules summarize by cost elements the results of our evaluation showing "overestimated" and "questionable" costs. The "overestimated" costs include direct costs for material, labor, subcontract, telephone and warranty totaling \$75,000, and general and administrative expense and applicable profit of either \$142,000 or \$360,000, depending on whether sales expenses are allocated to the Capitol contract, as discussed below. The "questionable" costs for catalog equipment and the service contract are submitted for your consideration in final price negotiations.

The contractor has proposed general and administrative (G&A) expenses of \$570,000, by using a rate of 37.9 percent of proposed direct contract costs. The rate was computed by dividing forecasted general and administrative expenses by forecasted cost of sales for calendar year 1973.

Our analysis showed that the expense pool included forecasted sales expenses of \$723,000 to be incurred mainly for commercial sales. Since the Capitol contract was not obtained by such efforts, we question the inclusion of sales expenses for computing a G&A rate for the Capitol contract. Since the period of performance of the contract is 18 months, we used the contractor's experience for the 18 months ended June 30, 1973, and computed two G&A rates as shown below.

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--A rate of 31.4 percent, including sales expense

--A rate of 17.5 percent, excluding sales expense

Using the 31.4 percent G&A rate results in adjustments of the proposed price of \$2,704,000 by \$219,000 for overestimated costs and by \$118,000 if questionable cost are excluded. The total adjusted price would be \$2,367,000. (See schedule 1.)

Using the 17.5 percent G&A rate results in adjustments of \$436,000 for overestimated costs and \$124,000 if questionable costs are excluded. The total adjusted price would be \$2,144,000. (See schedule 2.)

We discussed our findings in detail with officials of Diamond Power to the extent necessary to establish the validity of our findings. We did not attempt to reach agreement or gain acceptance of our findings. We have also submitted the details of our evaluation informally to officials of your office.

As agreed, we will furnish you upon request with whatever advisory assistance we can in final price negotiations, without directly participating.

Sincerely yours,



R. W. Gutmann  
Director

Enclosures

SCHEDULE 1

DIAMOND POWER

RESULTS OF ANALYSIS OF MAY 10, 1973 PROPOSAL  
USING 31.4 PERCENT RATE

	<u>PROPOSED</u>	<u>OVERESTIMATED</u>	<u>ADJUSTED PRICE</u>	<u>QUESTIONED COSTS</u>	<u>ADJUSTED PRICE</u>
MATERIAL	\$ 893,320	\$ 46,280	\$ 847,040	1/	
LABOR & BURDEN	501,479	15,838	485,641		
TOOLING	5,000		5,000	2/	
TEST EQUIPMENT	12,286		12,286		
TRAVEL	8,224		8,224		
PER DIEM	22,380		22,380		
SUBCONTRACT	19,906	1,873	18,033		
TELEPHONE	10,800	10,800	-		
WARRANTY	27,251	1,433	25,818	3/	
DIRECT COST	1,500,646	76,224	1,424,422		
G&A	570,245	122,976	447,269		
SUBTOTAL	2,070,891	199,200	1,871,691		
PROFIT	205,018	19,721	185,297		
SUBTOTAL	2,275,909	218,921	2,056,988		
CATALOG EQUIPMENT	351,000	-	351,000	\$92,368	
SERVICE CONTRACT	75,000	-	75,000	26,016	
TRAINING	2,160	-	2,160		
TOTAL PRICE	\$2,704,069	\$218,921	\$2,485,148	\$118,384	\$2,366,764

NOTES: 1/ Adjusted price includes other unsupported and questionable cost totaling \$9,384

2/ Costs are based on unsupported estimates

3/ Includes questionable costs of \$351 -- warranty on test equipment provided by other suppliers.

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SCHEDULE 2

DIAMOND POWER

RESULTS OF ANALYSIS OF MAY 10, 1973 PROPOSAL  
USING 17.5 PERCENT G&A RATE

	<u>PROPOSED</u>	<u>OVERESTIMATED</u>	<u>ADJUSTED PRICE</u>	<u>QUESTIONED COSTS</u>	<u>ADJUSTED PRICE</u>
MATERIAL	\$ 893,320	\$ 46,280	\$ 847,040	1/	
LABOR & BURDEN	501,479	15,838	485,641		
TOOLING	5,000	-	5,000	2/	
TEST EQUIPMENT	12,286	-	12,286		
TRAVEL	8,224	-	8,224		
PER DIEM	22,380	-	22,380		
SUBCONTRACT	19,906	1,873	18,033		
TELEPHONE	10,800	10,800	-		
WARRANTY	27,251	1,433	25,818	3/	
TOTAL DIRECT COST	1,500,646	76,224	1,424,422		
G&A	570,245	320,971	249,274		
SUBTOTAL	2,070,891	397,195	1,673,696		
PROFIT	205,018	39,322	165,696		
SUBTOTAL	2,275,909	436,517	1,839,392		
CATALOG EQUIPMENT	351,000		351,000	\$92,368	
SERVICE CONTRACT	75,000		75,000	31,198	
TRAINING	2,160		2,160		
TOTAL PRICE	\$2,704,069	\$436,517	\$2,267,552	\$123,566	\$2,143,986

NOTES: 1/ Adjusted price includes other unsupported and questionable cost totaling \$9,384

2/ Costs are based on unsupported estimates

3/ Includes questionable costs of \$351 -- warranty on test equipment provided by other suppliers.