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United States General Accounting Office

**GAO**

Report to the Commander, Ogden Air  
Logistics Center, U.S. Air Force

November 1988

# CONTRACT PRICING

## GBU-15 Bomb Components Overpricing



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United States  
General Accounting Office  
Washington, D.C. 20548

Atlanta Regional Office

101 Marietta Tower - Suite 2000  
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B-219741

November 2, 1988

Major General Robert P. McCoy  
Commander, Headquarters  
Ogden Air Logistics Center  
Hill Air Force Base, UT 84056-5320

Dear General McCoy:

We reviewed material prices under modification P00003 to contract F08635-86-C-0392 awarded to Rockwell International Corporation's Missile Systems Division, Duluth, Georgia. The Ogden Air Logistics Center made the award for production of components for the GBU-15 Modular Guided Weapon System. The GBU-15 weapon system is a precision-guided bomb capable of destroying a variety of targets.

Our objective was to determine whether Rockwell complied with the Truth in Negotiations Act, Public Law 87-653, as amended, in providing accurate, complete, and current cost or pricing data. We found that Rockwell did not disclose accurate, complete, and current cost or pricing data for seven material items. The nondisclosures caused overpricing of \$1,008,854.

Rockwell officials told us they orally disclosed lower vendor prices for three material items but could not provide any evidence to support their position. Rockwell officials agreed they did not disclose lower available prices for three other material items, but do not believe the nondisclosures resulted in contract overpricing. Rockwell officials agreed that the contract was overpriced for the remaining material item.

The Air Force contracting officer told us Rockwell did not disclose lower prices for any of the material items and agreed the nondisclosures caused overpricing.

We believe this report provides a basis for you to initiate action to recover the overstated material prices from Rockwell, and we recommend that you do so. We would appreciate being informed of any action taken on this matter.

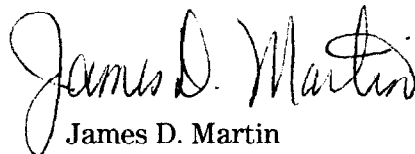
Copies of this report are being sent to the Vice President and General Manager, Missile Systems Division, Rockwell International Corporation, Duluth, Georgia; the Department of Defense, Office of the Inspector General, Washington, D. C.; and the Regional Director, Defense Contract

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Audit Agency, Eastern Region, and the Commander, Defense Contract Administration Services, Atlanta Region, Marietta, Georgia. Copies will also be made available to others upon request.

If you or your staff need additional information, please call me or Mr. George C. Burdette at (404) 331-6900.

Sincerely yours,

  
James D. Martin  
Regional Manager



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# Material Prices Overstated on GBU-15 Bomb Contract

## Background

With certain exceptions, the Truth in Negotiations Act, Public Law 87-653, as amended, requires that contractors submit cost or pricing data to support proposed prices for noncompetitive contracts. The act also requires contractors to certify that data submitted are accurate, complete, and current. When Public Law 87-653 is applicable, the government has a right to a contract price reduction if the contracting officer determines that the contract price was overstated because the data submitted were not accurate, complete, or current.

On September 29, 1987, the Ogden Air Logistics Center awarded fixed-price incentive modification P00003 to contract F08635-86-C-0392 with Rockwell for production of GBU-15 components at a target price of \$38,240,586. The price was negotiated at Rockwell's facilities, and the government and Rockwell reached price agreement on August 6, 1987. Rockwell signed a Certificate of Current Cost or Pricing Data on August 7, 1987, and certified that its submitted cost or pricing data were accurate, complete, and current as of August 6, 1987.

## Noncompliance With Public Law 87-653 Resulted in Overstated Material Prices

The target price for contract modification P00003 was overstated by \$1,008,854, including overhead and profit, because Rockwell did not disclose accurate, complete, and current material pricing information for seven material items. Table I.1 lists the seven items and amounts of overpricing.

Table I.1: Overstated Material Prices

Item	Part number	Net overpricing
Short chord wing	VD025004-001	\$245,608
Short chord strake	VD022001-001	85,935
Clipped control surface	HD026704-001-00	77,474
Directional vertical gyroscope	ST4935038HE0002	135,270
Roll gyroscope	ST4935036HE0005	89,505
Actuator	ST2805017HE0014	24,212
Conduit harness assembly	VE411-5054-0001	4,434
<b>Total</b>		<b>662,438</b>
Overhead and profit		346,416
<b>Total</b>		<b>\$1,008,854</b>



Wing, Strake, and Control Surface

In its August 4, 1987, bill of material, Rockwell proposed to buy wings, strakes, and control surfaces from Reynolds and Taylor, Inc., and Northwest Composites, Inc., at a total price of \$2,643,213, based on quotations received from the two vendors in January 1987. The proposed price was based on Rockwell obtaining (1) 75 percent of the wings and control surfaces from Reynolds & Taylor and the remaining 25 percent from Northwest Composites and (2) 50 percent of the strakes from each vendor. Rockwell also received a quotation from Scheidl Manufacturing Company, Inc., a previously qualified supplier of the strakes, in January 1987 but did not use the quotation in preparing the bill of material.

Before agreeing to the contract price on August 6, 1987, Rockwell received best and final offers from all three vendors—Reynolds and Taylor's on July 30, Northwest Composites' on August 5, and Scheidl's on July 28, 1987. Northwest Composites quoted small price increases for wings and control surfaces, but most of the final offers were less than the quotations Rockwell disclosed to the contracting officer. The nondisclosures caused overpricing of \$409,017, as shown in table I.2.

Table I.2: Overstated Prices for Wing, Strake, and Control Surface

Vendor	Wing	Strake	Control surface	Total
<b>Proposed prices</b>				
Reynolds & Taylor	\$1,106,460	\$164,160	\$558,900	\$ 0
Northwest Composites	402,856	198,482	212,355	0
<b>Total</b>	<b>1,509,316</b>	<b>362,642</b>	<b>771,255</b>	<b>2,643,213</b>
<b>Lowest available prices</b>				
Reynolds & Taylor	858,600	129,600	477,900	0
Northwest Composites	405,108	0	215,881	0
Scheidl	0	147,107	0	0
<b>Total</b>	<b>1,263,708</b>	<b>276,707</b>	<b>693,781</b>	<b>2,234,196</b>
<b>Overpricing</b>	<b>\$245,608</b>	<b>\$85,935</b>	<b>\$77,474</b>	<b>\$409,017</b>

Although none of the best and final offers were included in the August 4 bill of material, Rockwell officials contend they informed the contracting officer of the lower prices during negotiations. According to Rockwell's negotiator, the contracting officer was told that Reynolds and Taylor had offered about \$250,000 less for the wings. The negotiator also told us the contracting officer was offered a data package before price agreement containing the best and final offers from all three vendors, but the contracting officer declined to take it.

The contracting officer told us Rockwell did not offer a data package or disclose the best and final offers from the three vendors. The contracting officer told us that reliance was placed on the higher proposed prices included in Rockwell's August 4 bill of material. We reviewed the contracting officer's and price analyst's negotiation notes and records and found no indication they had been told about or were aware of the lower material prices. The documents show the contracting officer relied on the higher prices.

On the day of price agreement, Rockwell's negotiator had a one-page partial update of the bill of material, which included the lower prices from Reynolds and Taylor and Northwest Composites. Scheidl's prices for the strakes were not in the update. Although available before price agreement, Rockwell's negotiator confirmed that the contracting officer did not get the update. Had it been provided, the contracting officer could have readily detected the lower prices from Reynolds and Taylor and Northwest Composites.

When negotiations were nearly concluded, the contracting officer requested Rockwell to update its proposal. Rockwell provided an updated proposal, including a complete bill of material, on August 6. The lower prices from Reynolds and Taylor, Northwest Composites, and Schiedl were not included in the bill of material even though Rockwell's negotiator had the one-page update containing the lower prices from two of the suppliers.

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## **Directional Vertical and Roll Gyroscopes**

In its August 4 bill of material, Rockwell proposed to buy directional vertical and roll gyroscopes from Humphrey, Inc., and Kirkos Engineering and Manufacturing Corporation, at a total price of \$2,970,560, based on quotations received from the two vendors dated January 7, 1987, and December 14, 1986, respectively. Rockwell based the proposed price on buying 75 percent of the gyroscopes from Humphrey and the remaining 25 percent from Kirkos.

Rockwell also solicited and received a quotation from Allied Bendix Aerospace. Bendix's January 12, 1987, quotation included lower prices than proposed by Humphrey for both gyroscopes and a lower price than proposed by Kirkos for the roll gyroscope. However, Rockwell did not disclose Bendix's quotation to the contracting officer. The nondisclosure caused overpricing of \$224,775 as shown in table I.3.

**Appendix I  
Material Prices Overstated on GBU-15  
Bomb Contract**

**Table I.3: Overstated Prices for  
Directional Vertical and Roll Gyroscopes**

<b>Vendor</b>	<b>Directional gyroscope</b>	<b>Roll gyroscope</b>	<b>Total</b>
<b>Proposed prices</b>			
Humphrey	\$1,340,145	\$919,755	\$ •
Kirkos	397,855	312,805	•
<b>Total</b>	<b>1,738,000</b>	<b>1,232,560</b>	<b>2,970,560</b>
<b>Lowest available prices</b>			
Bendix	1,204,875	830,250	
Kirkos	397,855	312,805 <sup>a</sup>	
<b>Total</b>	<b>1,602,730</b>	<b>1,143,055</b>	<b>2,745,785</b>
<b>Overpricing</b>	<b>\$135,270</b>	<b>\$89,505</b>	<b>\$224,775</b>

<sup>a</sup>Although Bendix's proposed price was less than Kirkos' price, we did not question the difference as overpricing because we accepted the dual-source strategy being used by Rockwell to obtain the gyroscopes.

Rockwell officials confirmed that they did not disclose Bendix's quotation but contend that the nondisclosure had no effect on the negotiated contract price because the quotation was not cost or pricing data. According to Rockwell officials, the company planned to buy most of the gyroscopes from Humphrey and additional in-house costs would have been required to qualify Bendix.

We do not agree with Rockwell. Rockwell solicited and evaluated Bendix's quotation. That evaluation shows that Rockwell could have purchased the gyroscopes at lower prices than proposed. Regardless of Rockwell's plans to buy most of the gyroscopes from Humphrey or the claimed in-house costs to qualify Bendix, the Bendix quotation remains valid cost or pricing data that should have been disclosed. Rockwell's failure to do so deprived the government of both information known to Rockwell and the opportunity to reduce contract costs. In this regard, the contracting officer told us that the lower Bendix prices would have been considered had the information been made available during negotiations.

As for qualification costs, Rockwell officials told us that they had proposed in-house costs of over \$300,000 to qualify Kirkos under the basic contract because Kirkos had never produced the gyroscopes. We found, however, that Rockwell had purchased the gyroscopes from Bendix under a prior GBU-15 contract and determined that Bendix's performance had been satisfactory. Because Bendix was already qualified, requalification costs, if any, should therefore have been substantially less than the costs proposed for Kirkos's full qualification program.

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Actuator

Rockwell's August 4 bill of material included \$5,021,420 to buy actuators from Garrett Fluid Systems Company and Moog, Inc. The proposed price included \$60,035 in nonrecurring costs for Garrett. However, on August 5, 1987, Rockwell told Garrett that it would not fund any nonrecurring costs but did not disclose this information to the contracting officer.

Rockwell officials contend that the contracting officer raised questions about the nonrecurring costs during negotiations and they assumed the costs had been deleted. Rockwell officials, therefore, saw no need to disclose the cost deletion and do not believe any contract overpricing resulted from the nondisclosure.

The contracting officer confirmed Rockwell's failure to disclose deletion of the \$60,035 in nonrecurring costs and was unaware that Rockwell officials believed all nonrecurring costs had been questioned. The contracting officer's negotiation notes and records clearly show that only \$35,823 of the nonrecurring costs were deleted during negotiations. The nondisclosure, therefore, caused overpricing of \$24,212.

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Conduit Harness Assembly

Rockwell's August 4 bill of material included \$397,203 to buy conduit harness assemblies from Woven Electronics Corporation and GSI Corporation. The proposed price included \$4,434 in nonrecurring costs quoted by GSI in January 1987. GSI, in its June 24, 1987, best and final offer, however, did not include nonrecurring costs.

Rockwell agreed the \$4,434 should not have been included in its August 4 bill of material. The contracting officer told us the best and final offer from GSI was not disclosed. The contracting officer's negotiation notes and records clearly show the higher prices were relied on during negotiations. As a result, the contract was overpriced by \$4,434.

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Objective, Scope, and  
Methodology

Our objective was to determine whether Rockwell complied with the Truth in Negotiations Act, Public Law 87-653, as amended, in providing accurate, complete, and current cost or pricing data. We performed our review at Rockwell International Corporation, Missile Systems Division, Duluth, Georgia; Ogden Air Logistics Center, Hill Air Force Base, Utah; and the resident Defense Contract Administration Services Plant Representative Office and Defense Contract Audit Agency located at Rockwell.

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**Appendix I**  
**Material Prices Overstated on GBU-15**  
**Bomb Contract**

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We reviewed over 90 percent of the estimated material costs included in the bill of material and compared the costs with information in Rockwell's procurement files. We also reviewed Rockwell's contract price proposals as well as government contract files, proposal evaluation reports, and negotiation records. The results of our review were discussed with the Air Force contracting officer and price analyst and Rockwell officials responsible for estimating material costs and negotiating the contract modification.

Our review was performed in accordance with generally accepted government auditing standards between January 1988 and May 1988.

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# Major Contributors to This Report

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