



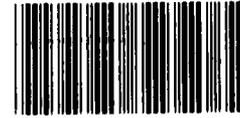
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

NOVEMBER 10, 1980

B-200477



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The Honorable Patricia Roberts Harris
The Secretary of Health and Human
Services

The Honorable Philip M. Klutznick
The Secretary of Commerce

The Honorable Charles W. Duncan, Jr.
The Secretary of Energy

The Honorable Max Cleland
Administrator of Veterans Affairs

Subject: Civil Agencies Can Improve the Performance of
Technical Evaluations (PSAD-81-9)

We have completed a review of technical evaluations of 18 noncompetitive contract proposals. The objective of the review was to determine if technical evaluations were adequately performed and reported to the contracting officers for use in negotiating the noncompetitive contract prices. The contracts that resulted from these proposals have a value of about \$13,211,000. (See enc. I for details on these contracts.) Seventeen of the proposals (whose contract value totals about \$12.4 million) received no technical evaluation or an inadequate evaluation. Therefore, there is no assurance that the prices negotiated are fair and reasonable.

The 18 proposals reviewed were selected from 88 fixed-price, noncompetitive contracts awarded in fiscal year 1979 by Washington, D.C., area procurement offices of the Department of Health and Human Services' National Institutes of Health, the Department of Commerce's National Oceanic and Atmospheric Administration, the Department of Energy, and the Veterans Administration. These proposals were selected because they were essentially the largest contracts awarded by these agencies.

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We reviewed the (1) technical evaluators' files, (2) technical evaluations, cost audits, and price analysis reports, (3) cost and pricing data submitted by contractors in support of their proposals, and (4) price negotiation memorandums. We also talked to the contracting officers and technical evaluators to determine their evaluation techniques and the standards and procedures followed in making technical evaluations.

Federal Procurement Regulations require, with some exceptions, that contractors submit or identify cost or pricing data used to support proposed prices for negotiated noncompetitive contracts over \$100,000 and certify that the data is current, complete, and accurate. Contract prices, including profits, may be adjusted to exclude any significant increases attributable to noncurrent, incomplete, or inaccurate cost or pricing data. Federal Procurement Regulations also require the contracting officer to perform a cost analysis of the contractor's proposal and supporting data, including a technical evaluation and an evaluation of cost factors.

In the absence of competition, the preaward cost analysis is critical since it assesses the contractor's cost or pricing data and the judgmental factors applied in projecting from the data to form an opinion on whether the price proposed by the contractor is fair and reasonable. The technical evaluation, which is an essential component of the cost analysis, is an assessment of the reasonableness of the amount of resources, such as labor hours; the type of labor; and the quantity of materials proposed by the contractor to perform the contract. Without such evaluations, there is no assurance that prices negotiated are fair and reasonable.

While the number of proposals reviewed was limited, we found that contrary to Federal Procurement Regulations, technical evaluations were not performed for 7 proposals and were not adequately performed for 10 proposals. Of the 10 inadequate evaluations, 5 did not address critical components, such as labor hours, type of labor, and quantity of material, and 5 relied on insufficient data. Generally, the technical evaluators tended to concentrate solely on whether contractors could meet the contract requirements and did not assess whether the number of hours, type of labor, or quantity of materials proposed were reasonable and properly supported. Agencies' officials gave various reasons, such as inadequate cost or pricing data and confusion on technical evaluations performance responsibility, for not performing technical evaluations. We do not consider these

reasons valid since the Federal Procurement Regulations require the contracting officer to obtain and evaluate cost and pricing data used to support noncompetitive price proposals. Notwithstanding these reasons, these contracts, whose value totals about \$12.4 million, were negotiated without the benefit of technical evaluations needed to assure that the proposed prices were fair and reasonable.

This matter has been discussed with cognizant procurement officials, and their comments were considered in the preparation of this report.

RECOMMENDATION

We are bringing this matter to your attention in the interest of improving the procurement process. Because of our limited coverage, we are not making any specific recommendations for corrective action with regard to the contracts we reviewed. We are recommending, however, that you periodically determine compliance with the requirement to perform technical evaluations and evaluate the adequacy of those evaluations.

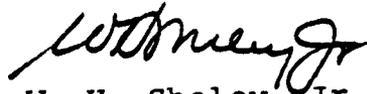
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We are sending copies of this report to the Director, Office of Management and Budget; the Chairmen of the Senate Committees on Governmental Affairs, Appropriations, Budget, and Veterans Affairs; and the Chairmen of the House Committees on Government Operations, Appropriations, Budget, and Veterans Affairs.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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Any comments you may wish to make on this matter
will be welcomed.



W. H. Sheley, Jr.
Acting Director

Enclosure

CONTRACT ACTIONS REVIEWED

<u>Procurement office</u>	<u>Contract actions</u>	<u>Technical evaluation</u>	<u>Amount</u>
Department of Commerce:			
National Oceanic and Atmospheric Administration, Office of Administrative Service of Procurement	79-00638	Not performed	\$4,000,000
	77-35252 mod 7	Inadequate	199,349
	79-00619	Inadequate	270,000
	79-00649	Inadequate	136,411
	76-35101 mod 21	Not performed	1,025,513
	76-35101 mod 24	Not performed	502,500
Department of Energy:			
Washington Procurement Office	79-IR 11652	Inadequate	281,000
	79-CS 10052	Inadequate	139,573
	79-ET 25202	Inadequate	244,000
	79-PE 70076	Not performed	171,544
Department of Health and Human Services:			
National Institutes of Health, Procurement Branch, Division of Administrative Services	79-0042	Not performed	1,554,770
	79-0320	Not performed	698,166
	79-0329	Inadequate	661,259
Veterans Administration:			
Contract Administration, Construction	V101C652	Inadequate	1,245,156
	V101C629	Adequate	860,000
	V101C639	Inadequate	345,555
	V101C463	Inadequate	340,000
Supply Service, Medicine and Surgery	V101(134)P653	Not performed	536,593
Total			<u>\$13,211,389</u>