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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE

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LOS ANGELES, CALIFORNIA 90071

Vice Admiral K. L. Lee
Commander, Naval Air Systems Command
Department of the Navy
Washington, D. C. 20361

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Dear Admiral Lee:

We recently completed a survey of the pricing of negotiated contract N00019-73-C-0505 awarded to General Dynamics Corporation, Pomona Division, Pomona, California, by the Naval Air Systems Command. Our objective was to determine the extent of compliance with the requirements of Public Law 87-653 and the implementing provisions of the Armed Services Procurement Regulation. *D.4672*

Although we did not perform an in-depth examination of the reasonableness of the contract price, we found that applicable defense procurement procedures were adequately implemented with one exception. It appears that the contract target price may be overstated by about \$200,000 because silver used in the manufacture of batteries for the Standard Anti-Radiation missile was priced in the contract although the silver was Government-furnished to the battery supplier. The details of this matter are presented as follows.

Contract -C505 dated November 28, 1973, was negotiated between August 14 and September 21, 1973, at a target price of \$59,750,000. The contractor's latest price proposal was submitted on September 7, 1973, for consideration during negotiations. A certificate of Current Cost or Pricing Data was executed by General Dynamics on October 26, 1973, certifying to the data as of October 3, 1973.

The post-negotiation business clearance dated October 11, 1973, indicates that the proposed cost of the batteries (part number 423-202015) amounting to \$794,172 was accepted and negotiated in the prime contract price. The estimate was based on contractor-furnished silver. At the time of negotiations, General Dynamics was considering the use of Government-furnished silver. On September 14, 1973, the contractor requested price quotations from battery suppliers based on Government-furnished silver. The successful bidder's price quotation of \$621,810 was submitted on September 19, 1973. General Dynamics advised the contracting officer that the use of Government silver would decrease the prime contract target cost by \$203,227 (includes add-on material cost factors) and that other changes in material pricing would increase the target cost by \$333,682 due to quotes from suppliers. This information was provided in an October 9, 1973, estimate as part of an enclosure to the pricing certificate.

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