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Letter report on certain operations under contract
NObsr 64525 held by Fairchild Engine and Airplane
Corporation, Fairchild Guided Missiles Division,
Wyandanch, N.Y., Bu. of Ships, Dept. of the Navy

Declassified by: OUSD/R&E(PC&A) by letter dated June 19, 1985

Cleared for open publication by: OASD (PA)

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON 25, D. C.

Defense Accounting and
Auditing Division

SEP 10 1956

B-118699

Honorable William B. Franke
Assistant Secretary of the Navy (FM)

Dear Mr. Franke:

The General Accounting Office has reviewed certain operations under contract NObsr 64525 held by Fairchild Engine and Airplane Corporation, Fairchild Guided Missiles Division, Wyandanch, New York. This firm fixed-price contract was awarded on August 11, 1954, to this contractor in the amount of \$961,365 for the production of two radar sets together with drawings, booklets, and spare parts. The contractor's records indicate that the cost of performing this contract, including estimated cost to comply with the guarantee provisions of the contract, was \$640,678 and that the profit realized was \$320,687 or 50 percent of cost.

The firm fixed-price contract was preceded by a cost-plus-a-fixed-fee contract (NObsr 57365) for research, development, and production of two similar radar sets. At the time the fixed-price contract was negotiated, one of the radar sets under the CFFF contract was 90 percent completed and production had not been started on the second. The contractor's records pertaining to the CFFF contract did not segregate the research and development costs from the production costs.

In response to a request from the Navy for a price proposal for production of the second two radar sets, the contractor proposed, in a letter dated June 24, 1954, a follow-on CFFF contract. At the direction of the contracting officer, the contractor on July 28, 1954, submitted a fixed-price proposal for the same work. Because the contractor did not have a record of his actual production costs, he was obliged to rely upon engineering cost estimates in submitting his proposal for the firm fixed-price contract.

The cognizant Navy engineering section was requested to comment on the fixed-price proposal. It was stated that the price appeared to be about \$200,000 high. It

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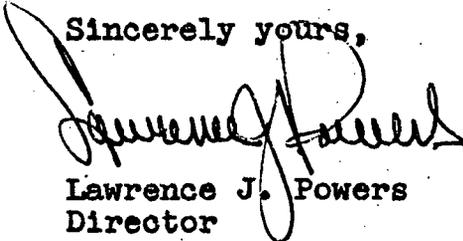
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was further stated that the equipment was needed as directed by the Chief of Naval Operations and that "no other contractor can hope to meet these dates so we must pay the price asked."

In view of the fact that (1) the contractor was unable to provide production costs on the predecessor contract and (2) the Navy engineers clearly indicated that the cost proposal was considered to be \$200,000 high, we do not believe that the firm fixed-price method of contracting in this case was appropriate. It would seem that the interests of the Government would have been better served by negotiation of a cost-type contract or one providing for price revision after more adequate cost experience had been gained. Information available to the negotiator at the time the follow-on contract was awarded appears to have been sufficient to have indicated that use of a firm fixed-price contract was not appropriate.

This matter is brought to your attention for your information and action which you may deem appropriate to assure that the types of negotiated procurement contracts used will result in fair and reasonable prices.

Sincerely yours,


Lawrence J. Powers
Director

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Rear Admiral A. G. Mumma
Chief, Bureau of Ships
Department of the Navy

Dear Admiral Mumma:

Herewith are two copies of our letter report on certain operations under contract NObsr 64525 held by Fairchild Engine and Airplane Corporation, Fairchild Guided Missiles Division, Wyandanch, New York, with your Bureau.

This letter report on our findings is being transmitted today to the Assistant Secretary of the Navy (Financial Management).

Sincerely yours,

Lawrence J. Powers

Lawrence J. Powers
Director

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Director

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Honorable Percival P. Brundage
Director, Bureau of the Budget

Dear Mr. Brundage:

Herewith are two copies of our letter report on certain operations under contract NObsr 64525 held by Fairchild Engine and Airplane Corporation, Fairchild Guided Missiles Division, Wyandanch, New York, with the Bureau of Ships, Department of the Navy.

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Sincerely yours,

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Director

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Honorable W. J. McNeil
Assistant Secretary of Defense (Comptroller)

Dear Mr. McNeil:

Herewith is a copy of our letter report on certain operations under contract NObsr 64525 held by Fairchild Engine and Airplane Corporation, Fairchild Guided Missiles Division, Wyandanch, New York, with the Bureau of Ships, Department of the Navy.

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Sincerely yours,

Lawrence J. Powers

Lawrence J. Powers
Director

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Captain L. C. Peppell
Assistant Comptroller (Audit)
Department of the Navy

Dear Captain Peppell:

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Director

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