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REPORT TO THE CONGRESS



Improvements Needed In Making And In Reporting On Technical Evaluations Of Noncompetitive Price Proposals

Department of Defense

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-168450

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the need for the Defense Department to take specific action to increase the effectiveness of technical evaluations of contractors' noncompetitive price proposals. Better evaluations and reports will increase the assurance that prices negotiated in the absence of competition are fair and reasonable.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; and the Director, Defense Supply Agency.

A handwritten signature in black ink, appearing to read "James P. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

DCAS Defense Contract Administration Services
DOD Department of Defense
GAO General Accounting Office

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPROVEMENTS NEEDED IN MAKING
AND IN REPORTING ON TECHNICAL
EVALUATIONS OF NONCOMPETITIVE
PRICE PROPOSALS
Department of Defense

D I G E S T

In the absence of competition, the Government cannot be assured that it is obtaining fair and reasonable prices for the items being purchased unless effective technical evaluations are made of contractors' proposals. These evaluations should be properly reported to contracting officers.

GAO reviewed evaluations of 40 fixed-price-type, noncompetitive price proposals, totaling about \$132 million, made by 20 different Government activities. (See ch. 7.)

Of these 40 contracts, evaluators had not adequately reviewed about 40 percent, or \$23.9 million, of contractors' proposed direct costs. (See p. 4.)

Many technical evaluation reports did not contain sufficient information to support recommendations. (See p. 8.)

GAO recommended that the Secretary of Defense require:

- Performance and reporting standards to be developed for use by all Defense activities making technical evaluations of contractors' noncompetitive price proposals. These standards should provide for adequate planning, documentation, supervision, and support for recommendations.
- Intensified formal training for personnel participating in technical evaluations.

DOD did not agree with GAO's recommendation for the development of performance

and reporting standards. GAO suggests that the Department reconsider because the absence of uniform standards results in deficient evaluations and reports. (See pp. 15 and 16.)

The development and adherence to uniform performance and reporting standards will improve technical evaluations of proposed costs and will give greater insurance that prices negotiated in the absence of competition are fair and reasonable.

CHAPTER 1

INTRODUCTION

DEFENSE POLICIES AND PROCEDURES

Department of Defense (DOD) policies and procedures for pricing noncompetitive contracts are set forth in the Armed Services Procurement Regulation that implements the requirements of the Armed Services Procurement Act of 1947 (10 U.S.C. 2301 et seq.). Public Law 87-653, the Truth-in-Negotiations Act, and the Armed Services Procurement Regulation require that contractors, with certain exceptions, submit cost or pricing data in support of proposed prices for noncompetitive contract actions expected to exceed \$100,000. This data is normally categorized by such cost elements as direct materials, direct labor, other direct costs, and various indirect expenses. The Armed Services Procurement Regulation defines cost or pricing data as all facts existing to the time of agreement on price which prudent buyers and sellers would reasonably expect to have a significant effect on the price negotiations. This includes such factors as historical data, vendor quotations, changes in production methods, unit cost trends, or other management decisions that could affect the pricing.

Proposal evaluation

The Government contracting officer is responsible for determining the reasonableness of a contractor's proposed price. The Armed Services Procurement Regulation requires him to obtain a cost analysis of data supporting a proposed price for more than \$100,000 unless information already available is adequate to determine the reasonableness of the price. Cost analysis is the review and the evaluation of a contractor's cost and pricing data and the judgmental factors applied in estimating the cost of performing the contract, assuming reasonable economy and efficiency. It is normally coordinated by the procurement or administrative contracting officer or by a price analyst supporting the contracting officer. It is usually made by cost auditors from the Defense Contract Audit Agency and by technical personnel from the Defense Contract Administration Services (DCAS) offices or the military services.

The result of each analysis by technical evaluators and cost auditors is submitted in an advisory report to the contracting officer, who uses the information in developing the negotiation pricing objective.

Technical evaluations of noncompetitive price proposals

Guidelines for making technical evaluations of non-competitive price proposals are contained in (1) the Armed Services Procurement Regulation Manual for Contract Pricing, (2) Defense Supply Agency and Navy training guides, and (3) some activity or agency instructions. Some of these guidelines are discussed below.

Materials

Many contractors can supply a bill of materials listing items and quantities required. The reasonableness of proposed material requirements may be established by examining the product, reviewing engineering drawings and specifications, and comparing present and prior bills of materials. Other factors considered include determinations as to whether proposed allowances for scrap, spoilage, and inventory obsolescence have been properly applied and supported by current and realistic data and whether contractor decisions to make or buy items are based on sound logic.

Manufacturing labor

A contractor normally estimates total direct manufacturing time by estimating the time required for every direct manufacturing labor process or operation needed to fulfill the contract. To do this, he relies on either his history or his labor standards or a combination of the two. The reasonableness of proposed manufacturing labor may be established by reviewing the reliability and applicability of historical data as well as the bases for labor standards. When an item, service, or process has been previously produced or provided, a contractor may adjust historical cost data to reflect current changes. Consequently, evaluators should determine that adjustment is based on current and realistic data which has considered such things as realignment of production flow, changes in equipment or plant efficiency, and learning experience from previous work.

When no historical data is available, evaluators should review the contractor's detailed manpower plans to determine whether labor classifications are appropriate and properly reflect operation cycles and available manpower.

Engineering labor

Many contractors develop separate estimates for each type of engineering and then total these estimates. Three estimating methods are commonly used.

- Work breakdown into tasks assigned to groups or individuals.
- Production-to-engineering ratio, which presumes a direct relationship between production and engineering efforts.
- Level of effort for relatively stable programs, which presumes that a given number of engineers must be used to provide liaison and support for production of an item and that the required engineering effort is closely related to production time.

To evaluate engineering costs effectively, the evaluator must know the contractor's concepts, practices, and definitions. He should review the reasonableness and applicability of the method used to estimate engineering labor. He should also determine whether the contractor made appropriate use of available historical data and did not include nonrecurring costs incurred under a previous contract nor labor for expected engineering changes that were to be priced separately.

For example, a contractor submitted a proposal to expand the capability of a multipurpose automatic inspection and diagnostic system for automotive engines and transmissions to include another type of engine. The contractor quoted a price but did not submit any cost or pricing data. The evaluator then developed an independent estimate without benefit of the contractor's data. Subsequently, the contractor submitted a detailed price proposal totaling \$221,073 supported by cost and pricing data. The evaluator's review of the detailed proposal involved only comparing the contractor's price with his own estimate, which was similar, and did not include a review of the cost and pricing data.

However, our examination of the contractor's proposal showed that the proposed direct engineering labor hours were about 15 percent higher than those included in the Government estimate. The evaluator, in his report, did not mention the difference in direct labor hours but stated only that the proposed price compared favorably with the Government estimate.

PORTIONS OF COST OR
PRICING DATA NOT REVIEWED

DOD regulations state that the contracting officer will initiate requests for pricing assistance and will clearly stipulate specific areas of the proposal for which assistance is required. If cost analysis is requested, DOD regulations state that it will be a review and evaluation of the contractor's cost or pricing data and of the judgmental factors applied in projecting from the data to the estimated costs.

The Defense Supply Agency and an Air Force headquarters command have published procedures for assigning responsibility for determining the need for technical review and the specific proposal areas to be covered by such a review. Purchasing and project offices and Navy activities included in our review had no such procedures issued by a headquarters command although some local activities had developed some procedures.

The procedures issued by the Defense Supply Agency and the Air Force state that price analysts or administrative contracting officers are responsible for determining the need for technical review and areas to be reviewed. The technical evaluator's review, therefore, should be responsive to the requestor's instructions. The procedures also state that the administrative contracting officer or price analyst is the focal point for coordinating all pricing assistance work. Therefore, if an evaluator believes that all requested coverage cannot be provided, the reasons should be discussed with the requestor, documented in the evaluation file, and mentioned in the evaluation report.

In 20 cases, technical evaluators did not review some portions of the contractor's cost or pricing data although requested to do so. Incomplete evaluations included (1) not analyzing some cost categories, (2) not reviewing accuracy and applicability of historical data included as part of cost or pricing data, and (3) not reviewing the basis for labor hour standards, adjustments to standards, or some percentage factors used by contractors in formulating estimates.

For example, a contractor included 51,280 labor hours, at a proposed cost of \$221,016, for assembly and reliability burn-in testing as part of a proposal for improving radar altimeter systems. The price analyst requested evaluation of these hours, but no analysis was made. The need to perform other workload requirements was cited by officials of the evaluating activity as the probable reason for nonperformance. However, agreement to limit the evaluation was not obtained from the price analyst, and the evaluation report did not mention that the hours were not reviewed.

INSUFFICIENT ANALYSIS MADE

If insufficient analysis is made, the evaluator may not be able to develop sufficient data to make meaningful recommendations on the reasonableness of estimates, and the contracting officer may only have limited information for negotiating a fair and reasonable contract price. In 11 cases, evaluators made insufficient analyses when they based their recommendations on reviews of incomplete cost or pricing data and/or inadequate sample results.

Evaluating incomplete cost or pricing data

If an evaluator does not get the data used by the contractor in developing estimates, he is handicapped in making a thorough and effective evaluation. For six cases, evaluators' recommendations were based on reviews of incomplete cost or pricing data.

Inadequate samples

Contractors often submit detailed lists of items as support for proposed direct materials. Some of these lists are very long, and reviewing all the items would be time-consuming. Consequently, the use of sampling is justified.

Many types of samples can generally be classified as either judgment or probability samples. The usual goal of any sample is that it be representative of the entire group of items about which information is desired. Judgment samples are based on subjective methods of sample selection, using personal judgment, and often do not provide assurance that the sample is representative of the entire group. Probability samples are based on a body of accepted theory which makes it possible to measure the reliability of sample results.

For six cases, evaluators used judgment samples when evaluating direct materials. In our view, the methods of selecting the sample did not provide assurance that sample results represented total items being evaluated. For example, an evaluator was asked to review direct materials supported by a detailed bill of materials having a proposed cost of about \$5.2 million. The bill of materials was voluminous. The evaluator had no documentation showing how he reviewed materials. He told us his method was to scan the list until he found an item he was familiar with, then to check the listed quantity of that item for accuracy. This method of sampling provided little assurance that the bill of materials was reasonable.

CHAPTER 3

MORE INFORMATION NEEDED IN EVALUATION REPORTS

Technical evaluations are made to help the contracting officer establish a price objective to be used in negotiating the contract price. Many evaluation reports should contain more information.

Our August 1974 report to the Congress ^{1/} stated that many technical evaluation reports did not adequately describe the scope and depth of work performed, and specific data analyzed nor cite sufficient data and rationale to support exceptions taken to the proposal.

In our current review, we also found that many reports did not contain adequate information to support recommendations for acceptance and nonacceptance of proposed amounts. Consequently, contracting officers did not have assurance that evaluators' recommendations of acceptance or nonacceptance of proposed costs were well-founded.

For example, a contractor proposed the use of 20,525 engineering labor hours, at an estimated cost of \$146,998 to perform 50 tasks to provide items of ground support equipment. The proposal was to definitize the price for a previously issued unpriced order, and production was underway at the time the proposal was evaluated.

Reporting was inadequate for a large portion of the accepted hours because the scope and depth of work performed or the specific data analyzed were not adequately described. It was also inadequate for most of the hours not accepted because the recommendation for nonacceptance was not properly supported.

After price negotiations, but before it approved the negotiated price, a DCAS board of review analyzed the contract negotiator's price negotiation memorandum and all advisory reports, including the technical evaluation report. The board recommended that the administrative contracting officer make no award until he obtained a favorable reevaluation by the board. The board stated that the negotiation memorandum contained no information justifying the reasonableness of the negotiated price and that one reason it questioned the negotiations was because of inadequacies in the technical evaluation report. It was further stated that the report presented no firm conclusions on most labor categories because the basis

^{1/}Improvements Still Needed in Negotiating Prices of Noncompetitive Contracts Over \$100,000 (B-168450).

for judgmental conclusions and assumptions was not adequately explained, rationale used was unclear or incomplete, and how the evaluation was accomplished was not explained. The evaluators who prepared the report told us that, in their opinion, the deficiencies in reporting occurred because of lack of training and experience.

Our August 1974 report (see p. 8) recommended that the Secretary of Defense require that activities making technical evaluations of price proposals include in their reports the scope of the evaluations, data analyzed, and data and rationale supporting conclusions and recommendations. In their comments, DOD officials stated that our recommendation would be referred to the military services and to the Defense Supply Agency as an example of a matter of concern in their effort to improve the procurement process within their organizations.

Although the evaluations we examined during this review preceded this promised action, we believe our current identification of deficiencies in the reporting process confirms the need for action by the Secretary (see p. 14).

CHAPTER 4

REASONS FOR DEFICIENCIES IN EVALUATING AND REPORTING

Deficiencies in evaluating and reporting occurred because (1) DOD had no uniform standards for these functions, (2) planning was often ineffective, (3) supervisory reviews were often inadequate, and (4) many evaluations were made by evaluators who had not been formally trained for such work.

NO UNIFORM STANDARDS

Standards are general measures of the quality and adequacy of work. Technical evaluations are made by many activities, but DOD has not developed uniform performance and reporting standards. Some individual activities had some published standards, but these varied between individual activities or agencies. This absence of uniform standards contributes to variations in the quality of evaluations.

The Armed Services Procurement Regulation Manual for Contract Pricing is available for use by all DOD activities, but it does not contain cost analysis standards. Five of the activities in our review, either purchasing or project offices, made evaluations without the benefit of published standards. The remaining 15 activities had published standards issued by local activities, agency regional offices, and/or headquarters commands.

INEFFECTIVE PLANNING

Training guides used by the Navy and the Defense Supply Agency for instructing technical evaluators in cost analyzing state that evaluators should develop a plan of action after reviewing the contractor's proposal and before visiting the contractor site. Also, during the previsit phase of a review, evaluators should coordinate with other members of the pricing team to obtain information and advice that could be of value in planning work.

The training guides do not stipulate that action plans be written. We believe, however, that listing action steps is desirable because it will facilitate control over the work and create a permanent record of the evaluation coverage for supervisory personnel to use in insuring that an adequate evaluation was made. Our review showed that few evaluators developed systematic written work plans and that many did not coordinate with other members of the pricing team.

Developing systematic analysis plans

A systematic approach to planning for an evaluation should involve a preliminary review of the proposal to be evaluated and development of an action plan before initiating detailed work. However, in only two cases was a systematic written analysis plan prepared. Evaluators told us that work steps were generally formulated mentally on a continuing basis during the course of evaluation.

Coordination with other members of the pricing team

DOD regulations state that making a cost analysis should be a team effort. The team includes contracting officers, price analysts, cost auditors, and technical evaluators. Each member is a specialist in his area of responsibility, and technical evaluators should coordinate with other members to develop information that would be useful in planning work.

Other team members may be able to provide (1) previous technical evaluation and price analyst reports and proposals for like or similar items to those included in the proposal being evaluated, (2) information on the reliability or weaknesses in a contractor's estimating system, and (3) historical data obtained from a contractor's records. This information can be valuable to an evaluator in planning work because it may provide information on how a prior evaluation was made, areas in which a contractor may have developed unsupportable estimates, and previous cost or production data for like items. In many instances, evaluators did not coordinate with other members of the pricing team to obtain this kind of information.

INADEQUATE SUPERVISORY REVIEWS

The Defense Supply Agency recognized the need for supervisory review to insure an acceptable level of performance. Its published procedures require that supervisors review the evaluation report to insure that it contains sufficient information to support recommendations and that the technical analyst has made an examination of sufficient depth. Supervisors are also required to review supporting data developed by evaluators to insure that there is a complete documentation trail. We found that evaluators generally developed limited or no documentation for work done and to support report recommendations. Activities, other than DSA offices, in our review had no procedures detailing supervisor responsibility for reviewing technical evaluation work.

We found that, regardless of whether an activity did or did not have procedures covering supervisory reviews, most such reviews were cursory and did not always insure that acceptable levels of work were done.

In six cases, supervisors did not exercise any review function. Also, in 31 cases, supervisors did not review evaluators' supporting documentations to insure that report recommendations were supported.

MANY EVALUATORS NOT TRAINED

Technical evaluations should be made by adequately trained, proficient evaluators. Only recently, however, has DOD developed courses specifically designed to provide needed training. In April 1973 the Defense Supply Agency developed such a training course and distributed it to its 11 regions, but as of June 1974, only 4 regions had given the course. One region conducted a 40-hour training session and the other three conducted formal 2-day briefings for new employees.

The Navy also developed a course, entitled, "An Introduction to Direct Cost Analysis," that was initially conducted in 1973. As of February 1974, the course had been given to 75 technical personnel, and it was expected that it would be given to 144 additional personnel by the end of calendar year 1974. The other military services have no formal courses for training technical personnel in price evaluating.

CHAPTER 5

INTERNAL AUDITS OF TECHNICAL EVALUATIONS

Internal audit groups have been established within DOD and the military departments to insure that policies and procedures are followed. As part of their responsibility, some groups review noncompetitive contract pricing. Groups which provide management officials with information on contract-pricing effectiveness include procurement management review staffs and internal audit staffs of DOD, the military services, and the Defense Supply Agency. In fiscal years 1973 and 1974 these staffs reported many of the problems noted in our review.

- Use of inappropriate evaluation techniques in lieu of reviewing cost or pricing data.
- Use of inadequate sampling methods.
- Use of insufficiently trained technical personnel to provide pricing assistance.
- Supervisory reviews not made in sufficient depth to disclose deficiencies.
- Lack of a guide or uniform system for reviewing price proposals, except for major procurements.
- Inadequate evaluation reports because rationale or documentation as to how evaluators arrived at conclusions was not included.

CHAPTER 6

CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS

CONCLUSIONS

Analysts are making technical evaluations of contractors' price proposals without uniform standards for performance or reporting. Also many evaluators have not been formally trained in making evaluations and preparing evaluation reports. Consequently, evaluators develop individual concepts of performance and reporting adequacy, resulting in widely different interpretations of (1) methodology that should be used, (2) extent of analysis work that should be done, (3) type and amount of information that should be included in evaluation reports, and (4) extent and type of documentation that should be developed for work done and to support recommendations. This approach to making evaluations often results in incomplete or insufficient analysis work, use of inappropriate techniques, and wide variations in reporting information for use in negotiating contract prices.

Supervisory reviews in many instances are cursory and do not provide assurance that an acceptable level of performance was attained. In most instances these reviews are cursory because they are generally limited to examining evaluation reports. However, these reports often do not adequately describe the scope or depth of work done or cite sufficient data to support recommendations. Supervisors, therefore, have incomplete information to review in many cases. Also a lack of uniform performance standards results in differing interpretations by supervisors of their responsibilities.

RECOMMENDATIONS

To improve technical pricing evaluations, we recommend that the Secretary of Defense require that:

- Performance and reporting standards be developed for use by Defense activities making technical evaluations of contractors' noncompetitive price proposals. Performance standards should require adequate planning, documentation, and supervision. Reporting standards should require support for recommendations.
- Efforts to give formal training in making technical evaluations to all personnel participating in such work be intensified.

AGENCY COMMENTS AND OUR EVALUATION

DOD commented on our findings and recommendations in a March 20, 1975, letter. (See app. II.)

DOD said that it is in general accord with the report findings that technical evaluations can be improved and that the findings will be referred to DOD components as matters to emphasize in their continuing efforts to improve management practices. DOD also said it agreed with our recommendation concerning the need for formal training for technical personnel.

However, Defense indicated that it does not agree that there is a need for special emphasis on the development of performance and reporting standards for use by all Defense activities making technical evaluations. DOD said that the Manual for Contract Pricing provides substantial guidance for the methods and procedures for accomplishing such analysis and that it is the responsibility of the DOD components in the management of their affairs to determine how and to what extent cost or price analysis will be performed. DOD pointed out that this report states that 15 of the 20 DOD activities reviewed had published standards on performing technical evaluations and that several of the components had training guides to instruct technical evaluators. DOD also said that its components, in commenting on this report, cited several efforts to upgrade the technical evaluation process.

We agree that the Manual for Contract Pricing contains some guidelines for performing technical evaluation. It does not, however, contain performance and reporting standards. We also agree that performance guidelines are included in training guides used by some Government activities. We found, however, that while some activities had published standards, others did not. Also, there were important variations in the standards published by individual activities or agencies. We concluded that the absence of uniform standards resulted in widely differing interpretations of (1) the methodology that should be used, (2) the extent of analysis work that should be performed, (3) the information that should be included in the report, (4) the responsibilities of the supervisors, and (5) the documentation that should be obtained. Adoption of our recommendation for developing uniform standards should help to improve the technical evaluation function because all evaluators would have a better understanding of the quality of work that is expected.

Further, while we commend action on the part of individual components to improve the technical evaluation process, we believe that it is DOD's responsibility to develop DOD-wide guidance for accomplishing this extremely important function. DOD is in the best position to assemble and promulgate the guidance needed to insure the performance and preparation of high quality evaluations and reports. DOD also said that the magnitude of its workload requires exercising considerable management judgment in determining the depth of analysis and insuring the optimum use of manpower resources available. All personnel performing technical evaluations must exercise diligence and sound judgment to insure that their efforts are expended where they are most likely to be most beneficial.

We recognize that DOD does not have unlimited manpower resources available to perform technical evaluations. Evaluators may not always have sufficient time to thoroughly analyze the cost or pricing data supporting a proposal. It must be recognized, however, that contracting officers, when deciding whether contractors' proposals are reasonable, must rely extensively on information provided by evaluators. Insufficient information could result in negotiation of excessive prices. Evaluators should therefore indicate the limitations of their evaluations, if any, by clearly stating in their reports what portions of the cost and pricing data were reviewed and the depth of the review. Reports should also reveal what portions of the cost and pricing data were not reviewed. This will enable contracting officers to determine whether the information provided was sufficient to negotiate reasonable prices or to request further technical assistance. Further, adhering to uniform performance and reporting standards will greatly increase the effectiveness of personnel available to perform technical evaluations.

We believe that the benefits to be derived from providing uniform performance and reporting standards for use by all Defense activities making technical evaluations would far surpass the effort and cost for developing these standards. Therefore, we suggest that the Secretary reconsider the position taken on this recommendation.

CHAPTER 7

SCOPE OF REVIEW

We reviewed evaluations of 40 fixed-price-type noncompetitive price proposals for more than \$100,000, totaling \$132 million, made by 20 Government activities in fiscal years 1973 and 1974. The selected review sites represent a cross section of the different types of activities making technical pricing evaluations, including (1) offices of DCAS, (2) military plant representatives located at some large contractor sites, (3) procurement activities, and (4) special project offices. The review sites and proposals evaluated are listed in appendix I.

We examined records available at activities responsible for making the evaluations and for coordinating the cost analysis work. We reviewed (1) the technical evaluators' files, (2) advisory technical evaluation, cost audit, and price analysts' reports, (3) cost and pricing data submitted by contractors in support of their proposals, (4) price negotiation memorandums, and (5) written evaluation standards and procedures used by each activity included in our review. We also interviewed the evaluators and their supervisors to determine evaluation techniques, extent and effectiveness of supervisory control exercised to insure acceptable levels of performance, and standards and procedures followed in making technical evaluations. We also obtained information from DOD on the extent of formal training given to evaluators and extent of internal audit work performed in the technical evaluation area.

APPENDIX I

APPENDIX I

EVALUATING ACTIVITIES AND PROPOSALS EVALUATED

Evaluating activity	Location	Procurement activity	Proposal evaluated	
			Price	Date
Army:				
Armament Command	Rock Island, Ill.	Armament Command	\$ 21,313,250	3-29-74
Armament Command	Rock Island, Ill.	Armament Command	761,684	4- 9-74
Electronics Command	Fort Monmouth, N.J.	Electronics Command	9,512,268	4-12-73
Electronics Command	Fort Monmouth, N.J.	Electronics Command	2,135,275	6- 8-73
Frankford Arsenal	Philadelphia, Pa.	Frankford Arsenal	4,624,537	11- 8-73
Frankford Arsenal	Philadelphia, Pa.	Frankford Arsenal	221,073	10-29-73
Satellite Communications Agency	Fort Monmouth, N.J.	Electronics Command	973,916	5- 3-73
Satellite Communications Agency	Fort Monmouth, N.J.	Electronics Command	1,264,519	5-16-73
Navy:				
Air Development Center	Warminster, Pa.	Air Development Center	529,980	8-27-73
Air Development Center	Warminster, Pa.	Air Development Center	249,983	5-24-73
Plant Representative Office, General Electric Co.	Pittsfield, Mass.	Strategic Systems Project Office	6,163,895	7-13-73
Plant Representative Office, General Electric Co.	Pittsfield, Mass.	Ordnance Systems Command	288,609	7-20-73
Plant Representative Office, Westinghouse Defense and Space Center	Baltimore, Md.	Air Force Systems Command, Aeronautical Systems Division	553,442	10-13-72
Plant Representative Office, Westinghouse Defense and Space Center	Baltimore, Md.	Air Force Systems Command, Aeronautical Systems Division	11,460,596	2-27-73
Air Force:				
Plant Representative Office, General Dynamics Corp.	Fort Worth, Texas	Air Force Systems Command, Aeronautical Systems Division	5,217,248	2-14-73
Plant Representative Office, General Dynamics Corp.	Fort Worth, Texas	Rome Air Development Center	12,537,476	3- 9-73
Plant Representative Office, General Electric Co.	Valley Forge, Pa.	Space and Missile Systems Organiza- tion	703,027	8-13-73
Plant Representative Office, General Electric Co.	Valley Forge, Pa.	Space and Missile Systems Organiza- tion	1,775,079	8-30-73
Plant Representative Office, Hughes Aircraft Co.	Fullerton, Calif.	Naval Air Systems Command	1,616,362	6-21-73
Plant Representative Office, Hughes Aircraft Co.	Fullerton, Calif.	Air Force Systems Command Electronic Systems Division	4,579,138	10-12-73
Defense Supply Agency:				
DCAS Office, GTE-Sylvania, Inc.	Mountain View, Calif.	Ogden Air Materiel Area	1,434,976	8- 9-73
DCAS Office, GTE-Sylvania, Inc.	Mountain View, Calif.	Naval Air Systems Command	538,600	5-22-73
DCAS Office, Philco-Ford Corp.	Palo-Alto, Calif.	Space and Missile Systems Organiza- tion	135,165	8-17-73
DCAS Office, Philco-Ford Corp.	Palo-Alto, Calif.	Space and Missile Systems Organiza- tion	583,869	12-31-73
DCAS Office, Radio Corp. of America	Camden, N.J.	Naval Air Systems Command	1,364,811	6-29-73
DCAS Office, Radio Corp. of America	Camden, N.J.	Naval Air Systems Command	9,835,943	8-22-73
DCAS Office, Texas Instruments, Inc.	Dallas, Texas	Air Force Systems Command Electronic Systems Division	946,489	12-21-72
DCAS Office, Texas Instruments, Inc.	Dallas, Texas	Air Force Systems Command Electronic Systems Division	1,494,652	12-13-73
DCAS Region	Boston, Mass.	Army Armament Command	8,033,440	9- 6-73
DCAS Region	Boston, Mass.	Naval Air Systems Command	1,019,805	8-29-73
DCAS Region	Chicago, Ill.	Navy Aviation Supply Office	1,072,317	10-29-73
DCAS Region	Chicago, Ill.	Ogden Air Materiel Area	2,160,130	8-29-73
DCAS Region	Dallas, Texas	San Antonio Air Materiel Area	2,283,133	10-25-73
DCAS Region	Dallas, Texas	Naval Air Systems Command	1,553,644	4-10-74
DCAS District	Pasadena, Calif.	Ogden Air Materiel Area	732,000	5-11-73
DCAS District	Pasadena, Calif.	Naval Ship Systems Command	3,626,315	6-29-73
DCAS District	San Diego, Calif.	Air Force Systems Command Aeronautical Systems Division	2,283,441	4-17-73
DCAS District	San Diego, Calif.	Naval Air Systems Command	1,660,009	2-13-73
DCAS District	Tarzana, Calif.	Naval Ordnance Systems Command	3,889,885	5-17-73
DCAS District	Tarzana, Calif.	Navy Aviation Supply Office	1,131,201	12- 1-72
Total			\$132,261,182	

BEST DOCUMENT AVAILABLE



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

20 MAR 1975

INSTALLATIONS AND LOGISTICS

Mr. R. W. Gutmann
Director, Procurement and Systems
Acquisition Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Gutmann:

This is in reply to your letter of December 31, 1974 to the Secretary of Defense forwarding for comment a draft report entitled "Improvements Needed in Reviewing and Reporting on Results of Technical Evaluations of Noncompetitive Price Proposals" (OSD Case #3982).

The report reflects that the General Accounting Office (GAO) reviewed technical evaluations of 40 fixed-price type noncompetitive proposals over \$100,000, totaling \$132 million, performed by 20 Government activities in fiscal years 1973 and 1974. It is alleged that for approximately 40% of these dollars, the technical evaluations were deficient in some respect. The report recommends that (1) performance and reporting standards be developed and (2) formal training efforts be intensified.

While we are in general accord with the report findings that technical evaluations can be improved, there are several matters that should be addressed to enable readers of the report to place the issues in perspective.

In the combined period of FY 1973 and 1974, the Department of Defense (DOD) had 35,689 noncompetitive procurement transactions exceeding \$100,000 totaling \$37,309 million. A large number of these transactions would require cost and price analysis with supporting technical evaluations as appropriate. The magnitude of such a work load requires the exercise of considerable management judgment in determining the depth of analysis and ensuring the optimum utilization of the manpower resources available. All personnel performing technical evaluations in support of the contracting officer must also exercise diligence and sound judgment in assuring that their efforts are expended where they are most likely to be of significant benefit.

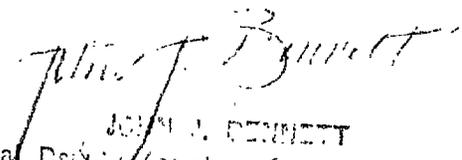
The Armed Services Procurement Regulation (ASPR) requires some form of cost or price analysis in all noncompetitive proposals. The ASPR Manual for Contract Pricing provides substantial guidance as to the methods and procedures for accomplishing such analysis. It is the responsibility of the DOD components in the management of their affairs to determine how and to what extent cost or price analysis will be performed. As the report notes, of the 20 DOD activities reviewed, 15 of them had published standards on performing technical evaluations in connection with cost analysis. Further, the report states that several of the DOD components have training guides to instruct technical evaluators. In addition, the DOD components in commenting on this report cited several efforts along the same lines to upgrade the technical evaluation process. In our view, the collective effort of all these comments reflects that DOD components have made significant forward progress in addressing the matters discussed in the report.

We do agree that there is always need to examine procedures in a continuing effort to improve the procurement process. The report is useful in emphasizing matters where DOD components may enhance their management practices. It is our intention, should the report be published, to refer the report findings to the DOD components as matters to emphasize in their continuing efforts to improve management practices.

We agree with the recommendation concerning the need for formal training for technical personnel. There are currently several recently developed courses in cost and price analysis which should be helpful, and two new courses for engineers in this area are planned for initiation in FY 1976. It is also our intention to refer the report to the various DOD training activities for use in course instruction.

We appreciate the opportunity to provide comments on the draft report.

Sincerely,


JOHN J. BENNETT
Principal Deputy Assistant Secretary of Defense
(Installations and Logistics)

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Howard H. Callaway	May 1973	Present
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John W. Warner	May 1972	June 1974
SECRETARY OF THE AIR FORCE:		
John L. McLucas	May 1973	Present
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