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WASHINGTON, D.C. 20548

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PROCUREMENT, LOGISTICS,  
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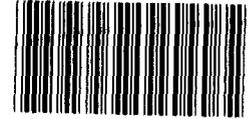
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B-203876

RELEASED

MARCH 19, 1982

The Honorable Barry M. Goldwater, Jr.  
House of Representatives



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Dear Mr. Goldwater:

Subject: Allegations of Insufficient Reimbursement Under  
the Value Engineering Program (PLRD-82-57)

In your June 23, 1981, letter, you asked us to investigate whether K.I.M. and Associates, Westlake Village, California, is entitled to a monetary award under the Value Engineering Program. K.I.M. developed a modification kit that increases the life of the pressure vacuum pump used in certain Navy ground support equipment. K.I.M. submitted this pump improvement idea in a Value Engineering Change Proposal (VECP) to PRD Electronics, Syosset, New York, a Division of Harris Corporation, the prime contractor with the Navy for this equipment.

A K.I.M. official alleged that PRD Electronics changed K.I.M.'s VECP to an Engineering Change Proposal (ECP) that resulted in PRD receiving over \$500,000. He also alleged that K.I.M. did not receive any money.

Our review disclosed that:

- K.I.M. is not entitled to a monetary award under the Value Engineering Program since at the time it had no contract with either PRD Electronics or the Government, a requirement of the Defense Acquisition Regulation for participation in the Program.
- PRD Electronics changed K.I.M.'s VECP to an ECP and was authorized to receive \$246,402 from the Navy for 150 K.I.M. modification kits and other related work.
- K.I.M. received \$135,169 of the amount paid PRD Electronics under the ECP for the modification kits.

SCOPE OF REVIEW

In responding to your request, we interviewed PRD officials and examined their documents on the value engineering issue, obtained further explanations and documentation from a K.I.M.

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owner, and reviewed the Navy's letters disallowing K.I.M.'s value engineering status.

THE VALUE ENGINEERING PROGRAM

The Department of Defense established the Value Engineering Program to encourage contractors to propose cost-saving changes to contracts. Contractors are awarded a share of the savings that result from their change proposals. The Value Engineering Program is a purely contractual matter subject to Defense Acquisition Regulation. A valid VECP can only be submitted, and thus, an award can only be made, under an existing written contract containing a value engineering clause.

K.I.M. IS NOT ENTITLED TO A  
MONETARY AWARD UNDER THE  
VALUE ENGINEERING PROGRAM

We found that at the time K.I.M. submitted the VECP to PRD Electronics, no contractual relationship existed between PRD Electronics and K.I.M. or between K.I.M. and the Government for the item under consideration. Accordingly, K.I.M. is not entitled to a monetary award for value engineering because a contractual relationship did not exist under which such an award could be made.

K.I.M. RECEIVED \$135,269 FROM  
PRD ELECTRONICS UNDER THE ECP

PRD Electronics changed the VECP to an ECP because it did not believe that K.I.M.'s proposal met the Defense Acquisition Regulation requirements for value engineering status. We found that PRD Electronics was authorized to receive \$246,402 from the Navy under the ECP, not the \$500,000 alleged by K.I.M.

The \$246,402 was for 150 K.I.M. modification kits and included \$58,777 for engineering, quality assurance, and general and administrative expenses associated with the pump's manufacture and \$46,452 for performing necessary work, such as updating Navy technical manuals to reflect changes resulting from K.I.M.'s pump improvement concept. PRD Electronics, in turn, paid K.I.M. \$135,169 for the 150 modification kits.

A K.I.M. official verified that his company had received the \$135,169 as payment for the modification kits. He also said that K.I.M. had subsequently sold 599 modification kits, worth over \$534,000, to the Air Force and expected to sell an additional 200 kits soon. Furthermore, he believed that the K.I.M. modification kit will be used to overhaul every Air Force and Navy pump (4,000-6,000) as each pump fails in service.

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As arranged with your Office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of the report. We will then send copies to interested parties and make copies available to others upon request.

Sincerely yours,



Donald J. Horan  
Director