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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
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FALLS CHURCH, VIRGINIA 22046

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AUG 2 1974

Mr. John Crehan
Regional Manager
Defense Contract Audit Agency
252 Seventh Avenue, Fourth Floor
New York, New York 10001



Dear Mr. Crehan:

As part of our review of the negotiation of contract prices under the provisions of Public Law 87-653, we have examined into the reasonableness of the subcontract estimate for E-2C passive detection systems included in the price of fixed-price-incentive contract N00019-71C-0450. The contract was awarded to the Grumman Aerospace Corporation, Bethpage, New York, on September 30, 1971, by the Naval Air Systems Command (NAVAIR) at a target price of \$156,800,000 for 11 Model E-2C aircraft and related tests, bill of materials, and technical data. The subcontract was performed by the Amecom Division, Litton Systems, Inc.

We are enclosing for your information a copy of our letter to the Commander of NAVAIR.

Our letter points out that in its proposal the contractor provided noncurrent data on the cost of the basic systems and overstated the production data costs by including data items which should not have been included.

In their preaward audit the DCAA auditors requested contractor support for the proposed cost of the subcontract. With regard to the basic system cost, they were provided data which was noncurrent. With regard to the production data cost estimate, it appears that the DCAA auditors did not review the support for that estimate. They apparently relied on the Naval Plant Representative Office to determine the need for the data during its technical evaluation of the proposal.

We noted that the resident audit staff made a defective pricing review of the prime contract's pricing in June 1972 but that neither of the matters outlined above were questioned as a result of that review.

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Any comments you may wish to make concerning the matters discussed in the letter would be appreciated. We will be glad to furnish additional details if you so desire. We would also like to acknowledge the courtesy and cooperation extended to our representatives by your resident staff at Grumman.

Sincerely yours,

~~H. L. Krieger~~
H. L. Krieger
Regional Manager

Enclosure *Letter Rpt. to Vice Admiral
K. L. Lee - July 17, 1974*

bc: Mr. J. H. Hammond (PSAD/GPM), w/o enclosure
Mr. C. Weinfeld (PSAD/GPM), w/o enclosure

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