

to the Government. A more complete evaluation of the cost estimates, which we believe reasonably should have been made in the circumstances, would have indicated that the proposed amount of the fixed-price contract would not have resulted in the savings anticipated by the Corps and, therefore, that there was no need to deviate from the general policy which prescribes the use of cost-reimbursable contracts.

The railroad does not agree that it was paid \$770,000 more than the cost of the relocation, because certain costs for supervision and other overhead expenses were not allocated and recorded in its records as part of the contract costs and because considerations other than construction costs were involved in the contract. When we requested that the railroad make available to us the subsidiary accounting records or work orders, so that we might examine the nature of the charges to the contract or provide us with a reasonable estimate of the unallocated costs, we were advised that the work orders could not be located and that the railroad was not in a position to make an estimate of the amount of unallocated costs without exhaustive accounting work.

While it is possible that some costs may not have been allocated to the relocation and that these costs would have reduced the \$770,000 difference between the contract amount and the railroad's costs, on the basis of data included in the cost estimates of the Corps and the railroad, it is unlikely that these costs would have resulted in a substantial reduction. Our reasons for this conclusion and the considerations referred to by the railroad are discussed in the report.

To minimize the possibility of the occurrence of similar situations in the future, we propose that existing regulations be amended to require that requests by division or district engineers to enter into fixed-price contracts for major relocations be fully supported by detailed cost analyses or other justifications to enable the Chief of Engineers to adequately evaluate the circumstances requiring a deviation from the prescribed procedures. The Corps agreed to give further consideration to extending the requirements for the approval of the use of fixed-price contracts for major relocations and advised us that the Chief of Engineers had emphasized to division and district engineers the need to minimize the use of such contracts. Subsequently, however, we were informed that the existing regulations were considered adequate and that no revision was contemplated.

In view of the importance of adequate administrative review and determination of the need to deviate from prescribed contracting procedures, we are recommending that the Secretary of the Army direct the Chief of Engineers to formally amend the existing regulations to require that field requests for permission to enter into fixed-price contracts for major relocations be supported by detailed cost analyses or other justifications to enable the headquarters office to properly evaluate the circumstances requiring a deviation from the prescribed procedures.