

ments, which, in almost every case, were substantially lower than the estimated prices that had been considered in the initial price negotiations. We estimate that, as a result, Arde-Portland's costs for subcontracted items were about \$592,800 less than the estimated costs it had included in its initial price proposal.

In our view, the overestimating occurred because Thiokol and the Air Force did not obtain or review the latest available evidence of the estimated costs that Arde-Portland expected to incur in performing its contract with Thiokol. The Air Force advised us on August 17, 1965, that:

Since August 1964, in addition to an Air Force committee review, an audit is required on all fixed-price subcontract proposals received by Thiokol in excess of \$250,000 when the price is to be based on an analysis of a cost estimate.

The Air Force also stated that, to avoid a recurrence of the situation dealt with in our report, Thiokol had incorporated these instructions in its internal procedures, reorganized its purchasing department and made extensive personnel changes and that a subsequent survey made by an Air Force Western Contract Management Region Purchasing Methods Analysis Team had showed that all deficiencies previously found in Thiokol's pricing and negotiating areas had been corrected.

As the result of a meeting held on December 7, 1965, pertaining to the findings included in our draft report, Arde-Portland, Thiokol, and Air Force representatives negotiated supplemental agreement 36 to contract AF 04(694)-133. This agreement reduced the amount of the contract by \$266,375, in final settlement of the overestimated material and labor costs of more than \$592,000 disclosed by our review. We recommended to the Secretary of Defense that he bring the facts of this procurement to the attention of contracting officials, to emphasize that attempting to obtain recovery after contract performance is not a satisfactory substitute for obtaining, during contract negotiations, reasonable evidence of the estimated costs that subcontractors expect to incur.

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#### REVIEW OF POLICIES AND PROCEDURES FOLLOWED IN DETERMINING THE SIZE OF THE NEW SECOND LOCK AT SAULT STE. MARIE, MICH., CORPS OF ENGINEERS (CIVIL FUNCTIONS) DEPARTMENT OF THE ARMY

On the basis of our review, we estimated that the cost of designing and constructing the New Second Lock was increased by about \$651,000 because the Corps of Engineers decided to increase the authorized size of the New Second Lock without first adequately establishing the maximum-size ships that could be expected to use the new lock during its economic life. Shortly after construction started and after the design work was substantially completed, shipping interests expressed concern over the adequacy of a proposed 1,000- by 100-foot lock. As a result, the Corps stopped construction and design work, restudied the proposed lock size, and decided to increase the size of the lock to 1,200 by 110 feet. In our opinion, the data upon which the decision was made to increase the lock size to 1,200 by 110 feet was basically the same as the data available at the time the Corps decided to build the 1,000-foot lock.