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REVIEW OF PRICE INCREASES UNDER SHIPBUILDING CONTRACTS,
DEPARTMENT OF THE NAVY

The General Accounting Office has examined into the propriety of certain price increases under shipbuilding contracts.

The Department of the Navy agreed to reimburse prime shipbuilding contractors for price adjustments paid to their supplier of marine propulsion equipment and turbine generator sets on the basis of increases in the supplier's catalog prices for designated commercial items. Within 3 months after the award of the related subcontracts, the supplier increased the catalog prices for the designated commercial items and claimed and was paid price increases of more than \$1.7 million for items purchased by the Government.

The record shows, however, that, with respect to certain of these items, there were no commercial sales of the items designated by the supplier as the nearest commercial equivalent upon which to base price adjustments. Also, for the remaining items, increases in the commercial selling prices were not proportionate to the increases in the supplier's catalog prices. In fact, in some instances, even though the catalog prices were increased, the commercial selling price remained the same.

The Department of the Air Force resident auditor responsible for all Department of Defense activities at the supplier's plants requested the supplier to furnish information on its commercial selling prices and other pertinent data concerning the price increases prior to the time the Navy reimbursed the prime contractors for the \$1.7 million discussed in this report. The requested information was not furnished by the supplier. The prime contractors and the supplier advised us, in substance, that the price increases were in accordance with contractual arrangements.

The Armed Services Procurement Regulation in effect at the time of negotiations did not specifically require the agency or the prime contractors to establish that catalog prices were bona fide commercial prices before agreements were reached to pay price increases based upon increases in catalog prices. In accordance with the provisions of Public Law 87-653, the procurement regulation has been revised to require that catalog prices for designated commercial equivalents be verified to ensure that they represent actual prices of commercial items sold in substantial quantities to the general public. Further revisions are being considered by the Armed Services Procurement Regulation Committee.

In addition, we were advised that our findings on certain of these items suggested a possible breach of contract and that the Navy would make a detailed evaluation. Department of the Navy officials advised us also that, in the study indicates a basis for recovery, the Navy will evaluate the remaining items discussed in this report as well as other items purchased under other Government prime contracts and subcontracts awarded under conditions and terms similar to those discussed in this report.