

over \$100,000 awarded during the period November 1964 through June 1966 under the requirements of Public Law 87-653, the Truth-in-Negotiations Act of 1962, and the implementing Armed Services Procurement Regulation.

We found a need for the construction agencies—the Army Corps of Engineers and the Naval Facilities Engineering Command—to improve compliance with the cost or pricing data requirements of Public Law 87-653 and the implementing Armed Services Procurement Regulation in negotiating construction contracts and modifications.

We found generally that, in the negotiation of prices of construction contracts and modifications, (1) sufficient cost or pricing data supporting the contractors' proposals, as required by the law, were not obtained, (2) cost analyses of contractors' proposals to determine that the prices were fair and reasonable, as required by the regulation, were not made, and (3) related prescribed procedures for utilizing advisory audits were not followed.

Instead, the construction agencies placed primary reliance on comparisons of the contractors' proposals with their own cost estimates as a means of evaluating the reasonableness of prices.

A primary reason for the construction agencies' not complying with Public Law 87-653 and the Armed Services Procurement Regulation appeared to be their belief that the law (and regulation) was not applicable to construction contracts since contractors' proposals were evaluated on the basis of comparisons with Government estimates.

Comparing a proposal with an estimate serves a useful purpose, but such comparison is not an acceptable substitute for obtaining and analyzing current and complete cost or pricing data of the—contractor as required by law and regulation.

We brought these findings to the attention of the Secretary of Defense and proposed that he emphasize to the Departments of the Army and Navy the need for improvement of the construction agencies' compliance with the requirements of Public Law 87-653 in the negotiation of construction contracts and modifications.

The Deputy Assistant Secretary of Defense (Procurement) in letters dated February 1 and March 9, 1967, agreed in substance with our proposals.

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[Index No. 18—B-152598, July 18, 1967]

#### NEW PROCEDURES ADOPTED TO IMPROVE MANAGEMENT OF CONTRACTOR-OPERATED MESSING AND MERCHANDISING SERVICES AT KWAJALEIN MISSILE TEST SITE, DEPARTMENT OF DEFENSE

The General Accounting Office has reviewed records relating to contractor-operated messing and merchandising activities at the Army's missile test site at Kwajalein in the Marshall Islands. The review disclosed a loss of about \$1.6 million during a 2-year period ended in February 1966, chiefly because prices charged to customers were too low.

The contractor operated, in addition to the messing facilities, a commissary, retail store, laundry, barber shop, beauty shop, snack bar, and liquor store and clubs at Kwajalein. Under the contract