

MARBLE INC.FACTS

In his audit of costs incurred on a \$4,000,000 FPI contract for 233 gadgets, the auditor drew the Contracting Officer's attention to four items which he thought might require action under the contract clause Price Reduction For Defective Cost or Pricing Data.

The first item arose out of the fact that the cost data submitted by the company for use in negotiating prices had inadvertently overstated the average unit costs of production under an existing contract for the gadgets. In determining the average unit costs incurred on the earlier contract, the proposal manager for Marble had accidentally divided the production costs for units shipped, on hand and in production only by the number of units shipped, thereby overstating the unit costs. The units omitted represented all undelivered gadgets on hand or in production. As a result of the faulty method of computing unit costs, prices on the contract were excessive by about \$500,000.

The second item was that the actual factory labor rate on the contract was \$2.97, and not \$3.20 per hour as projected in the company's proposal. The auditor reminded the contracting officer that in his report on the initial pricing audit he had recommended that a rate no higher than \$2.95 per hour was indicated. Further, he had pointed out that Marble consistently over-priced its labor rates. Lastly, he reminded the Contracting Officer that the memorandum of negotiations clearly stated the CO's continuing disagreement with the proposed rate of \$3.20, but that the company was adamant in its refusal to agree that any lower rate was proper. The indicated overpricing on this item was \$50,470 (219,437 actual hours x \$0.23/hour).