RP INDUSTRIES

The pricing data utilized in negotiating the price of a firm fixed-price contract awarded to RP Industries included the following:

	Total Cost Including G&A
Part No. 12-524 Buy	$600,000
Part No. 20-300 Make	300,000

After award of the contract it was ascertained that RP management did not buy Part No. 12-524, but decided to make it in-house, thereby resulting in savings of $150,000 below the best available buy cost. RP also found that the facilities required for manufacture of Part No. 20-300 were the same as required for Part No. 12-524, and it had no choice but to buy Part No. 20-300 at a total price of $375,000 (compared to make-costs of $300,000). Total net savings to RP were $75,000.

The auditor found that RP's plans to make Part No. 12-524 were in preparation prior to negotiation of the contract. There was no pre-contract "buy" data on Part No. 20-300 and it does not appear that RP recognized the facilities problem at that time since there was no mention of it in the Part No. 12-524 back-up papers.

PROBLEMS

1. Do these facts support a case for apparent defective pricing?

2. Is the prime contract price defective to the extent of $150,000 or $75,000?