

APPENDIX 2.—GAO LETTER REPORT ON CHROMCRAFT CORP. CONTRACTS

U.S. GENERAL ACCOUNTING OFFICE,
REGIONAL OFFICE,
Kansas City, Mo., August 15, 1966.

Rear Adm. ALLEN M. SHINN,
Commander, Naval Air Systems Command,
Navy Department,
Washington, D.C.

DEAR ADMIRAL SHINN: We have made a limited examination of contracts for aircraft rocket launchers and fairings for the launchers awarded to Chromcraft Corp., St. Louis, Mo. These contracts were awarded by the Navy during fiscal years 1962 through 1966.

We reviewed, on a test basis, books and records at Chromcraft Corp., Navy audit reports, and Bureau of Naval Weapons contract and negotiation files relating to the following firm-fixed-price contracts:

NOw-64-0035	NOw-64-0609	NOw-65-0472
NOw-64-0154	NOw-64-0638	NOw-65-0547
NOw-64-0190	NOw-64-0689	NOw-66-0082
NOw-64-0313	NOw-65-0121	

We found that Chromcraft did not request cost and pricing data in support of price quotations used as a basis for negotiating and awarding fixed price subcontracts with sole source subcontractors. Further, Chromcraft consistently did not include cost and pricing data clauses in its subcontracts, as provided for in the prime contracts and as set forth in the Armed Services Procurement Regulations (ASPR). In addition, Chromcraft's records were not adequate for a determination as to whether or not the most recent subcontract price reductions were considered during negotiation of prime contract prices for the rocket launchers.

ASPR paragraph 7.104.42 requires that a clause be inserted in contracts, which provides that the contractor shall require subcontractors, who are awarded subcontracts by negotiation or without adequate competition, to submit cost or pricing data for any award expected to exceed \$100,000 or where amendments or price adjustments are expected to exceed \$100,000. This requirement is included in the prime contracts but was consistently not complied with by Chromcraft in awarding subcontracts.

In an audit report dated December 6, 1963, on the pricing of contract NOw-64-0313 and again in an audit report dated June 15, 1965, on the pricing of a modification for contract NOw-65-0547, Navy auditors brought to the attention of Navy officials that the contractor was not complying with the above requirement. However, we found no evidence that contracting officials took any action to require compliance by Chromcraft.

We found that Chromcraft awarded subcontracts in excess of \$100,000 each without obtaining cost or pricing data even though the subcontractors were the sole sources of supply. For example, Chromcraft has purchased paper insert tubes for the launcher from a sole-source supplier since 1961. On May 14, 1964, Chromcraft purchased 175,000 tubes at a price of \$0.68 each. On June 19, 1965, Chromcraft purchased 800,000 tubes, or more than 4½ times as many as the previous quantity, at the same price of \$0.68 each.

For other items, Chromcraft obtained price reductions from its subcontractors after the award of the fixed price prime contracts, but did not maintain records to show when the lower pricing information was available. For example, during the period May 3, 1965 through June 30, 1965, contract NOw-65-0547 and two modifications thereto were negotiated for 17 line items to be supplied by Chromcraft. The 17 line items were for a total of 54,020 launchers of various configurations. A number of parts are identical for several of these configurations. During a 32-day period from May 15, 1965 through June 16, 1965, Chromcraft made 11 separate proposals for nine of these line items and prices were negoti-