

ated by the Navy on the basis of the individual proposals. Price quotations from subcontractors for identical components of several configurations of the launchers were used to support the Chromcraft proposals. However, the parts were purchased from other subcontractors at prices lower than the quotations used by Chromcraft in its proposals. We were unable to determine from Chromcraft's records or from discussions with its employees whether or not the lower subcontract pricing data was available to Chromcraft prior to the conclusion of prime contract price negotiations.

We did note that the quotations used in Chromcraft's proposals were for small quantities and were solicited on an individual line item basis, whereas the prices paid by Chromcraft were for larger quantities of identical parts grouped for the various line items. We believe that closer scrutiny on the part of the negotiator should have apprised him of the fact that quantities of these parts to be procured significantly exceeded the number used in obtaining the price quotations used in the proposals, and that lower prices could probably be obtained for the larger quantities.

Also, we found that fairing assemblies, a part of the nose and tail of the launchers, were shipped direct from Chromcraft's subcontractor to military installations under Government bills of lading. Although the Government bore the freight costs for these shipments, Chromcraft included about \$51,800 estimated freight costs in its proposals, and the estimated costs were accepted by the Navy.

Under later pricing proposals, representatives of the Defense Contract Audit Agency had identified Chromcraft's freight cost estimates for consideration by the negotiator. Our review did not include a review of the post-negotiation clearance letters for these proposals. Therefore, we did not determine whether the estimated freight costs were excluded from prices negotiated on the basis of these proposals.

In addition, to the failure to include a cost and pricing data clause, Chromcraft did not include in a number of its subcontracts the examination of records clause required by both ASPR paragraph 7-104.15 and the prime contracts. By not including this clause, which provides that the Comptroller General of the United States or his representatives shall have access to pertinent subcontractor records, Chromcraft did not fulfill a contractual obligation.

We believe our selective review has demonstrated a need for Navy contracting officials to make a thorough review of Navy contracting at Chromcraft. The suggested review should be directed to assuring that subcontractor cost and pricing data and examination of records clauses are included in Chromcraft's subcontracts under currently pending and future prime contracts, and to obtaining additional assurance that prices negotiated for the launchers were reasonable in relation to cost or pricing data available to Chromcraft at the time of negotiations. We believe also that recovery of the estimated freight costs included in the negotiated prices for items shipped on Government bills of lading should be considered.

If additional information is desired on our findings we will be glad to discuss them further. We would appreciate your advice as to the actions taken as a result of this report.

Copies of this letter are being sent to the Comptroller of the Navy (NCD-3) and the Defense Contract Audit Agency.

Sincerely yours,

FORREST E. BROWN,
Regional Manager.