

United States General Accounting Office

GAO

Report to the Chairman, Committee on  
Governmental Affairs, U.S. Senate

AD-A251 204



May 1992

# CONTRACT PRICING

## Subcontracts Are Significant in Prime Contract Defective Pricing



92-15310



**United States  
General Accounting Office  
Washington, D.C. 20548**

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**National Security and  
International Affairs Division**

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May 28, 1992

The Honorable John Glenn  
Chairman, Committee on Governmental Affairs  
United States Senate



Justification

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Dear Mr. Chairman:

This report is one in a series being issued in response to your request that we evaluate the adequacy of controls for preventing fraud, waste, and mismanagement in Department of Defense (DOD) subcontract pricing. In this report, we analyzed defective pricing audits performed by the Defense Contract Audit Agency (DCAA) to assess whether contractors complied with a key safeguard intended to ensure fair and reasonable prices on noncompetitive procurements—the Truth in Negotiations Act (P.L. 87-653, codified at 10 U.S.C. 2306a). Our objective was to determine how much of the total amount of defective pricing<sup>1</sup> reported by DCAA in their audits was related to subcontracts.<sup>2</sup>

**Background**

In the past several decades, as the role of many prime contractors has changed from fabricating weapons and products to integrating work done by subcontractors, subcontract costs have become substantial. Active DOD subcontracts totaled \$193 billion at the end of fiscal year 1990. As a result, subcontract estimates included in contractor proposals are critical elements in establishing the reasonableness of prime contract prices. Because many DOD purchases come from one supplier, they are noncompetitively contracted. Prices for noncompetitive contracts are generally determined through extensive negotiations.

Recognizing the government's vulnerability in noncompetitive contracting situations, the Congress passed the Truth in Negotiations Act in 1962 to protect the government against overstated contract prices. The act requires that prime contractors and subcontractors submit cost or pricing data supporting their proposed prices above certain thresholds and certify that the data submitted is accurate, complete, and current.

<sup>1</sup>In the context of the Truth in Negotiations Act, contracts are considered to be defectively priced when contract prices are overstated (that is, are higher than warranted) due to contractors' failure to disclose accurate, complete, and current cost or pricing data.

<sup>2</sup>"Subcontract" refers to all purchases from any supplier, distributor, vendor, or firm furnishing materials, supplies, or services to DOD prime contractors or subcontractors.

If contractors provide inaccurate, incomplete, or noncurrent data that causes the contract price to be overstated, the act provides the government the right to reduce the contract price.

DOD established DCAA for the purpose of performing all its contract audits, including defective pricing audits. DCAA performs these audits through its headquarters, 5 regional offices,<sup>3</sup> a field detachment in charge of classified work, and 152 field audit offices. DCAA headquarters develops policy and guidance, while regional offices and the field detachment provide planning and oversight, and the field audit offices implement the defective pricing program.

DCAA's defective pricing audit reports show that overstated subcontract prices are related to defective pricing in two ways. One way is when a subcontractor fails to provide current, complete, and accurate cost or pricing data to the prime contractor. The resulting overstatement is subcontract defective pricing. The second way is when the prime contractor, having more current, complete, and accurate data related to subcontract costs, fails to provide it to the government and overstates the subcontract price. The resulting overstatement is prime contract defective pricing.

Last year we reported<sup>4</sup> that between fiscal years 1987 and 1990, DCAA identified total defective pricing of nearly \$3 billion. DCAA completed 6,267 prime contract audits—2,563 (41 percent) identified \$2.1 billion in prime contract defective pricing. DCAA completed 2,066 subcontract defective pricing audits during that period and 888 (43 percent) identified over \$880 million in subcontract defective pricing.

For this report, we reviewed a sample of 180 of DCAA's 2,563 prime contract defective pricing reports. This methodology allowed us to project the results of our work to all of DCAA's prime contract defective pricing audits from fiscal years 1987 to 1990. All estimates in this report are projections based on a 95-percent confidence level. See the scope and methodology section for details on our sampling technique.

<sup>3</sup>Effective October 1, 1991, DCAA realigned its regional structure, reducing the number of regions from six to five.

<sup>4</sup>Contract Pricing: Subcontractor Defective Pricing Audits (GAO/NSIAD-91-148FS, Mar. 21, 1991).

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## Results in Brief

Almost half of the \$2.1 billion DCAA identified in fiscal years 1987-90 as prime contract defective pricing was related to subcontracts that were overpriced by the prime contractors. We estimate that prime contractor overstatements of subcontract prices totaled \$970 million.

Not only is the dollar amount of these overstated subcontract prices significant, their occurrence is frequent. Prime contractors overstated subcontract prices in an estimated four out of five DCAA audit reports that identified defective pricing.

In fiscal years 1987-90, DCAA's audits identified \$880 million in subcontractor defective pricing. When this amount is added to the estimated \$970 million in subcontract overstatements made by prime contractors the total overstatement of subcontract prices during the period amounted to an estimated \$1.85 billion. This total was about 63 percent of the defective pricing identified by DCAA in fiscal years 1987-90 and shows the significant relationship between overstated subcontract prices and defective pricing.

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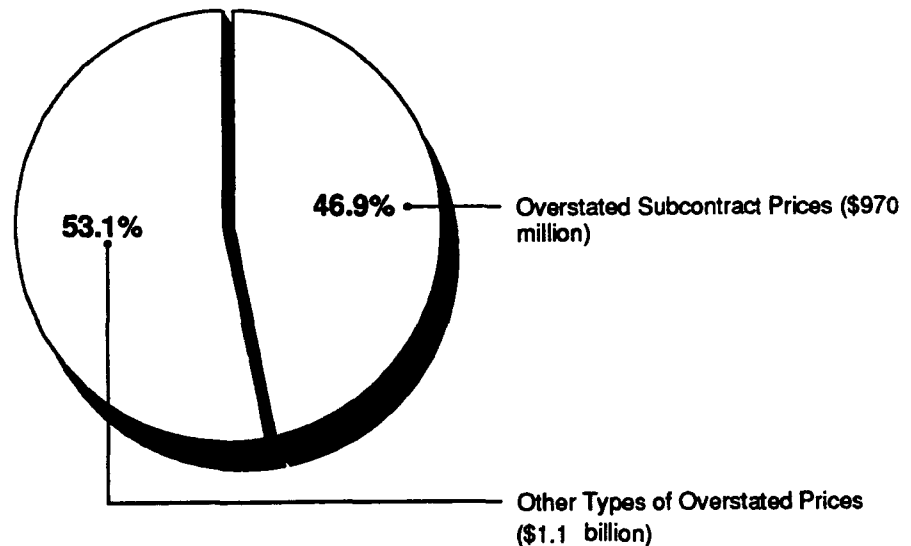
## Defective Pricing by Prime Contractors Included Significant Overstatements of Subcontract Prices

Almost half the dollar value of all prime contract defective pricing identified in fiscal years 1987-90 was related to overstated subcontract prices. (See fig. 1.) In all, we estimate that prime contractors overstated subcontract prices by about \$970 million. This amount consisted of \$669.5 million in direct<sup>5</sup> subcontract costs and \$300.4 million in prime contractor overhead and profit.

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<sup>5</sup>Direct cost, as defined in the federal government's cost accounting standards, means any cost that is identified specifically with a particular cost objective. Overhead and profit are added to direct costs by the contractor when proposing prices to the government on contracts.

**Figure 1: Estimated Dollar Impact of Overstated Subcontract Prices in Prime Contractor Defective Pricing Reports, Fiscal Years 1987-90**



Two reports from our sample of 180 DCAA defective pricing audit reports illustrate the overstated subcontract prices DCAA identified in its defective pricing reviews of prime contractors. The first report found \$4.1 million in defective pricing related to subcontracts. In this report, DCAA cited the prime contractor for failing, on several subcontracts, to provide the contracting officer with the most accurate, complete, and current subcontract prices before negotiating the prime contract. The second report found over \$3 million in defective pricing related to subcontracts. The overstatements stemmed from such actions as the following:

- When the prime contractor sought additional price quotations from other suppliers for a certain part, it received a lower price quotation from a different qualified subcontractor. However, the prime contractor included a higher subcontract price in its proposal submitted to the government.
- The prime contractor had some parts available in its inventory at a lower cost than its proposal to obtain these same parts from a subcontractor.
- The prime contractor, in effect, billed the government twice for certain material parts because its proposal included (1) plans for buying parts and furnishing them to a subcontractor and (2) the subcontractor's cost estimate to the prime contractor that contained the same parts.
- Before the prime contract was actually negotiated, the prime contractor received a price reduction from a subcontractor, but did not inform the

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government. Instead, the proposal to the government included the higher price.

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### Subcontract Costs Were the Most Frequently Overstated Direct Cost Category

Not only do overstated subcontract prices account for nearly half of the defective pricing dollar value, it also was the most frequently overstated category of direct cost.<sup>6</sup> We estimate that about 80 percent of DCAA's prime contract defective reports show defective pricing caused when the prime contractor overstated subcontract costs. By comparison, overstatement of direct labor costs occurred in an estimated 55 percent of reports with defective pricing, and overstatement of other direct costs occurred in an estimated 34 percent.

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### Overstated Subcontract Prices Are the Largest Cause of Defective Pricing

When the \$880 million in subcontract defective pricing reported by DCAA is added to our estimated \$970 million of overstated subcontract prices in prime contract defective pricing audits, the total amount of overstated subcontract prices is an estimated \$1.85 billion. This amount represents about 63 percent of the total defective pricing identified by DCAA in fiscal years 1987-90. (See fig. 2.)

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<sup>6</sup>Overall direct costs in prime contracts were the largest portion of total contract costs and generally fell into three categories—subcontracts, labor, and other direct costs such as tooling, equipment, or computers.

**Figure 2: Extent That Overstated Subcontract Prices Were Caused by Prime or Subcontractor Defective Pricing, Fiscal Years 1987-90**

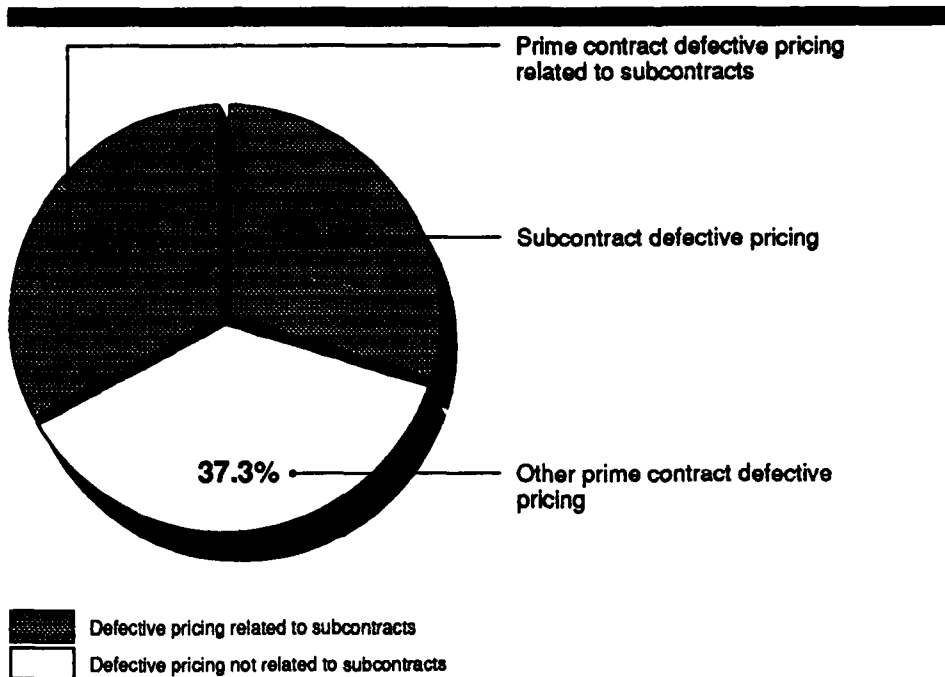


Figure 2 shows that DOD's greatest vulnerability to defective pricing is in subcontracts. We believe that our projections present the magnitude of this vulnerability in a manner that has not been done before. In other related reports, we recommended ways to better control overstated subcontract prices such as using existing management controls and sanctions to ensure that contractors routinely comply with the subcontract pricing regulations and that subcontract prices included in DOD contracts are fair and reasonable; therefore, we are not making any recommendations in this report. (See our list of related products at the end of this report.)

**Agency Comments and Our Evaluation**

In commenting on this report, DOD disagreed with the definition we used for subcontracts and stated that combining subcontract defective pricing and prime contractor defective pricing of subcontracts confused the issues we addressed.

We believe that the definition of subcontracts used in this report is consistent with the Federal Acquisition Regulations and that combining the two different types of defective pricing related to subcontracts shows the significance of subcontracts in the \$3 billion of defective pricing reported by DCAA. Our point is twofold. First, subcontracts are significant in prime

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contract defective pricing (\$970 billion). Second, when added to subcontract defective pricing (\$880 billion) the total significance of subcontracts to defective pricing is shown (\$1.85 billion). We believe the total defective pricing related to subcontracts demonstrates the magnitude of subcontract overpricing, and shows that this is a high-risk area requiring significant management attention.

We recognize that, in the past 12 months, DOD has taken a number of steps to address issues related to subcontract management. A number of these steps resulted from the recommendations made in the reports we issued to you last year. We are encouraged by DOD's actions and will continue to monitor DOD's success in addressing the high-risk area of subcontract management. DOD's comments are presented in their entirety in appendix I along with our detailed evaluation.

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## Scope and Methodology

To determine the extent that prime contracts contained overstated subcontract prices, we reviewed a stratified sample of 180 DCAA reports, randomly selected from a universe of 2,563 completed prime contractor audits, each identifying some amount of defective pricing and containing a contract value greater than \$100,000. We relied on DCAA's automated information system, which contained information on audits completed between October 1986 and September 1990.

We are 95-percent confident that between \$724,515,000 and \$1,215,211,000 (\$969,863,000 plus or minus \$245,348,000) of the prime contract defective pricing reported by DCAA between fiscal years 1987-90 was due to overstated subcontract prices.

We are 95-percent confident that the frequency of overstated costs in prime contract reports were between 62 and 96 ( $79 \pm 17$ ) for subcontracts, 32 and 78 ( $55 \pm 23$ ) for direct labor, and 12 and 56 ( $34 \pm 22$ ) for other direct costs.

Since we used computer-processed data to support our audit objectives, we evaluated and selectively tested controls over the data. Our testing did not identify significant data accuracy problems, although we identified some minor internal control weaknesses, as well as a small number of input errors in DCAA's data base. Therefore, we believe the data is sufficiently usable for our audit efforts.

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We reviewed DCAA policy and guidance on defective pricing audits and interviewed selected officials responsible for the defective pricing program at DCAA headquarters in Washington, D.C. We also interviewed various DCAA field office officials to obtain additional information or explanations regarding certain sample defective pricing reports under review.

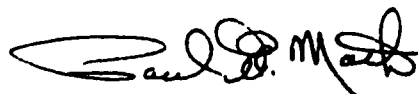
We conducted our review between June 1991 and February 1992 in accordance with generally accepted government auditing standards.

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Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Secretary of Defense; the Directors of the Defense Logistics Agency and DCAA; Director, Office of Management and Budget; and interested congressional committees. Copies will also be made available to others upon request.

Please contact me at (202) 275-8400 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix II.

Sincerely yours,



Paul F. Math  
Director, Research, Development,  
Acquisition, and Procurement Issues

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# Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



ACQUISITION  
DP/CPF

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

APR 22 1992

Mr. Frank C. Conahan  
Assistant Comptroller General  
National Security and International  
Affairs Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled--"CONTRACT PRICING: Subcontracts Are Significant in Prime Contract Defective Pricing," dated March 12, 1992 (GAO Code 396685/OSD Case 8969).

As discussed by DoD witnesses during the May 22, 1991 hearing conducted by the Senate Committee on Governmental Affairs, over the past few years the Department has taken a number of actions to improve subcontract pricing, including the issuance of regulatory changes and numerous policy memoranda. During the past 12 months, the Department has issued additional guidance to ensure that prime contract prices are fair and reasonable. Additionally, the DoD Inspector General issued a report on December 12, 1991, on its review of 42 contractors identified by the GAO as having inadequate estimating systems specifically related to subcontract pricing. The review resulted in several recommendations to improve the Department's management of contractor cost estimating systems, and corrective actions are underway.

This GAO report focused on subcontract pricing actions for fiscal years 1987-1990, which is prior to the 1990 Departmental reorganization that created the Defense Contract Management Command. The Defense Contract Management Command now performs all contract administration duties for the vast majority of DoD contracts. That change ultimately will result in greater consistency in the implementation of regulatory requirements and provide the DoD with the ability to target more easily those areas of concern that require greater attention.

The detailed DoD comments on the report findings are provided in the enclosure. The Department appreciates the opportunity to comment on the draft.

Sincerely,

A handwritten signature in cursive script that reads "Eleanor R. Spector".

Eleanor R. Spector  
Director, Defense Procurement

Enclosure

**Appendix I  
Comments From the Department of Defense**

GAO DRAFT REPORT--DATED MARCH 12, 1992  
(GAO CODE 396685) OSD CASE 8969

**"CONTRACT PRICING: SUBCONTRACTS ARE SIGNIFICANT IN  
PRIME CONTRACT DEFECTIVE PRICING"**

**DEPARTMENT OF DEFENSE COMMENTS**

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**FINDINGS**

**FINDING A: Subcontract Costs Have Become Substantial.** The GAO observed that, as the role of many prime contractors changed from fabricating weapons and products to integrating work done by subcontractors, subcontract costs have become substantial. The GAO further observed that subcontract estimates included in contractor proposals are critical in establishing the reasonableness of prime contract prices.

The GAO indicated that the Congress passed the Truth in Negotiations Act in 1962 to protect the Government against overstated contract prices. The GAO explained the Act requires that prime contractors and subcontractors (1) submit cost or pricing data supporting proposed prices above certain thresholds and (2) certify that the data submitted are accurate, complete, and current. The GAO noted, however, that if contractors provide inaccurate, incomplete, or noncurrent data--which result in overstated contract prices--the Act provides the Government the right to reduce the contract.

The GAO observed Defense Contract Audit Agency defective pricing audit reports showed that overpricing subcontract prices were related to defective pricing, as follows:

- when a subcontractor fails to provide current, complete, and accurate cost or pricing data to the prime contractor-- subcontract defective pricing results; and
- when the prime contractor has more current, complete, and accurate data related to subcontract costs, but fails to provide it to the Government and overstates the subcontract price--prime contract defective pricing results.

The GAO had previously reported (OSD Case 8714) that, between fiscal years 1987-1990, the Defense Contract Audit Agency completed 6,267 prime contract audits--2,563 (41 percent) identified \$2.1 billion in prime contract defective pricing. In addition, the GAO had reported that the Defense Contract Audit Agency completed 2,066 subcontract

**Appendix I**  
**Comments From the Department of Defense**

Now on pp. 1 and 2.

defective pricing audits during that period and 888 (43 percent) identified over \$880 million in subcontract defective pricing. (pp. 1-3/GAO Draft Report)

See comment 1.

**DOD RESPONSE:** Partially concur. The GAO report is somewhat misleading in its general use of the word subcontract. Although the GAO clarified its definition of "subcontract" in a footnote, the GAO uses the term in the draft report to mean all purchases from any supplier, distributor, vendor, or firm furnishing materials, supplies, or services to DoD prime contractors. No clear distinction is made between subcontractor defective pricing of proposals submitted to a prime contractor and prime contractor defective pricing of direct materials from vendors not covered by Truth in Negotiations Act requirements (e.g., materials that are competitively priced or that fall below the Act threshold).

See comment 2.

The GAO also states on page 1 of its draft report that active DoD subcontracts totaled \$193 billion at the end of FY 1990. That figure is misleading because it includes all active subcontracts, i.e. those that have not been closed as well as multi-year subcontracts. A more meaningful figure is \$55 billion, which is the amount of prime contractor awards of subcontracts during FY 1990.

See comment 3.

The GAO report should also clarify that the alleged defective pricing amounts are based on Defense Contract Audit Agency initial recommended price adjustments, which may not take into account the results of subsequent fact-finding, follow-up audits, offsets, or contracting officer determinations. An earlier GAO report (OSD Case 8714) stated that alleged defective pricing made up about 1.6 percent of each subcontract value and that the DoD recovered about 45 percent of alleged defective pricing. That means about .7 percent of the value of subcontracts where defective pricing was alleged was recovered, and that 99.3 percent of the value of the subcontracts was found to be fair and reasonable.

See comment 4.

See comment 5.

The GAO report also fails to mention the value of the prime contracts and subcontracts that were audited by the Defense Contract Audit Agency. The information would help clarify the GAO findings.

Now on pp. 3 and 5.

**FINDING B: Defective Pricing by Prime Contractors Included Significant Overstatements of Subcontract Prices.** The GAO concluded that almost half the dollar value of all prime contract defective pricing identified during the period fiscal years 1987-1990 was related to overstated subcontract prices. In all, the GAO estimated that prime contractors overstated subcontract prices by about \$970 million. The GAO indicated that amount consisted of \$669.5 million in direct subcontract costs and \$300.4 million in prime contractor overhead and profit. (pp.4-6/GAO Draft Report)

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See comment 2.

**DOD RESPONSE:** Partially concur. The Defense Contract Audit Agency has found that \$970 million identified by the GAO as overstated subcontract prices is actually overstated direct material costs, and excludes subcontracts covered by the Truth in Negotiations Act.

**FINDING C: Subcontract Costs Were The Most Frequently Overstated Direct Cost Category.** The GAO concluded that not only do overstated subcontract prices account for nearly half of the defective pricing dollar value, it also was the most frequently overstated category of direct cost. The GAO estimated that about 80 percent of the prime contract defective reports issued by the Defense Contract Audit Agency show defective pricing caused when the prime contractor overstated subcontract costs. The GAO observed that, by comparison, overstatement of direct labor costs occurred in an estimated 55 percent of reports with defective pricing, and the overstatement of other direct costs occurred in an estimated 34 percent. (pp. 6-7/GAO Draft Report)

Now on p. 5.

**DOD RESPONSE:** Concur.

**FINDING D: Overstated Subcontract Prices Are The Largest Cause of Defective Pricing.** The GAO reported that, when the \$880 million in subcontract defective pricing reported by the Defense Contract Audit Agency is added to the GAO estimated \$970 million of overstated subcontract prices in prime contract defective pricing audits, the total amount of overstated subcontract prices is an estimated \$1.85 billion. The GAO stated that amount represents about 63 percent of the total defective pricing identified by the Defense Contract Audit Agency in fiscal years 1987-1990. The GAO concluded, therefore, that the greatest vulnerability to defective pricing is in subcontracts. The GAO pointed out its projections present the magnitude of that vulnerability in a manner that has not been done before. (pp. 7-8/GAO Draft Report)

Now on pp. 5 and 6.

See comment 6.

**DOD RESPONSE:** Partially concur. The \$880 million identified by the Defense Contract Audit Agency as subcontractor defective pricing represents subcontractor defective pricing of proposals submitted to prime contractors. The estimated \$970 million identified by the GAO as overstated subcontract prices actually represents prime contractor overstatement of direct material costs, excluding subcontracts covered by the Truth in Negotiations Act. Combining the two different types of defective pricing that were identified and then attempting to draw conclusions only confuses the issues the GAO is addressing. Subcontractor defective pricing is separate and distinct from prime contractor defective pricing of material costs. A clarification of the GAO analysis is important because 52 percent of the recommended price adjustments represent prime contractor

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Comments From the Department of Defense

See comment 6.

overstatements of direct material costs from vendors that are not subject to the Truth in Negotiations Act.

The GAO statement that its projections present the magnitude of defective pricing vulnerability in a manner not done before is misleading. Direct material and subcontract costs are the primary focus of the Defense Contract Audit Agency risk assessments and are specifically identified as leads for defective pricing. As discussed by DoD witnesses during the May 22 hearing conducted by the Senate Committee on Governmental Affairs, over the past few years the Department has taken a number of actions to improve the pricing of DoD contracts, including the issuance of significant regulatory changes and numerous policy memoranda. During the past 12 months, the Department issued additional guidance to ensure that amounts proposed and negotiated in prime contract prices are fair and reasonable, as follows:

The Defense Logistics Agency issued guidance to the Defense Contract Management Command field activities to --

- include in field pricing reports the cost impact on the current proposal of uncorrected estimating system deficiencies and the status of the corrective actions;
- take appropriate action when the contractor fails to make adequate progress in correcting estimating system deficiencies;
- make more effective use of the Contractor Improvement Program for contractors who are slow in making progress on correcting deficiencies; and
- hold open audit reports on contractor estimating systems that contain estimating system deficiencies until all deficiencies are corrected, or the report has been superseded by, or incorporated into, a subsequent report.

The Defense Contract Audit Agency issued guidance to its auditors to --

- recommend disapproval of all or a portion of a contractor estimating system whenever a deficiency is significant, evaluate the adequacy of a contractor corrective action plan, perform followup audits if there are significant estimating system deficiencies, and identify the specific cost impact of each deficiency in proposal audit reports; and

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**Appendix I  
Comments From the Department of Defense**

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- ensure that contractors provide decrement factors for all estimated (competitive and noncompetitive) subcontract costs with their proposals.

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**RECOMMENDATIONS**

None.

The following are our comments on the Department of Defense's letter dated April 22, 1992.

## GAO Comments

1. We believe the definition of subcontract used in this report is consistent with the Federal Acquisition Regulation (FAR). As we explained in our October 31, 1991, letter to the Director, Defense Procurement, FAR part 44 defines subcontract as any contract entered into by a subcontractor to furnish supplies or services for performance of a prime contract or subcontract. Part 44 further defines subcontractor as any supplier, distributor, vendor, or firm that furnishes supplies or services to or for a prime contractor or another subcontractor. FAR part 2 states that supplies means all property except land or interest in land. Therefore, we believe it is reasonable to categorize a contract by a prime contractor to purchase materials from a vendor as a subcontract.

2. We believe there is a clear distinction between (1) subcontractor defective pricing of contracts with prime contractors and (2) prime contractor defective pricing of subcontracted items, including direct materials, in contracts with the government. The Defense Contract Audit Agency (DCAA) reported \$880 million of the subcontract defective pricing, and we estimate that \$970 million of the \$2.1 billion of the prime contract defective pricing DCAA reported was related to subcontracted items, including direct materials. The prime contractors DCAA audited were required to provide current, complete, and accurate information on these subcontracted items without regard to whether or not the subcontractors were also required to comply with the Truth in Negotiations Act.

3. Our objective in citing the \$193 billion figure was to provide the reader with some perspective on the amount of Department of Defense (DOD) subcontracting. The source of this figure is the DOD report, DOD Companies Participating in the DOD Subcontracting Program - FY 1990, from the DOD Directorate for Information Operations and Reports. The report states that during fiscal year 1990, DOD prime contractors awarded \$55 billion in subcontracts. The report also states that active subcontracts totaled \$193 billion at the end of the fourth quarter of fiscal year 1990.

4. The data in our report was derived from information in DCAA's data base for the 4 fiscal years 1987 through 1990. That data includes offsets, follow-up audits, and supplemental audits if they were reported by DCAA at the time of our audit. DCAA reports their findings as recommended contract

price adjustments and, historically, DOD has successfully recovered almost half of the price adjustments DCAA recommended.

5. We do not believe it is appropriate to conclude that if contracts or subcontracts, or portions of contracts or subcontracts, are not questioned in DCAA's defective pricing audits, then they are fair and reasonable. There are additional subcontract pricing problems that result in overpricing by prime contractors. For example, last year we also reported that DOD paid about \$8.8 million more to three prime contractors than the contractors negotiated with their subcontractors primarily because the prime contractors did not evaluate the noncompetitive subcontractor proposals prior to contract negotiations with the government. The prime contractors also awarded their competitive subcontracts at prices below those negotiated in DOD prime contracts (GAO/NSIAD-91-161).

6. Combining the two different types of defective pricing shows the significance of subcontracts in the \$3 billion of defective pricing reported by DCAA. DCAA reported \$880 million in defective pricing by subcontractors. DCAA also reported \$2.1 billion of defective pricing by prime contractors, and we estimate \$970 million of that related to subcontracts. Adding the \$880 million and our \$970 million estimate shows that \$1.85 billion, or 63 percent, of the defective pricing DCAA reported related to subcontracts. We believe this information has not been previously combined and presented in a format that points out this significance. The information has been presented in hundreds of DCAA defective pricing reports on individual contracts in a format that is not easily summarized.

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# Major Contributors to This Report

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# Related GAO Products

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Contract Pricing: Competitive Subcontract Price Estimates Often Overstated (GAO/NSIAD-91-149, Mar. 20, 1991).

Contract Pricing: Defense Subcontract Cost-Estimating Problems Are Chronic and Widespread (GAO/NSIAD-91-157, Mar. 28, 1991).

Contract Pricing: Inadequate Subcontract Evaluations Often Lead to Higher Government Costs (GAO/NSIAD-91-161, Apr. 5, 1991).