
Gaining an Understanding of Estimating Systems and Controls

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Audit Issues: Flash Reports

Contractor did not use appropriate factor to decrement its subcontractor proposal (F/A-22)

- \$96K
- Contractor agreed to inform its estimators to apply appropriate factors in accordance with its policy

Audit Issues:

Flash Reports

Estimating Deficiencies on F/A-22, Lots 4 and 5

- Inadequate Labor Estimates
- proposed costs based on historical data did not reconcile to official accounting records
- historical data was often inaccurate
- \$62.5 M and 1.8M labor hours unsupported
- Contractor concurred

Audit Issues: Flash Reports

Estimating Deficiencies on F/A-22, Lots 4 and 5
(continued)

- Inadequate BOM Development procedures
- **the parts structure not updated during the proposal process;**
- **parts omitted, duplicated, and incorrectly added,**
- **low dollar parts are not repriced.**

Audit Issues: Flash Reports

Estimating Deficiencies on F/A-22, Lots 4 and 5 (continued)

- Inadequate accounting for non-recurring material costs
- Some proposed non-recurring included recurring in the history
- \$800K impact

Audit Issues:

Flash Reports

Estimating Deficiencies on F/A-22, Lots 4 and 5 (continued)

- Inadequate documentation of proposal
- Task sheets don't reconcile to supporting data
- Supporting data not readily available for audit
- Page numbers not referenced
- \$843K questioned because task sheets don't reconcile to supporting data
- \$33M unsupported because supporting data not readily available
- Contractor concurs with recommendations

Audit Issues

Pricing Proposal Audits

- ◆ Major questioned costs in material (F/A-22)
 - **Expired vendor quotations**
 - **No Cost Analysis Reports (CARs)**
 - **Current history not used**
 - **Duplicated subcontract costs in proposal**
 - **No priced BOM**
 - **\$65.2M material questioned during FY 2005**

Audit Issues

Defective Pricing Audits

- Pending audit – F/A-22 Lot 1
 - Contractor had negotiated Purchase Orders on 36 parts prior to final price agreement (78 sampled)
 - Contractor had negotiated subcontract prices on 14 parts prior to final price agreement (68 sampled)
 - Data on the 50 parts not presented at negotiations
 - \$4.1 million

Audit Issues

Defective Pricing Audits

- Pending audits – F/A-22 Lots 2 and 3
 - Current data not used when pricing BOM
 - Updated vendor proposals not used
 - Government relied on defective data
 - \$3M (Lot 2) and \$13M (Lot 3)

Conclusion

- **Moderate to High Risk in the following Control Objectives:**
 - **Cost Estimate Development**
 - **Contract Certification**