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