

SUBJECT OF AUDIT

As requested by the Defense Contract Management Agency - Lockheed Martin Denver (DCMA) on December 14, 2010, we examined the RD AMROSS, LLC's (RDA), December 6, 2010, firm-fixed price subcontract proposal, RDA-10-097B, submitted in response to United Launch Alliance's (ULA) Request for Proposal No. RD180-RFP-09-001, to determine if the proposed costs are acceptable as a basis to negotiate a fair and reasonable subcontract price. The \$303,073,860 proposal is for 12 RD-180 engines and related quality services. The company proposed a performance period of December 17, 2009, through October 30, 2013.

This proposal was not submitted in response to a Government solicitation or requirement. Although there was no Government requirement at the time the proposal was submitted, ULA's request for audit, submitted through DCMA, indicated that this Next Lot Buy proposal was in support of the Atlas V Project, Prime Contract No. FA8816-06-C-0002.

The proposal and related cost or pricing data are the responsibility of the subcontractor. Our responsibility is to express an opinion on the proposal based on our examination.

EXECUTIVE SUMMARY

Our examination of the subcontract proposal disclosed that it is not acceptable for the negotiation of a fair and reasonable price because of the significant issues discussed below.

SIGNIFICANT ISSUES

1. We considered the proposed subcontract prices to be unsupported in their entirety due to RDA's inadequate price analyses of both the subcontract RD-180 engines and the Added Scope Statement of Work (SOW), as discussed in the Exhibit, Explanatory Note 1.
2. We questioned in full RDA's proposed general and administrative (G&A) costs and its proposed profit under FAR 52.215-23(b), Limitations on Pass-Through Charges, as discussed in the Exhibit, Explanatory Note 2.
3. Although we questioned RDA's proposed G&A costs in full under limitations on pass-through, we audited the proposed G&A expenses and identified a potential CAS 410.40(b)(1) noncompliance with the allocation base, which we believe does not best represent RDA's activity during a typical cost accounting period. We also questioned significant G&A pool expenses for all years proposed based on FAR Part 31 unallowable costs. See the Exhibit, Explanatory Note 3.
4. We considered RDA's commercial item determinations for both Energomash's RD-180 engine and its Added Scope Statement of Work inadequate to support a commercial item determination for these items, as described in the Exhibit, Explanatory Note 1.