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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-177110



FEB 7 1973

Dear Senator Proxmire:

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In response to your request of September 20, 1972, we have looked into the charges made by Dr. Henry Girouard, in his September 11, 1972, letter to you, that a division of a major aerospace corporation has been defrauding the U.S. Government.

Dr. Girouard stated that the company--later identified as General Dynamics Corporation, Convair Aerospace Division of San Diego, California--performs study contracts and submits the results in documents to collect a fee, and that they reorganize the report and format to that of a technology report and use this to collect another fee from a different Government department.

We were told by Dr. Girouard that the technology reports referred to in his letter were developed under the contractor's independent research and development (IR&D) program. The costs of this program are included in the contractor's overhead and are allocated to all its work, including that done under Government contracts.

Our inquiries disclosed no improper practices on the part of the contractor. The circumstances observed and questioned by Dr. Girouard were provided for in the contracts, and we found that in several instances the practices followed by the contractor and the Government agencies involved tended to help keep total costs for study and research to a minimum. When we discussed our findings with Dr. Girouard, he acknowledged that he did not have a complete understanding of the contractor's administrative and financial controls nor of the contract provisions designed to preclude duplicate payments by the Government.

Our examination included a test of labor charges for a selected number of employees working on study contracts and on IR&D projects. We compared contract technical reports with engineering research reports under the IR&D program to determine the extent to which duplicative material was included. We found a certain amount of duplication of data, but the contracts required the integration of technical

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information emanating from the IR&D program into closely related contract technical reports. In any event, the contract provisions insured that the costs were reimbursed only once.

The rationale for use of IR&D technical data in contract technical reports is illustrated by the following National Aeronautics and Space Administration (NASA) contract. Fixed-price contract NAS 8-25051 was awarded to Convair on June 30, 1969, for a study of experimental module concepts in the amount of \$400,000 with a required minimum of 17,000 man-hours of effort. The contractor had submitted a basic proposal for \$604,000 involving 24,045 man-hours. Since closely related work was being performed under the IR&D program, the contractor's proposal included as an alternative the significantly lower award price with the understanding that the results of the IR&D technical studies would be integrated in the final contract report. Other NASA study contracts contained similar provisions which limited duplication of effort and reduced overall costs to the Government.

Technical reviews by the Defense Contract Administration Services and surveillance by the Defense Contract Audit Agency indicated that the contractor's internal policies, procedures, and practices were adequate to protect the interests of the Government. The contract audit effort covered floor checks, timekeeping procedures, and manpower controls to determine that costs were charged to appropriate job codes and contracts.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

We trust that the information provided will be of service to you. We shall be glad to discuss this matter in greater detail if you so desire.

Sincerely yours,



Comptroller General
of the United States

The Honorable William Proxmire
United States Senate