

GAO

Briefing Report to the Honorable  
Barbara M. Boxer  
House of Representatives

May 1987

# UNALLOWABLE COSTS

## The Government Does Not Reimburse Contractor Contributions



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National Security and  
International Affairs Division

B-226673

May 27, 1987

The Honorable Barbara Boxer  
House of Representatives

Dear Ms. Boxer:

This briefing report responds to your letter of October 24, 1986, and subsequent discussions with your representatives expressing concern over whether campaign contributions by eight defense contractors to the Committee of Californians Against the Toxics Initiative (No on Proposition 65) were being charged directly or indirectly to the government.

In accordance with your request, we explored the following questions.

1. If the contributions were charged to the government, under what "allowable cost" category were they justified, and what was the justification?
2. Are these contractors being reimbursed, through progress payments, for these contributions?
3. Is it possible that the contractors are not only reimbursed but that they also receive profit based on these allowable costs?

For many years government regulations have provided that contributions are not allowable costs under government contracts. Although the contractors have not yet filed overhead claims based on their 1986 contract costs, the campaign contribution costs were being clearly identified, and we found no evidence that the contractors intend to charge these costs to the government.

We examined the eight contractors' accounts and obtained copies of their checks or cash transfer vouchers and found that the contributions were made from corporate funds.

The seven contractors below allocated the contributions to accounts which they have designated as unallowable contract costs.

- FMC Corporation, Chicago, Illinois
- General Dynamics Corporation, St. Louis, Missouri
- Hughes Aircraft Company, Los Angeles, California
- Lockheed Corporation of Calabasas, California
- McDonnell Douglas Corporation, St. Louis, Missouri
- Northrop Corporation, Los Angeles, California
- Rockwell International Corporation of El Segundo, California

The other contractor, TRW Incorporated, Redondo Beach, California, had not designated the account to which the contribution was charged as expressly unallowable. However, company officials told us that they do not include this type of contribution in their contract claims. The accounting policy of this contractor directs company employees to delete such costs from government contract claims. Defense Contract Audit Agency (DCAA) officials who audit this contractor told us that such costs have not been included in previous years' contract claims of this contractor.

DCAA officials told us that if contractors do not include contribution costs in their contract claims, they will not be reimbursed through progress payments. Similarly, no profit is involved if the contractors do not include these costs in their contract claims. Corporate officials of the eight companies told us that the corporations will not submit campaign contributions for reimbursement by the federal government. DCAA officials stated that the companies have properly deleted such costs in the past and that their access to contractors' records enables them to track costs and to determine that unallowable costs are not reimbursed.

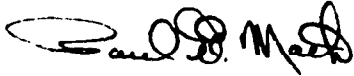
Appendix I lists the accounts to which the eight contractors charged the contributions and the contractor designation of these accounts, data on whether progress payments were received, and DCAA's comments.

As requested, we did not obtain comments from the contractors or the Department of Defense. Our review was conducted between November 1986 and February 1987 in accordance with generally accepted government auditing standards. Unless you publicly announce the contents earlier, we plan no further

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distribution of this report until 5 days from the date of issue. At that time we will send copies to the Secretary of Defense and DCAA and to other interested parties upon request.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is cursive and somewhat stylized, with the first name "Paul" being the most prominent.

Paul F. Math  
Associate Director

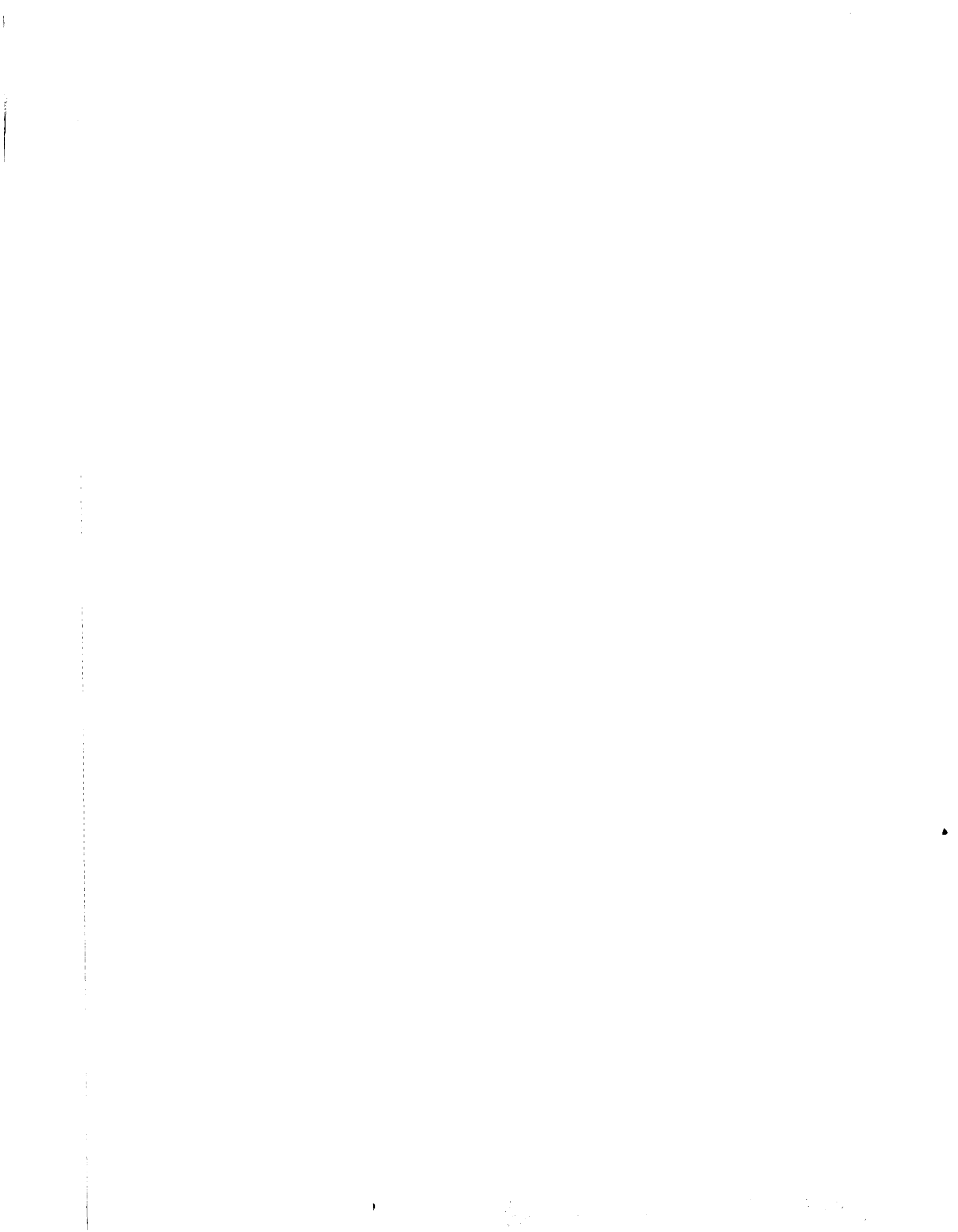
ANALYSIS OF CONTRACTOR CAMPAIGN CONTRIBUTIONS

<u>Contractor/ location</u>	<u>Corporate account to which contribution was charged/desig- nation of account</u>	<u>Progress payments/ profit received</u>	<u>DCAA comments</u>
FMC Corporation, Chicago	Political contribu- tions account charged by the Defense, Agri- cultural Chemical, and Industrial Chemical groups. This account is designated as unallowable.	No	There was no evidence that contributions have been charged to the govern- ment in the past.
General Dynamics Corporation, St. Louis	Several divisions were directed to charge the amounts to their contributions and donations accounts. These accounts are designated unallowable.	No	DCAA is auditing FY 1984 accounts and believes that the divisions will properly record the charges.
Hughes Aircraft Corporation, Los Angeles	Incurred general and administrative expenses account. This account is designated as unallowable.	No	DCAA confirms that Hughes deletes this cost before submitting contract claims.
Lockheed Corporation, Calabasas	Policy overhead costs account. This account is designated as unallowable.	No	DCAA reports that Lockheed has deleted these costs in the past. DCAA is auditing Lockheed's FY 1984 claims.

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<u>Contractor/ Location</u>	<u>Corporate account to which contribution was charged/desig- nation of account</u>	<u>Progress payments/ profit received</u>	<u>DCAA comments</u>
McDonnell Douglas Corporation, St. Louis	Direct lobbying overhead costs-- nonreimbursable account. This account is designated as unallowable.	No	DCAA is auditing FY 1983 accounts and tracking unallowable costs.
Northrop Corporation, Los Angeles	Nondeductible contributions account. This account is designated as unallowable.	No	DCAA reports that these accounts appear as voluntary deletions on the corporate claims.
Rockwell International Corporation, El Segundo	Nonoperating expenses --ballot measures expense account. This account is designated as unallowable.	No	DCAA reports that these expenses do not show up in Rockwell's overhead claims.
TRW Incorporated, Redondo Beach	Membership, dues and conference expenses. This account is not designated as unallowable, however employees are directed not to claim these expenses as allowable costs.	No	When DCAA audits the contractor's final over- head claims, it ensures that these contributions are not claimed.

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