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REPORT TO THE CONGRESS



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Audit Of Payments From
Special Bank Account
To Lockheed Aircraft Corporation
For The C-5 Aircraft Program
During The Quarter Ended
June 30, 1972

B-162578

Department of Defense

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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AUG. 11, 1972



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

B-162578

CA
/ To the President of the Senate and the
Speaker of the House of Representatives

This is our fifth report on the audit of payments from the special bank account to the Lockheed Aircraft Corporation for the C-5 aircraft program. C.420
This report covers the quarter ended June 30, 1972.

This audit was made pursuant to section 504 of Public Laws 91-441 and 92-156, the Armed Forces appropriation authorities for fiscal years 1971 and 1972, respectively. Public Law 91-441 authorized \$200 million interim funding for the C-5 aircraft program, and Public Law 92-156 authorized \$325.1 million for the program.

Both laws provide that (1) the payments be made through a special bank account, (2) the funds be expended only for the reasonable and allocable direct and indirect costs incurred by Lockheed on the C-5 aircraft program, and (3) the funds not be used to reimburse Lockheed for intercompany profits, bid and proposal (B&P) costs, independent research and developments costs, similar unsponsored technical effort costs, and depreciation and amortization costs. These laws require the General Accounting Office to audit payments from the special bank account and to submit a report to the Congress not more than 30 days after the close of each quarter.

Since June 16, 1971, the Department of the Air Force has paid Lockheed \$386,215,942 from the special bank account. (See appendix for the cumulative expenditures through June 30, 1972.) The amounts deposited in and withdrawn from the special bank account during the quarter ended June 30, 1972, were as follows:

	Special bank account	Funds authorized by Public Laws	
		91-441	92-156
Beginning balance	\$ 455,565	\$239,479	\$204,378,955
Deposits	66,274,989		
Withdrawals			66,274,989
Labor	\$15,083,767		
Overhead	21,832,022		
Material and other charges	27,699,609		
Intercompany transactions:			
Charges	\$1,598,289		
Credits	23,746	1,574,543	66,189,941
Balance as of June 30, 1972	\$ 540,613	\$239,479	\$138,103,966

SCOPE OF AUDIT

Our review was made at the Lockheed-Georgia Company, Marietta, Ga. In our review of overhead costs, we examined into the reasonableness of provisional overhead rates and costs eliminated to comply with Public Laws 91-441 and 92-156. Our audit of labor costs included tests to determine whether those costs appeared reasonable and allocable to the C-5 aircraft program. To determine the accuracy and propriety of material and other costs, we traced selected charges on the reimbursement vouchers to such documents as purchase orders, vendors' invoices, receiving reports, and work orders. We verified that no intercompany profit was paid from the special bank account. Additionally we reviewed the Defense Contract Audit Agency audit of payments from the special bank account for labor, overhead, material, and other costs.

CONCLUSION

Our review revealed no payments from the special bank account to Lockheed-Georgia during the quarter ended June 30, 1972, that were contrary to Public Laws 91-441 and 92-156. However, two matters presented in our fourth report which could affect future payment practices have not been resolved. These matters, discussed below, will be given further consideration in future reporting periods.

FURTHER STUDY NEEDED OF BID AND PROPOSAL OVERHEAD COSTS

As indicated earlier, Public Laws 91-441 and 92-156 provide that Lockheed-Georgia not be reimbursed for B&P costs. In our prior report we stated that Lockheed-Georgia deducted its direct (material and labor) B&P costs allocable to the C-5 aircraft program but did not deduct applicable overhead costs of about \$500,000 that for other purposes Lockheed had considered allocable to its B&P activities. We requested the Air Force to furnish us with its rationale for paying such costs. 2 35

We have received comments from the Air Force and Lockheed on this matter and are presently considering them in deciding whether these costs should be allowed for reimbursement under the acts.

WITHDRAWAL OF FUNDS FOR RETIREMENT CONTRIBUTIONS IN ADVANCE OF NEED

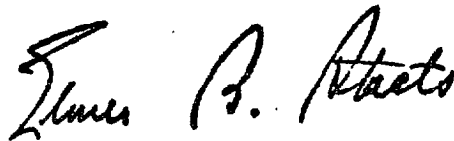
Our prior report showed that in 1971 Lockheed received payments from the Government for contribution to employees' retirement funds and held them an average of about 14 months before making payments to retirement fund trustees.

Our inquiry of several other aerospace firms, as well as the Air Force, disclosed inconsistencies in the length of time between payments by the Government to contractors for such contributions and the subsequent payments by contractors to trustees of the retirement funds. These time periods ranged from a month to a year or more.

3 / It did not seem appropriate for the Government to make payments to contractors for their contributions to employees' retirement funds significantly in advance of the time that the contractors are required to make payments to the trustees of retirement funds. Further, it appeared to us that the Department of Defense should require consistent treatment of its contractors in this regard. We therefore recommended that the Department of Defense take action to establish consistent policies that avoid making such payments significantly in advance of need. ✓

At the time our review work for this quarterly report was completed, the Department of Defense had not advised what action it might take concerning our recommendation.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretary of the Air Force.



Comptroller General
of the United States

APPENDIX

TOTAL AMOUNTS DEPOSITED IN AND WITHDRAWN FROM THE SPECIAL BANK ACCOUNT DURING THE PERIOD JUNE 16, 1971, TO JUNE 30, 1972

	Special bank account	Funds authorized by Public Laws	
		<u>91-441</u>	<u>92-156</u>
BEGINNING BALANCE		\$200,000,000	\$325,100,000 ^a
DEPOSITS	\$386,756,555		
WITHDRAWALS		199,760,521 ^b	186,996,034 ^c
Labor	\$ 74,055,900		
Overhead	109,467,322		
Material and other charges	199,596,775		
Intercompany transactions:			
Charges	\$18,093,498		
Credits	<u>14,997,553</u>	<u>3,095,945</u>	<u>386,215,942</u>
BALANCE AS OF JUNE 30, 1972	\$ 540,613	\$ 239,479	<u>\$138,103,966</u>

^aPublic Law 92-204 appropriated \$321.5 million which is \$3.6 million less than authorized.

^bInitial payment from this fund was made June 16, 1971.

^cInitial payment from this fund was made on December 1, 1971.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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