



United States  
General Accounting Office  
Washington, D.C. 20548

**Comptroller General  
of the United States**

B-227257

August 20, 1987

The Honorable John Glenn  
Chairman, Committee on Governmental  
Affairs  
United States Senate

Dear Mr. Chairman:

Following are our comments on S.852, a bill to improve Federal Government accountability over profits made by contractors under negotiated Federal contracts. The bill's principal provisions require periodic profitability studies and amend the Defense Production Act of 1950 to assign to the Administrator of the Office of Federal Procurement Policy (OFPP) the duties and responsibilities previously performed by the Cost Accounting Standards Board.

We agree with the need to reestablish responsibilities for revising and interpreting cost accounting standards and to study the profitability of government contractors. The bill has two titles, Title I--Cost Accounting Standards Amendments of 1987, addresses the cost accounting function, and Title II--Government Contractor Profit Reports Act of 1987 establishes a recurring requirement for studying and reporting on the profitability of government contractors.

TITLE I - ESTABLISHING A  
COST ACCOUNTING FUNCTION IN OFPP

Title I amends the Defense Production Act of 1950.

We agree that a cost accounting standard-setting authority should be reestablished to administer and to interpret cost accounting standards for both government contracting officials and the contractors providing goods and services. This office should also be responsible for revising existing standards and writing new ones when needed. OFPP is a logical choice for performing these functions.

We also support creating a council chaired by the Comptroller General to advise the OFPP Administrator on cost accounting standards and profitability reporting.

One technical point that we believe should be changed is an amendment contained in Section 103(b)(2). Section 719(g) of the Defense Production Act of 1950 (50 U.S.C. App. 2168) would be amended to increase the threshold for contracts which qualify for the provisions of the Act from \$100,000 to \$500,000. The \$100,000 threshold is applicable to submission of cost or pricing data under the Truth in Negotiation Act and for consistency, and to avoid confusion we believe it should be retained in the Defense Production Act.

TITLE II - MANDATORY REPORTING  
AND STUDY OF CONTRACTOR PROFITABILITY

Title II amends The Renegotiation Act of 1951, as amended. It is similar to legislation contained in our upcoming report, GAO/NSIAD-87-175, A Proposal For A Program to Study the Profitability of Government Contractors.

Title II is an important legislative proposal which we support fully. To date, the studies of government contractor profitability have been restricted to defense contractors, carried out at irregular time intervals, and in our opinion have been somewhat inconsistent. Title II introduces much needed regularity and consistency into the requirement for and methods and procedures used to perform these studies.

Section 101 and Section 103 of the Renegotiation Act, as amended by section 203 of S.852, would establish definitions and reporting requirements for Title II. To more closely align the definition of a "covered company" and related reporting requirements with the type of government contracts which should be included in profitability studies, we believe the coverage requirements should be strengthened. This can be done by expanding beyond negotiated contracts to contracts for which certified cost or pricing data are required. Also, to build a level of consistency into the reporting data base, we believe that a company should achieve the reporting levels for 2 consecutive years before it qualifies as a "covered company". Once a company becomes a "covered company," it should continue to report until its qualifying business is below the \$50 million qualifying threshold for 2 consecutive fiscal years.

In addition, to ensure that the accountability provision in Section 103 is applicable to all covered companies, we believe that privately held companies should also be required to provide a reconciliation to their audited annual statements.

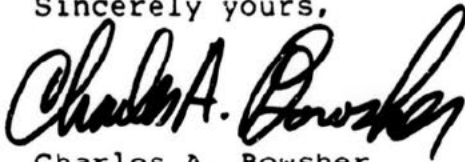
Section 102 of the Renegotiation Act as amended by section 203 of S.852 sets out responsibilities of the Administrator

of OFPP for implementing the Act and, among other things, gives the Administrator authority to exclude classes of contractors from coverage. We believe that the Administrator should be required to determine that the purposes of the Act will not be adversely affected before excluding any class of business, and that each exclusion should be explained in the Administrator's annual report required by Section 105 of the Act.

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We appreciate the opportunity to comment on the proposed legislation and would be pleased to meet with you or your representatives to discuss our comments.

Sincerely yours,

A handwritten signature in black ink, reading "Charles A. Bowsher". The signature is written in a cursive, flowing style with a large initial "C".

Charles A. Bowsher  
Comptroller General  
of the United States