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

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March 16, 1979

... not make available to public reading room

The Honorable Joseph G. Minish
Chairman, Subcommittee on General
Oversight and Renegotiation
Committee on Banking, Finance and
Urban Affairs
House of Representatives

Dear Mr. Chairman:

This is in response to your request on March 8, 1979, that we summarize the information that we obtained on the [costs of compliance with the Renegotiation Act of 1951 as amended] (50 U.S.C. App. 1211 et. Seq.). Our work was conducted at eight contractor offices, two industry associations, and the Renegotiation Board. This work was performed from June to September 1977 at the request of Senator Proxmire and limited to contractors and industry associations that had testified at a hearing and agreed to make their records available for review. Our specific objective was to ascertain if, as claimed by contractors, there were substantial costs incurred for complying with the requirements of the Renegotiation Act. We also evaluated studies prepared by industry associations attempting to determine the extent of such costs.

In general, we concluded that some costs were necessarily incurred by contractors to comply with Renegotiation Act requirements. We were unable, however, to determine the magnitude of such costs or to what extent they are incremental to other financial data costs. The primary problem in determining and verifying such costs was that the contractors' accounting systems were not designed to identify and segregate such data.

It is important to note that, because of unusual aspects of the firms that testified before the committee chaired by Senator Proxmire, any conclusions drawn from the data are unlikely to be representative of the approximately 3,000 firms that file with the Board. To illustrate: One contractor claimed and obtained exemptions for about 75 percent of its otherwise renegotiable sales. Under the Act, contractors could claim exemptions for standard commercial articles, standard commercial classes, and new durable productive equipment for otherwise renegotiable sales to the Government. This contractor accounted for 8 percent of all exemptions granted to all firms. The large amount claimed was costly to document.

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Also, seven of the eight contractors in our sample were assigned by the Board for field review. This process is also more costly than a simple filing since a field review requires the submission of substantial, additional data. The high representation of contractors reviewed in the field is unusual since only about 20 percent of companies filing fall into this category.

Our major observations are summarized below.

THE NATURE OF INDUSTRY EFFORT TO COMPLY WITH THE RENEGOTIATION ACT

Complying with the requirements of the Renegotiation Act requires continuing but not necessarily significant effort on the part of Government contractors. All the companies reviewed performed some or all of the various tasks during the year relating to: identifying renegotiable sales; preparing and filing applicable reports; responding to Board requests for additional data if assigned for field review; and, in some cases, protesting a Board determination of excessive profits.

For the most part, these efforts involved a number of contractor employees at many corporate levels who spent a small amount of time on renegotiation matters. If the Renegotiation Act was repealed, contractors advised us that only a few positions would be eliminated. In this situation, companies presumably would find alternative work for employees relieved of renegotiation tasks.

AN EVALUATION OF THE COSTS OF COMPLIANCE OF SELECTED CONTRACTORS

Contractor costs of compliance were mainly estimates that, in most cases, were backed up where feasible with various types of supporting data. The range of these cost estimates was \$16,600 to \$1.7 million annually. Generally, we were only able to verify the accuracy of a part of the cost figures submitted. The corporate accounting systems we reviewed did not provide for the identification of costs of renegotiation functions. Estimates were based largely on employee recollection; and, in some instances, little or no records were maintained.

Regardless of how meticulous each contractor was in preparing its estimate of costs incurred in complying with renegotiation, none of the costs were recorded on a daily basis by the person or persons involved in the activity. Generally, it was necessary for the employees or their supervisors to estimate the amounts of time many months after the time was expended. In such instances, while we could verify salaries and associated costs, we were often unable to find any verifiable, objective

evidence to support the time spent. Generally, a relatively minor part of the costs claimed to have been incurred by contractors represented the costs incurred to obtain professional assistance of experts and consultants outside the contracting organization. These were verified by us to actual billings and confirmation with suppliers where feasible.

The industry associations we contacted declined, as a matter of policy, to identify participating companies involved in their cost of compliance surveys or to provide any details related to individual participants. Therefore, we were unable to evaluate their estimates of complying with the Renegotiation Act.

Are costs of compliance proportional
to volume of sales?

Based on the estimates of compliance costs prepared by contractors, it would appear costs are not proportional to renegotiable sales. Costs can increase or decrease depending on:

1. The size of individual contractors or subcontractors.
2. The number of segments, e.g., cost centers, profit centers, plants, or divisions receiving renegotiable business.
3. The amount of exemptions from renegotiation claimed and requiring documentation.
4. Whether a contractor's filing is (a) cleared without field review, (b) reviewed in the field but later determined not to have involved excessive profits, or (c) reviewed in the field and determined to have excessive profits. Field review generally requires additional schedules and further breakdowns of the data in the contractor's filing. A finding of excessive profit frequently entails additional paperwork plus the engagement of outside legal and accounting assistance.
5. The extent to which the contractor makes use of automated data processing in its recordkeeping activities.

We trust the above information is responsive to your needs. If we can be of further assistance, please let us know.

Sincerely yours,

(SIGNED) ELMER B. STAATS

Comptroller General
of the United States

bc: Mr. Stolarow (PSAD)
Mr. Flynn (PSAD/GP)
Mr. Wolin (PSAD/GP)
Mr. Bowlin (OCR)
Mr. Anderson (OP)
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