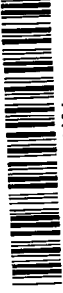


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REPORT TO THE CONGRESS



LM096104

Audit Of Payments From Special Bank Account To Lockheed Aircraft Corporation For The C-5A Aircraft Program During The Quarter Ended June 30, 1973

B-162578

Department of Defense

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

AUG. 10, 1973

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

B-162578

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

This is our ninth report on the audit of payments from the special bank account to the Lockheed Aircraft Corporation for the C-5A aircraft program. This report covers the quarter ended June 30, 1973.

We made our audit pursuant to section 504 of Public Laws 91-441 and 92-156 and to section 603 of Public Law 92-436, the Armed Forces appropriation authorities for fiscal years 1971, 1972, and 1973, respectively. Public Law 91-441 authorized \$200 million interim funding for the C-5A aircraft program; Public Law 92-156 authorized \$325.1 million; and Public Law 92-436 authorized \$107.6 million for the program.

Public Laws 91-441 and 92-156 provide that (1) the payments be made through a special bank account, (2) the funds be spent only for the reasonable and allocable direct and indirect costs incurred by Lockheed on the C-5A aircraft program, and (3) the funds not be used to reimburse Lockheed for intercompany profits, bid and proposal (B&P) costs, independent research and development costs, similar unsponsored technical effort costs, and depreciation and amortization costs. Public Law 92-436 contains the same restrictions and controls except that up to \$4.4 million of the amount authorized under this law may be spent for reasonable and allocable 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 \$565,635,942 from the special bank account. (See appendix for the cumulative expenditures through June 30, 1973.) The amounts deposited in and withdrawn from the special bank account during the quarter ended June 30, 1973, follow.

	Special bank account	Funds authorized by Public Laws		
		<u>91-441</u>	<u>92-156</u>	<u>92-436</u>
Beginning balance	\$ 319,999	\$33,156	\$3,782,021	\$98,460,288
Deposits	35,745,007			
Withdrawals				35,745,007
Labor	\$ 8,563,729			
Overhead	11,436,434			
Material and other charges	15,190,435			
Intercompany transactions:				
Charges	\$342,205			
Credits	<u>1,397</u>	<u>340,808</u>	<u>35,531,406</u>	
Balance at June 30, 1973	\$ <u>533,600</u>	<u>\$33,156</u>	<u>\$3,782,021</u>	<u>\$62,715,281</u>

SCOPE OF AUDIT

We made our audit at the Lockheed-Georgia Company, Marietta, Georgia. Our review of labor costs included tests to determine whether these costs appeared reasonable and allocable to the C-5A aircraft program. 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, 92-156, and 92-436.

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. We also examined the reasonableness of payments in settlement of selected subcontractor claims resulting from reductions in subcontract quantities related to the reduction in the number of aircraft to be produced.

We reviewed the Defense Contract Audit Agency audit of payments from the special bank account for labor, overhead, material, and other costs.

CONCLUSIONS

Our review revealed no payments from the special bank account to Lockheed-Georgia during the quarter ended June 30, 1973, that were contrary to Public Laws 91-441, 92-156, and 92-436.

Two previously reported matters concerning payments to contractor employee retirement funds and B&P overhead costs are discussed below.

WITHDRAWAL OF FUNDS FOR RETIREMENT
CONTRIBUTIONS IN ADVANCE OF NEED

Our prior reports 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 retirement fund trustees.

As a result, we recommended that the Department of Defense (DOD) establish consistent policies that avoid making such payments significantly in advance of need. In July 1973 DOD issued Defense Procurement Circular 114 which includes regulation changes designed to encourage regular payments by contractors to pension funds. These changes allow pension costs to be included as part of indirect costs (for cost reimbursement purposes or progress payment computation) only if contributions are paid within 30 days after the end of a quarter. If not paid by that time, pension costs shall not be included as part of indirect costs until payment has been made. These changes were effective on the circular publication date, July 25, 1973.

BID AND PROPOSAL OVERHEAD COSTS

Public Laws 91-441, 92-156, and 92-436 provide that Lockheed-Georgia not be reimbursed for B&P costs. Our prior reports showed that Lockheed-Georgia deducted its direct (material and labor) B&P costs allocable to the C-5A aircraft program, but it did not deduct certain indirect costs of about \$500,000 for 1971. Subsequently, we obtained and considered Air Force and Lockheed comments on the matter.

Under Lockheed's accounting practices followed in its fiscal years 1971 and 1972, B&P costs did not include engineering and manufacturing overhead. The Defense Contract Audit Agency reports that this has been a longstanding and consistent accounting practice followed by Lockheed.

We believe that, since the practice was not precluded under the Armed Services Procurement Regulation in effect at that time and the accounting practice was accepted by the parties for 1971 and 1972 activities, the Air Force/Lockheed method of computing unallowable B&P costs was not contrary to law or otherwise improper for those 2 years.

On September 1, 1971, the Regulation was revised to require that contractors' B&P costs include not only all direct costs but also certain allocable indirect costs. The effective date of the regulation change was the beginning of the contractor's first fiscal year beginning on or after January 1, 1972.

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Because Lockheed's fiscal year 1972 began December 27, 1971, the change did not take effect with respect to Lockheed until its fiscal year 1973 which began January 1, 1973. Both direct and indirect B&P costs have been deducted from costs reimbursed to Lockheed from the special bank account since January 1973.

We are sending copies of this report 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, 1973

		Special bank account	Funds authorized by Public Laws		
			91-441	92-156 (note a)	92-436
BEGINNING BALANCE			\$200,000,000	\$325,100,000	\$107,600,000
DEPOSITS		\$566,169,542			
WITHDRAWALS:			^b 199,966,844	^c 321,317,979	^d 44,884,710
Labor	\$118,790,693				
Overhead	168,140,593				
Material and other charges	272,882,064				
Intercompany transactions:					
Charges	\$20,877,934				
Credits	<u>15,055,342</u>	<u>5,824,592</u>	<u>565,635,942</u>	<u> </u>	<u> </u>
BALANCE AS OF					
JUNE 30, 1973		<u>\$ 533,600</u>	<u>\$ 33,156</u>	<u>\$ 3,782,021</u>	<u>\$ 62,715,281</u>

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

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

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

^dInitial payment from this fund was on March 7, 1973.

BEST DOCUMENT AVAILABLE

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