

GAO

Report to the Secretary of Defense

February 1986

# COST RECOVERY

## Collecting Research and Development Costs on Commercial Military Sales



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**National Security and International  
Affairs Division****B-214394**

February 28, 1986

The Honorable Caspar W. Weinberger  
The Secretary of Defense

Dear Mr. Secretary:

We reviewed Department of Defense (DOD) procedures for identifying, monitoring, and collecting nonrecurring research, development, and production costs applicable to commercial sales licensed for export by the Departments of State and Commerce. Nonrecurring costs include such items as special tooling and test equipment, drawings, engineering changes, and product improvements.

Prior internal audits and congressional reports concluded that millions of dollars were lost because effective procedures had not been established. Our review showed that under the present system (1) DOD is not aware of most commercial sales agreements between defense contractors and foreign entities and (2) cannot ensure that recoupments have been collected. Notwithstanding the procedural deficiencies, we found that most of the nonrecurring costs associated with the sales we reviewed were collected by DOD.

In a draft of this report sent to DOD for its comments, we suggested a series of actions to improve the Department's capabilities in this area. Recently, the Department has taken or has proposed taking a number of steps which, although not identical to GAO's recommendations, appear to have the same intent and effect. For the most part, we are satisfied that the Department's approach will address the problems identified in this report, but believe several additional actions would improve the efficiency and effectiveness of DOD's recoupment efforts.

**Background**

The Arms Export Control Act of 1976 requires a pro rata recovery of dollars spent by the United States for nonrecurring costs associated with the research, development, and production of major defense equipment (MDE) items which are sold under the foreign military sales program to foreign governments or international organizations. Although the act contains no similar requirement to recover a share of these costs on commercial sales by defense contractors or non-MDE, it is DOD policy to do so. In both cases, DOD's objective is to ensure that the purchaser—either government-sponsored or commercial—pays a fair share for the value of DOD's nonrecurring investment costs.

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According to DOD directives, any defense item with a government investment of \$5 million or more in research, development, test, and evaluation (RDT&E) and production is subject to a nonrecurring cost charge, which is included in the purchase price. Since the U.S. government is not a party to any contractual arrangements for commercial export sales, concerns are that defense contractors may not be collecting and paying the U.S. government a fair share of nonrecurring costs on their commercial sales of defense equipment.

Commercial sales of defense-related articles between U.S. companies and foreign entities or international organizations require U.S. government export licenses. The Department of State issues export licenses for defense items, such as tanks and military aircraft. In addition, many items have both defense and commercial applications. These are termed dual use items, which are licensed for export by the Department of Commerce.

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## State and Commerce Responsibilities

The Department of State's Office of Munitions Control administers the International Traffic in Arms Regulation, which includes a list of categories of defense articles as designated by the President. An export license must be issued for the sale of items in the categories listed in the regulation. The State Department grants most licenses without consultation with DOD. State refers to DOD for review only those license applications involving special security considerations, sensitive items, or items that are unusual or without precedence. DOD reviews applications to ensure that these exports are in accordance with DOD's policy.

The Department of State approved 28,869 export licenses and manufacturing license/technical assistance agreements received in fiscal year 1983, representing a total of about \$10 billion in projected sales. As of September 30, 1985, deliveries made against these approvals amounted to \$3.9 billion. The Department approved 33,344 licenses and agreements received during 1984, representing some \$12 billion in projected sales. As of September 30, 1985, deliveries against these approvals amounted to about \$2.8 billion.

Commerce's Office of Export Administration is responsible for identifying technologies and products that need to be controlled, reviewing and evaluating export license applications, and enforcing export controls.

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Under the Export Administration Act, Commerce is authorized to control commercial dual use items. All dual use items requiring U.S. export licenses are included in the Commodity Control List published by Commerce. This list is a composite of items identified unilaterally by the U.S. government and items identified for export control by COCOM for reasons of mutual security. COCOM, or the Coordinating Committee, is an informal organization consisting of the NATO countries (excluding Iceland) plus Japan. This committee controls exports for Communist country destinations.

Most of the commodities on the list are controlled for national security purposes. U.S. exporters refer to the list to find out if commodities they intend to export require licenses. To the maximum extent possible, Commerce unilaterally processes export control applications. DOD is authorized to review and approve those license applications which could affect national security. The vast majority of applications for Commerce export licenses involve low technology products which do not constitute significant military risk. Consequently, DOD reviews relatively few applications except those destined for Communist countries.

Commerce does not maintain records showing the dollar value of export licenses approved or delivered. However, about 116,000 license applications were received, and over 91,000 licenses were approved in calendar year 1984.

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## DOD's Responsibilities

DOD Directive 2140.2 established the criteria and procedures for the military services, defense agencies, and defense contractors to use when selling products or technology developed with DOD funds to foreign governments, international organizations, foreign commercial firms, or domestic organizations.

The Under Secretary of Defense for Research and Engineering monitors and exercises control over nonrecurring cost recoupments for domestic commercial sales of defense articles and technology. The Assistant Secretary of Defense (Comptroller) provides necessary cost accounting guidance and publishes a list of items or technology for which recoupment charges are applicable. The Director of the Defense Security Assistance Agency (DSAA) is the DOD focal point for reviewing and approving recoupment charges for major defense equipment and for processing recoupment charge waiver requests received from foreign customers.

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Recoupment charges are determined by dividing the RDT&E and non-recurring production cost by the number of units produced and estimated to be produced.

According to the DOD directive, when a U.S. defense contractor negotiates direct sale of a product or technology, the contractor should include in the offer price a nonrecurring recoupment charge. Contractors may request the amount of the charge from the military service responsible for managing the item being exported. The charge for MDE items is developed by the services, approved by DSAA, and published in DSAA's Security Assistance Management Manual. After contractors receive payment they should forward it to the appropriate military service component.

The military services are responsible for identifying and monitoring recoverable costs which should be included in the sales price of commercial exports of defense equipment. The Army depends on receipt of licenses from State and Commerce; the Navy has no formal system for identifying sales; and the Air Force depends on contractors' voluntary compliance.

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## Results of GAO Review

To determine the adequacy of DOD's procedures in identifying, monitoring, and collecting nonrecurring charges on commercial sales, we reviewed 889 State Department and 52 Commerce export licenses covering fiscal year 1983 shipments. The 889 State licenses were selected using a stratified random sample; the 52 Commerce licenses were judgmentally selected based on high dollar value and likelihood that the item had been developed with DOD research and development funds. We developed two questionnaires—one for industry (app. I) and one for the military service (app. II)—with common questions. In cases where the military service's response disagreed with industry's response, we followed up to resolve the conflicting information.

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## DOD Was Unaware of Most Commercial Sales

Of the 889 State-issued licenses sampled (out of 12,853 licenses with shipments in fiscal 1983), the military services identified 46 licenses for equipment which carried recoupment charges. Prior to our questionnaire, the military services were not aware of 44 of these State-issued licenses. Applications for only 2 of the licenses had been received by the military service for review.

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The military services received none of the 52 Commerce-issued licenses sampled. Most military personnel we spoke to said they had never seen an export license application referred to DOD by Commerce. According to military services, recoupment charges should have applied to 14 of the 52 licenses.

In many instances, the descriptions and nomenclature used on the licenses were not sufficient to determine what precisely was being exported and which service command controlled the item. In about one-third of our sample State licenses, the military services could not identify the appropriate command, or the commands disclaimed responsibility, and in some cases, because of vague or inadequate descriptions, the services had difficulty determining the correct charge. DOD officials informed us that they planned to expand the listing of nonrecurring charges to include commercial nomenclature of derivative items, along with appropriate charges.

Based on our questionnaire experience, we concluded that to review every license would be a very inefficient way to determine recoverable costs of export items—even if State and Commerce sent all the licenses to DOD for review. First, in an overwhelming majority of the cases in our sample, the military services determined that a charge was not applicable. According to the services, about 5 percent of the State licenses in our sample were subject to recoupment charges (46 of 889). A much higher percentage of the Commerce licenses we examined appeared to warrant a charge (14 of 52), but as described on page 4, we purposely biased our sample in that direction.

Our review indicated that reviewing licenses on a selective basis would be the most efficient approach. In our sample cases at State Department, equipment with a shipped value of \$1 million or more accounted for 97 percent of the nonrecurring costs which were recovered. On the other hand, licenses with a shipped value of \$1 million or more represented about 1 percent of State's issued licenses involving fiscal year 1983 shipments.

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## Collection Process Needs Improvement

In addition to the 60 State and Commerce licenses identified by the military services as subject to recoupment charges, the contractors identified 5 additional licenses which involved recoverable costs. Shipments had been made under 63 of these 65 licenses. We examined this universe to evaluate collection practices.

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Our analysis of the payments relating to the 63 licenses showed that

- the U.S. government was paid most of the money owed in these specific cases;
- the military service records of these payments were incomplete and, in some cases, nonexistent;
- disputes between the services and the contractor over charges were not being resolved expeditiously;
- payments were not made in a timely manner; and
- collection reports were not helpful in monitoring commercial sales payments.

The nonrecurring cost charges for the 63 licenses totalled \$7.1 million. (See app. III.) Both the military service and the contractors agreed that about \$3.4 million was paid on equipment shipped under 11 licenses.<sup>1</sup>

Contractors told us they had paid an additional \$3.4 million on 21 licenses, but the services had no record of the payment. We followed up on these 21 cases, and verified that payments have been made in 8 instances. Subsequently, DOD confirmed that payments had been made in 10 additional cases but had not been recorded.

For the remaining 31 licenses, the contractors and services disagreed over the appropriateness of the charge. The military service identified the total amount due for the 31 licenses as \$215,181. In most cases the license applicants either disputed the amount of the charges or said that they had no obligation to pay them.

#### Disputed Charges

In about half the disputed cases (15 of 31), the contractors maintained there were no obligations for payments because, for example, the item in question had been developed at company expense. In 11 additional cases, the contractors disputed the amount of the charges (the contractors claimed they owed a total of \$81,964, while the services said the amount was \$126,568). In the remaining cases, we could not determine the specific reasons for nonpayment.

In all disputed cases, the contractors refused to make payment until the dispute was resolved. The largest disputed case involving a State-issued license covered AN/PVS-5 goggles for which \$78,340 was owed, according to the military service. The service component had sent a

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<sup>1</sup>Includes \$71,676 which the contractor paid upon receipt of our questionnaire.



notice to the contractor a year before our study, but the dispute still continued. Meanwhile, the contractor has been making additional sales of these items without paying the DOD component. DSAA has no procedure or requirement to surface and resolve such disputes expeditiously.

Our review of one Commerce-issued license surfaced a major dispute between the contractor and DSAA over the amount of the nonrecurring cost on sales of the CFM 56 engine, a derivative of the F101 engine. If projected sales materialize, \$80 million in nonrecurring costs could be involved. A charge of \$39,697 for each CFM 56 engine was approved by DSAA in March 1984. However, the contractor claims that (1) a lower charge was negotiated with State in 1973 and (2) the contract between the Air Force and the contractor in 1975 was amended to incorporate a \$20,000 charge for each CFM 56 engine. In response to our inquiry, the State Department disavowed knowledge of agreement with the contractor, and pointed out that it did not have the authority to make such an agreement.

DSAA was unaware that the Air Force had concluded a contract that stipulated a lower charge than the one approved by DSAA. As of January 1986, DSAA advised us that the reevaluation of the CFM 56 engine recoupment charge is continuing.

### Payments Were Not Timely

DOD Directive 2140.2 does not specify the amount of time a contractor has to make payment to the military services. A DOD Inspector General (IG) report, Financial Reports and Credit Program Division, Defense Security Assistance Agency (No. 84-105, June 28, 1984), stated:

"Collections of revenues due the U.S. government from DOD contractors for the recoupment of nonrecurring costs billed to foreign governments did not comply with good case management practices. DOD had not established standards as to when the contractors should remit the revenues collected from their foreign customers for the recovery of research, development, test and evaluation (RDT&E) costs financed from DOD appropriations."

The IG report showed several instances where contractors submitted payments up to 180 days after delivery of the item. We agree with the IG report conclusion that "Unless nonrecurring costs are collected on a timely basis, the U.S. government will incur unnecessary interest costs." We find merit in the IG's recommendation to change DOD Directive 2140.2 to require payment within 30 days of a sale and subsequently DSAA notified us that an August 1985 revision to DOD Directive 2140.2 requires payment within 30 days.

We also observed several instances where excessive time was required to make payment to the U.S. government. In one instance, a major Army contractor paid recoupment charges on a quarterly basis. Upon examination of the contractor's cash vouchers, we found payment was made almost 150 days after delivery of the items.

For major defense contractors, the military services normally have resident plant representatives to administer government contracts. Their role in the recoupment process has been to receive and forward payments to the military services. U.S. plant representatives were not always timely in forwarding contractors' payments to the appropriate military service. In one case, the military plant representative held the contractor's payment for over 30 days before sending it to the military service. To shorten the processing time, DOD should consider having the defense contractors make payments directly to the military service with a copy of the remittance document provided to the U.S. plant representative.

#### Collection Report Could Be Improved

DOD's required quarterly report (Form Q1112) shows anticipated and actual collections on direct and foreign military sales and commercial foreign and domestic sales. This report lists the foreign country receiving the equipment and the amount of recoupments due and collected. The report works well for direct government-to-government sales because the recipient government pays the charge to the U.S. government.

The report cannot readily be used to monitor commercial sales because the U.S. defense contractor—not the foreign recipient—makes the payment to the U.S. government. The Q1112 report could be improved for commercial sales monitoring by identifying contractors and the amount of recoupment due and collected on commercial sales.

Based on our evaluation of the Q1112 report, we concluded that listing commercial recoupments by contractors is the most practical way to monitor required payments and collections on commercial sales. The present Q1112 report, which lists recoupments by licenses, is of limited value in monitoring recoupments because contractors frequently make payments without making reference to specific export licenses, and the military services receive few export licenses. Identifying contractors would also provide a means to monitor domestic sales and those other sales that do not require an export license.

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We also found that the Army was only reporting collections related to research and development costs and not collections relating to nonrecurring production costs. Both costs should have been reported on Form Q1112 and DOD has recently promulgated instructions to that effect.

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### New and Improved Procedures Are Needed for Maximum Recovery of Nonrecurring Costs

DOD's efforts to monitor recoupments should begin with identification of those contractors who produce equipment developed with DOD funds. Thus, the monitoring effort should focus on the contractor, rather than on identifying export license applications.

In a draft of this report, we suggested that the government plant representatives—who are located at most of the largest defense plants—could be used as a focal point to provide information to the military service components on contractor sales activity and nonrecurring cost payments. The plant representative could also monitor sales to domestic companies and Canada, which do not require export licenses but are subject to recoupment charges. According to several plant representatives, serving as a focal point for this information would not cause any significant increase in workload.

Subsequent to our review, DOD initiated a proposal to require contractors to notify contracting officers of commercial sales. The proposal was submitted to the Defense Acquisition Council for inclusion in the Federal Acquisition Regulations. DOD reasoned that the responsibility should rest with the contracting officers because they are charged with ensuring compliance with contract terms. As of early January 1986, the Council had not acted on the proposal. Also DOD Directive 2140.2 has recently been revised to require cognizant DOD contract administrative offices to request the Defense Contract Audit Agency to review contractor accounting records to ensure that commercial items were not fully or partly funded by DOD.

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### Conclusions

At the time of our review DOD did not have a workable system to identify and monitor commercial sales of equipment developed and produced using DOD funds to ensure that appropriate costs are recovered. Essentially the system relied on voluntary payments by contractors. Our sample of licenses indicated that, to a considerable extent, contractors were making the required payments although other problems existed with the process.

DOD needed a system which would meet its management responsibilities, without creating an administrative burden. Key ingredients of the system include presenting available information in a form that can be readily used for these purposes, taking advantage of existing resources to help the services identify sales, selectively targeting export licenses for review, developing procedures to ensure that disputes are surfaced and resolved, and that payments are made timely.

Export license applications could still be used as a management tool to determine whether contractors are reporting all applicable items to the military services—but only on a very selective basis. Rather than attempting to review all licenses, the military services should focus on sales for items having a potential shipped value of \$1 million or more. As our review demonstrated, by confining their review to only those sales, the military services could maximize use of review time.

After our field work was completed, DOD initiated several actions to develop a system containing many of the features described above, including (1) proposing a requirement that contractors advise contracting officers of commercial sales, (2) specifying a timeliness standard for payment (30 days), and (3) requiring that nonrecurring production costs be included on the Q1112 report.

The key to DOD's approach is the requirement that contractors notify contracting officers of commercial sales. As of January 1986, this step remains only a proposal and its adoption is critical to the success of DOD's approach.

Several additional actions are needed. First, the usefulness of the Q1112 report would be enhanced if it identified contractors. In that way, the military services would be able to spot delinquent contractors and initiate follow-up action. Secondly, as the services become more efficient in identifying recoupment charges, the need for procedures to surface and resolve disputes will increase. And, lastly, focusing on the sales most likely to yield collections will require cooperation of the Departments of State and Commerce in providing DOD with high value licenses for review.

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## Recommendations to the Secretary of Defense

We recommend that the Secretary of Defense take action to

- revise the Q1112 report to include contractor identity;
- assure that DSAA and the military departments develop and implement procedures to surface disputes within their respective areas of responsibility; and
- develop procedures, in conjunction with the Secretaries of State and Commerce, requiring that DOD be advised of shipments of more than \$1 million.

In the event the proposal before the Defense Acquisition Council is not adopted, we recommend that the Secretary of Defense take steps to ensure that a focal point for monitoring commercial sales—for example the contracting officer or the plant representative—be designated.

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## Agency Comments

The Departments of Defense and State commented on a draft of this report (see app. IV and V for their detailed responses). The Department of Commerce was asked to comment, but did not respond in time for us to include its comments in this report.

Overall, DOD agreed with the intent of the draft report and concurred fully or partially in most findings and recommendations. DOD pointed out that since our review, DOD had initiated or completed several actions to modify its system for monitoring and collecting nonrecurring costs owed on commercial sales. DOD believes that its actions meet the general objective of our suggested approach and, in any event, should be tried before DOD adopts another change.

For the most part, we agree that the steps taken or proposed should improve DOD's capabilities in this area. DOD's proposal to notify the contracting officer instead of the plant representative of commercial sales is consistent with the intent of the proposal in our draft report, and we have modified our recommendation accordingly.

DOD did not agree with our recommendation to identify contractors on the Q1112 reports. DOD concluded that contractor identity would be an administrative burden and would add little benefit toward monitoring the report. DOD did not explain the basis for its conclusion. We continue to believe that contractor identities would simplify, rather than compound, the collection process. As currently formatted, the Q1112 report was of no use in our effort to follow up on recoupments identified in our sampled cases. It is difficult to identify any significant administrative

burden associated with our proposal, since the information of the Q1112 originates at the contractor. This becomes especially important given DOD's emphasis on contractor compliance with the proposed requirement that contractors advise the contracting officers of commercial sales. An important part of monitoring will be identification on the Q1112 report of those contractors required to report appropriate sales.

Regarding the need for procedures to resolve disputes, DOD concurred on MDE items and stated that the military departments will be advised to notify DSAA of any disputes for MDE items. DOD stated that for non-MDE items, the military departments are responsible for resolving any disputes because they are responsible for establishing the charge. We agree and thus are recommending that the military departments establish procedures for surfacing and resolving conflicts within their area of responsibility.

DOD concurred with our observation that relying on the review of licenses is not a very efficient way to identify recoverable costs. DOD likewise agreed with our recommendation that procedures be developed to ensure that DOD be advised of shipments in excess of \$1 million, but the Department stated that it would need State's and Commerce's cooperation to accomplish this.

In its comments, the Department of State agreed to assist DOD in tracing commercial sales by establishing procedures to provide DOD with copies of all high-value export licenses. State also provided updated 1985 statistics, which we have included in the report.

Our review was performed during the period May 1984 to August 1985 in accordance with generally accepted government audit standards.

We are sending copies of this report to appropriate congressional committees; the Secretaries of State and Commerce; the Director, Office of Management and Budget; and other interested parties upon request.

Sincerely yours,



Frank C. Conahan  
Director



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## Abbreviations

COCOM	Coordinating Committee
DOD	Department of Defense
DSAA	Defense Security Assistance Agency
GAO	General Accounting Office
IG	Inspector General
MDE	major defense equipment
NATO	North Atlantic Treaty Organization
RDT&E	research, development, test, and evaluation





# Questionnaire Sent to Contractors

U.S. General Accounting Office

## SURVEY OF MUNITIONS CONTROL LICENSES

The purpose of this questionnaire is to assess the impact of the Department of Defense's regulation to recoup U.S. government nonrecurring costs associated with the development of defense equipment and technology. You were selected because in 1982 and/or 1983 you were granted an export license(s) for the item in question. This survey is being conducted by the U.S. General Accounting Office, which is responsible for the Congressional oversight of all Federal expenditures and regulatory activities. Specifically we need to track certain licensed items through your accounting controls to see how they are being handled. Also, we need to know what impact, if any, this Defense regulation has had on your competitive position and what parts of this regulation, if any, need to be changed.

### Introduction

As you may recall Department of Defense Directive 2140.2 establishes criteria and procedures for use by Department of Defense Components and by United States defense contractors when selling products and technology developed with DOD appropriations/funds to a foreign government, foreign commercial firm, or domestic organization. This applies when the U.S. government invests \$5 million or more in research, development, test and evaluation and nonrecurring production to develop technology and related products. The defense contractor must reimburse the U.S. Government for an approved pro-rata charge for the DOD investment costs. Exceptions must have DOD approval. The determination of the \$5 million threshold is based upon the end items roll-away, fly-away or sail-way costs. Also, when spare parts packages are sold, recoupments will be made if any component individually meets the \$5 million threshold.

We would like to make one thing clear before we continue. This is not an audit of you or your procedures but rather a survey of the population of companies handling licenses. You were selected by chance because you happened to be the licensee for the particular license(s) that was selected at random. Your answers are confidential and will not be used for administrative purposes. Furthermore, the responses will be presented as a collective in summary form, so that no one can tell how you or any other individual company answered. So please give us your most frank and honest answers. We can not make an accurate assessment without your help.

### Instructions

The form can be completed in about half an hour if the requested information is readily available. However, in some instances it may take up to a day for decentralized records and retrieval systems. Most questions can be answered quickly by checking boxes formatted under license column headings or filling in blanks. However, since the answers will require you to consult your records we suggest that you quickly read the entire form first so that you will have a general idea of what is asked and what types of information you may need from your files.

Please return this completed form in the self-addressed envelope within 10 days after receiving the questionnaire. If you can not meet this time frame or if you have any questions, please call Lou Zanardi or Zachary Jasnoff at (202) 695-1713. They will be standing by to provide assistance. Please help us, we can not assess the impact of this regulation and report your views to the Congress unless we hear from you.

**Appendix I  
Questionnaire Sent to Contractors**

Start card 1 (1) Case no. (2-6)					
Column Numbers:	1	2	3	4	5
License Numbers:					
1. The licenses listed in columns 1-5 on the right hand side of the page were selected from the Office of Munition Control records. Check to make sure there are no discrepancies.	(7-12)	(13-18)	(19-24)	(25-30)	(31-36)
1. Country of foreign customers.					
2. Commodity description.	(37-38)	(39-40)	(41-42)	(43-44)	(45-46)
3. Total shipped value in dollars as of February 8, 1984.	(47-49) \$	(50-52) \$	(53-55) \$	(56-58) \$	(59-61) \$
2. Are there any discrepancies with the information listed above? (Check yes or no for the appropriate column or license number.)	(7-14)	(15-22)	(23-30)	(31-38)	(39-46)
1. Yes (CONTINUE)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. No (GO TO 4)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. No basis to judge (GO TO 4)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. If yes, please make the corrections in the space provided below.	(47)	(48)	(49)	(50)	(51)
1. Country of foreign customers.	(7-8)	(9-10)	(11-12)	(13-14)	(15-16)
2. Commodity description.	(17-19)	(20-21)	(22-25)	(26-28)	(29-31)
3. Shipped value in dollars.	\$	\$	\$	\$	\$
4. Is a recoupment charge for R&D and nonrecurring production costs applicable to this license?	(32-39)	(40-47)	(48-55)	(56-63)	(64-71)
1. Yes (CONTINUE)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. No (GO TO 10)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(72)	(73)	(74)	(75)	(76)

**Appendix I  
Questionnaire Sent to Contractors**

Start card 4 (1) Case no. (2-6)					
Column Numbers:	1	2	3	4	5
License Numbers:					
5. If yes for any of the licenses listed in columns 1-5, what is the amount of the recoupment charge? (Write the total amount of the charge in dollars under the appropriate column)					
	\$	\$	\$	\$	\$
6. Has your company included the non-recurring recoupment charge in the offering price?  1. Yes (CONTINUE)  2. No (GO TO 8)	(7-13)	(14-20)	(21-27)	(28-34)	(38-41)
	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
7. Again if yes to any licenses in question 4, did you directly notify the appropriate Department of Defense component of the sale and the recoupment charge to be collected.  1. Yes (CONTINUE)  2. No (CONTINUE)	(42)	(43)	(44)	(45)	(46)
	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
8. If the nonrecoupment charge was applicable, was it collected from the customer?  1. Yes (CONTINUE)  2. No (CONTINUE)	(47)	(48)	(49)	(50)	(51)
	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
9. Regardless of whether you collected the charges, was payment made to the appropriate DOD component?  1. Yes (CONTINUE)  2. No (CONTINUE)	(52)	(53)	(54)	(55)	(56)
	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
	(57)	(58)	(59)	(60)	(61)

**Appendix I  
Questionnaire Sent to Contractors**

Sheet card 3 (1) Case no. (2-6)					
Column Numbers:	1	2	3	4	5
License Numbers:					
10. If you answered no to any license in question 4, indicating that the recoupment charge was not applicable, why no? (Check the appropriate column(s) for the rows that best explain your reasons.) (SKIP TO 11 for those columns to which you answered yes in question 4.					
1-None of the items offered met the \$5 million threshold requirement.	<input type="checkbox"/> (7)	<input type="checkbox"/> (8)	<input type="checkbox"/> (9)	<input type="checkbox"/> (10)	<input type="checkbox"/> (11)
2-Did not have a way to determine if \$5 million or more of R & D and nonrecurring production cost was invested in the item.	<input type="checkbox"/> (12)	<input type="checkbox"/> (13)	<input type="checkbox"/> (14)	<input type="checkbox"/> (15)	<input type="checkbox"/> (16)
3-Company did not develop or produce items exported.	<input type="checkbox"/> (17)	<input type="checkbox"/> (18)	<input type="checkbox"/> (19)	<input type="checkbox"/> (20)	<input type="checkbox"/> (21)
4-Company does not believe it has a contractual obligation to pay the recoupment charges.	<input type="checkbox"/> (22)	<input type="checkbox"/> (23)	<input type="checkbox"/> (24)	<input type="checkbox"/> (25)	<input type="checkbox"/> (26)
5-Item offered probably met the \$5 million threshold, but DOD has not developed the pro rata charge associated with the item.	<input type="checkbox"/> (27)	<input type="checkbox"/> (28)	<input type="checkbox"/> (29)	<input type="checkbox"/> (30)	<input type="checkbox"/> (31)
6-Item was purchased from another company which included the recoupment charge. (If checked, specify the company and the amount of the charge in dollars.)	<input type="checkbox"/> (32)	<input type="checkbox"/> (33)	<input type="checkbox"/> (34)	<input type="checkbox"/> (35)	<input type="checkbox"/> (36)
1. Company					
2. Amount of charge in dollars.	S (37-38)	S (39-40)	S (41-42)	S (43-44)	S (45-46)
7-Item was purchased from another company and we could not determine if a recoupment charge was added.	<input type="checkbox"/> (47)	<input type="checkbox"/> (48)	<input type="checkbox"/> (49)	<input type="checkbox"/> (50)	<input type="checkbox"/> (51)
8-Payment waived by DOD.	<input type="checkbox"/> (52)	<input type="checkbox"/> (53)	<input type="checkbox"/> (54)	<input type="checkbox"/> (55)	<input type="checkbox"/> (56)
9-Other (Specify)					
	(57)	(58)	(59)	(60)	(61)

**Appendix I  
Questionnaire Sent to Contractors**

Start card 7 (1) Case no. (2-6)

Column Numbers:	1	2	3	4	5
Licenses Numbers:					
11. What was your role in developing, manufacturing and selling the item or related units? (Check the appropriate row in column of the license you are answering for.)					
1. Involved in developing, manufacturing and selling.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(7)	(8)	(9)	(10)	(11)
2. Involved in manufacturing and selling but not developing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(12)	(13)	(14)	(15)	(16)
3. Involved in developing and selling but not manufacturing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(17)	(18)	(19)	(20)	(21)
4. Just the seller.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(22)	(23)	(24)	(25)	(26)
5. Export agent for a purchasing country.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(27)	(28)	(29)	(30)	(31)

GENERAL INFORMATION

12. Has your company paid a recoupment charge to the U.S. government in the last five years?
1.  Yes (32)
2.  No
3.  No basis to judge

**Appendix I  
Questionnaire Sent to Contractors**

13. To what extent, if at all, did the requirement to recoup nonrecurring costs impact on your business? Answer for each of the following types of impact. (Check one column for each row.)

	1. To little or no extent	2. To some extent	3. To a moderate extent	4. To a great extent	5. To a very great extent	
1. Decrease business						(33)
2. Decrease profit margin						(34)
3. Increase overhead burden						(35)
4. Decrease competitive position						(36)
5. Increase marketing burden						(37)
6. Other (Specify) _____ _____						(38)

14. Were you aware that under certain circumstances waivers from collecting nonrecurring costs can be granted for sales to NATO countries, Australia, New Zealand and Japan?

1.  Yes (39)  
2.  No

15. Do you think the U.S. government is more or less likely to grant waivers to a foreign buyer when the U.S. government makes a foreign military sale, than it is to grant a waiver when a U.S. firm makes a direct commercial sale? (Check one)

1.  Much less likely to grant waivers when the government makes a sale instead of a U.S. firm making a direct commercial sale.  
2.  Less likely to grant waivers when the government makes a sale instead of a U.S. firm making a direct commercial sale.  
3.  Just as likely to grant waivers when the government makes a sale instead of a U.S. firm making a direct commercial sale.  
4.  More likely to grant waivers when the government makes a sale instead of a U.S. firm making a direct commercial sale.  
5.  Much more likely to grant waivers when the government makes a sale instead of a U.S. firm making a direct commercial sale.  
6.  No basis to judge.

Appendix I  
Questionnaire Sent to Contractors

16. What threshold, if any, should be applied to R and D and nonrecurring production costs? (Check one.)

(41)

1.  0, or no threshold, all nonrecurring costs should be recouped no matter how great or small.
2.  Threshold should be lowered to \$2 million.
3.  Threshold should remain at \$5 million.
4.  Threshold should be raised to \$10 million.
5.  Threshold should be raised to \$20 million.
6.  Threshold should be raised to \$30 million.
7.  Threshold should be raised to \$40 million.
8.  Threshold should be raised to \$50 million.
9.  Threshold should be raised to over \$50 million.
10.  No nonrecurring costs should be recouped.

17. Some people believe that the current methods used to recoup investment costs have significantly increased the sales price beyond the reasonable market price. They believe that DOD should have the flexibility to cap recoupment charges when current methods impede the sale. In these instances, the capping price would be based on a percent of the sale. Others disagree on the bases that this would be unfair to other U.S. companies and/or create loopholes. The question is do you agree or disagree with the proposal to give the government the flexibility to cap the recoupment charges.

(42)

1.  Strongly agree
2.  Generally agree
3.  Agree as much as disagree
4.  Generally disagree
5.  Strongly disagree



Appendix I  
Questionnaire Sent to Contractors

18. Some companies believe that the U.S. government should exercise flexibility and grant waivers when a sale may be lost because of a large recoupment charge. Again others disagree arguing that waivers should be granted only when it is in the U.S. national interests (e.g., standardization of equipment among allies, etc.) They claim waivers should not be granted in most cases because competition is likely to come from U.S. companies which have used their own resources to develop competing equipment. The question is do you agree or disagree with the proposal to give government more flexibility to grant waivers including waivers for cases where a sale may be lost because of a large recoupment charge?

(43)

1.  Strongly agree
2.  Agree
3.  Agree as much as disagree
4.  Disagree
5.  Strongly disagree

19. If you have any thoughts or additional information about any of the issues covered by this questionnaire please feel free to comment. Also if you have any comments about questions that you feel we should have asked but did not, we would like to know.

(44)

# Questionnaire Sent to the Military Services

U.S. General Accounting Office

## SURVEY OF MUNITIONS CONTROL LICENSES

### Introduction

The purpose of this questionnaire is to assess the impact of the Department of Defense (DOD) effort to recoup U.S. government nonrecurring costs associated with the development of defense equipment and technology. You were selected because in 1982 and/or 1983 you may have reviewed an export license application for the item in question. This survey is being conducted by the U.S. General Accounting Office, which is responsible for the congressional oversight of all federal expenditures and regulatory activities.

The questionnaire is administered in three parts. In part I, we want to determine if the appropriate DOD component is aware of the license and whether the license has been tracked through your accounting records. In part II, we want to know if a pro rata charge is applicable to the license and if it has been collected. In Part III, we ask general questions to assess possible staffing requirements needed to increase DOD efforts to recoup nonrecurring investment costs. Part III will be completed by the commanding officer of the DOD component receiving the questionnaires.

As you may recall, DOD Directive 2140.2 establishes criteria and procedures for use by DOD components and by U.S. defense contractors when selling products and technology developed with DOD appropriations/funds to a foreign government, foreign commercial firm, or domestic organization. This applies when the U.S. government invests \$5 million or more in research, development, test and evaluation, and nonrecurring production to develop technology and related products. The defense contractor must reimburse the U.S. government an approved pro rata charge for the DOD investment costs. Exceptions must have DOD approval. The determination of the \$5 million threshold is based upon the end items roll-away, fly-away, or sail-away costs. Also, when spare parts packages are sold, recoupments will be made if any component individually meets the \$5 million threshold.

We would like to make one thing clear before we continue. This is not an audit of you or your procedures but rather a survey of the population of licenses. You were selected by chance because you happened to be responsible for reviewing the particular license(s) that was selected at random. The sample universe consists of licenses for which shipment has been made. Your answers are confidential and will not be used for administrative purposes. Furthermore, the responses will be presented in summary form so that no one can tell how you or any other individual DOD component answered. So please give us your most frank and honest answers. We cannot make an accurate assessment without your help.

### Instructions

The form can be completed in about half an hour if the requested information is readily available. However, in some instances it may take up to a day for decentralized records and retrieval systems. Most questions can be answered quickly by checking boxes formatted under license column headings or filling in blanks. However, since the answers will require you to consult your records, we suggest that you quickly read the entire form first so that you will have a general idea of what is asked and what types of information you may need from your files.

Please disregard the small numbers in parentheses under the columns and in the right margins. They are for data processing purposes.

NAVY: If the necessary information to answer any question is not in your office, we would like you obtain it from the appropriate office. Therefore, we request that certain questions be coordinated with and answered by the appropriate Plant Representative Office.

Please return this completed form in the self-addressed envelope within 10 days after receiving the questionnaire. If you cannot meet this timeframe or if you have any questions, please call Lou Zanardi or Ed Kennedy at (202) 695-1713. They will be standing by to provide assistance. Please help us, as we cannot assess the impact of this regulation and report your views to the Congress unless we hear from you.