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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
September 30, 1972

B-162578

Department of Defense

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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NOV. 29. 1972



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

B-162578

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

This is our sixth report on the audit of payments from the special bank account to the Lockheed Aircraft Corporation for the C-5 aircraft program. 420
This report covers the quarter ended September 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 development 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 \$440,008,750 from the special bank account. (See appendix for the cumulative expenditures through September 30, 1972.) The amounts deposited in and withdrawn from the special bank account during the quarter ended September 30, 1972, were as follows:

	Special bank account	Funds authorized by Public Laws	
		91-441	92-156
Beginning balance	\$ 540,613	\$239,479	\$138,103,966
Deposits	53,964,239		
Withdrawals			53,964,239 ^a
Labor	\$13,155,092		
Overhead	17,561,103		
Material and other charges	22,095,349		
Intercompany transactions:			
Charges	\$1,029,863		
Credits	48,599	981,264	53,792,808
Balance as of September 30, 1972	\$ <u>712,044</u>	<u>\$239,479</u>	<u>\$ 84,139,727</u>

^aIncludes one payment of \$3,652,239 paid from incorrect funds on September 27, 1972, but corrected on October 4, 1972.

SCOPE OF AUDIT

Our audit was made at the Lockheed-Georgia Company, Marietta, Georgia; Lockheed-California Company, Burbank, California; Lockheed Aircraft Service Company, Ontario, California; and Lockheed Electronics Company, Plainfield, New Jersey.

Our audit of labor costs included tests to determine whether these costs appeared reasonable and allocable to the C-5 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 and 92-156.

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.

2 We reviewed the Defense Contract Audit Agency audit of payments from the special bank account for labor, overhead, and material and other charges. 473

CONCLUSION

Our review revealed no payments from the special bank account to Lockheed-Georgia during the quarter ended September 30, 1972, that were contrary to Public Laws 91-441 and 92-156. However, two matters included in our fourth and fifth reports as unresolved issues which could affect future payment practices still have not been resolved. When these matters, which are discussed below, are resolved, we will show their disposition in our report.

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 prior reports, 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 Lockheed had considered allocable for other purposes to its B&P activities. We have received comments from Lockheed and the Air Force on this matter and are presently considering whether these costs should be allowed for reimbursement under the acts.

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 trustees of the retirement funds.

3 As a result, we recommended that the Department of Defense take action 5
to establish consistent policies that avoid making such payments significantly in advance of need. The Department of Defense has 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 I

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

		Special bank <u>account</u>	<u>Funds authorized by Public Laws (note a)</u>	
			<u>91-441</u>	<u>92-156</u>
BEGINNING BALANCE			\$200,000,000	\$325,100,000 ^b
DEPOSITS		\$440,720,794		
WITHDRAWALS			199,760,521 ^c	240,960,273 ^d
Labor	\$ 87,210,992			
Overhead	127,028,425			
Material and other charges	221,692,124			
Intercompany transactions:				
Charges	\$19,123,361			
Credits	<u>15,046,152</u>	<u>4,077,209</u>	<u>440,008,750</u>	
BALANCE AS OF SEPTEMBER 30, 1972			<u>\$ 712,044</u>	<u>\$ 239,479</u> <u>\$ 84,139,727</u>

^aOn September 26, 1972, Public Law 92-436 authorized \$107,600 for fiscal year 1973. However, as of September 30, 1972, the appropriation bill had not been signed by the President.

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

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

^dInitial payment from this fund was made on December 1, 1971. This amount also includes one payment of \$3,652,239 paid from incorrect funds on September 27, 1972, but corrected on October 4, 1972.

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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