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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-5A Aircraft Program
During The Quarter Ended
March 31, 1973 B-162578

Department of Defense

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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MAY 17, 1973



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

B-162578

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

This is our eighth report on the ~~audit of payments from the special bank account to the Lockheed Aircraft Corporation for the C-5A aircraft~~ ^{CH20} program. This report covers the quarter ended March 31, 1973.

We made our audit pursuant to section 504 of Public Laws 91-441 and 92-156 and 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.

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.

1 Since June 16, 1971, the Department of the Air Force has paid ³⁵ Lockheed \$530,104,536 from the special bank account. (See appendix for the cumulative expenditures through March 31, 1973.) The amounts deposited in and withdrawn from the special bank account during the quarter ended March 31, 1973, were:

	Special bank account	Funds authorized by Public Laws		
		<u>91-441</u>	<u>92-156</u>	<u>92-436</u>
Beginning balance	\$ 566,872	\$33,156	\$35,397,430	\$107,600,000
Deposits	40,755,121			
Withdrawals			31,615,409	9,139,712
Labor	\$10,868,608			
Overhead	13,917,544			
Material and other charges	15,580,035			
Intercompany transactions:				
Charges	\$635,829			
Credits	22 635,807	41,001,994		
Balance at March 31, 1973	\$ <u>319,999</u>	<u>\$33,156</u>	<u>\$ 3,782,021</u>	<u>\$ 98,460,288</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 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 March 31, 1973, that were contrary to Public Laws 91-441, 92-156, and 92-436.

One of two unresolved matters included in our prior quarterly reports was resolved during this quarter. We have concluded that B&P overhead costs for 1971 should be allowed for reimbursement under the laws. Concerning the remaining unresolved issue, the Department of Defense (DOD)

expects to change its regulations concerning payments to contractors' employee retirement funds by June 30, 1973.

BID AND PROPOSAL OVERHEAD COSTS

As indicated earlier, 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 overhead 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, B&P costs do 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.

Since the practice was not precluded under the existing regulations and the accounting practice was accepted by the parties for 1971 activities, we believe that the Air Force/Lockheed method of computing unallowable B&P costs was not contrary to law or otherwise improper.

WITHDRAWAL OF FUNDS FOR RETIREMENT
CONTRIBUTIONS IN ADVANCE OF NEED

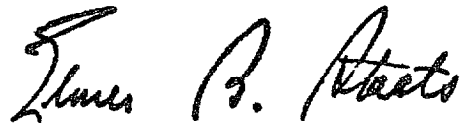
Our prior reports showed that in 1971 Lockheed received payments from the Government for contribution to employees' retirement funds and held them an average of about 14 months before making payments to retirement fund trustees.

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 DOD establish consistent policies that avoid making such payments significantly in advance of need. DOD has advised us that the Armed Services Procurement Regulation Committee has proposed a revision to the DOD policy on such payments. The proposed revision is currently being reviewed within DOD and industry. The committee expects to adopt a revised Armed Services Procurement Regulation on this matter by June 30, 1973. We will report the disposition of this matter in a future report.

B-162578

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.

A handwritten signature in cursive script, reading "James B. Axtell". The signature is written in black ink and is positioned above the typed name and title.

Comptroller General
of the United States

APPENDIX I

TOTAL AMOUNTS DEPOSITED IN AND WITHDRAWN FROM
 THE SPECIAL BANK ACCOUNT
 DURING THE PERIOD JUNE 16, 1971, TO MARCH 31, 1973

	Special bank account	Funds authorized by Public Laws		
		<u>91-441</u>	<u>92-156</u>	<u>92-436</u>
BEGINNING BALANCE		\$200,000,000	^a \$325,100,000	\$107,600,000
DEPOSITS	\$530,424,535			
WITHDRAWALS		^b 199,966,844	^c 321,317,979	^d 9,139,712
Labor	\$110,226,964			
Overhead	156,704,159			
Material and other charges	257,691,629			
Intercompany transactions:				
Charges	\$20,535,729			
Credits	<u>15,053,945</u>	<u>5,481,784</u>	<u>530,104,536</u>	<u> </u>
BALANCE AS OF MARCH 31, 1973	\$ <u>319,999</u>	\$ <u>33,156</u>	\$ <u>3,782,021</u>	\$ <u>98,460,288</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.

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