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[Allegations of Unaccounted for Steel]. PSAL-76-106; B-188978.
June 8, 1978. Released June 21, 1978. 2 pp.

Report to Sen. William Proxmire, Chairman, Senate Committee on Banking, Housing and Urban Affairs; by Robert F. Keller, Acting Comptroller General.

Issue Area: Federal Procurement of Goods and Services (1900);
Federal Procurement of Goods and Services: Procurement of
Only Needed Quantities of Goods (1901).

Contact: Procurement and Systems Acquisition Div.

Budget Function: National Defense: Department of Defense -
Procurement & Contracts (058).

Organization Concerned: Department of the Navy; Department of
Defense; Renegotiation Board; Lockheed Shipbuilding and
Construction Co., Seattle, WA.

Congressional Relevance: Senate Committee on Banking, Housing
and Urban Affairs. Sen. William Proxmire.

The Renegotiation Board alleged that 117 million pounds of steel was unaccounted for and had been billed or was claimed to have been used for seven amphibious transport docks (LPDs) by Lockheed Shipbuilding and Construction Company. Lockheed contended that all steel was accounted for and that there was no basis for the Board's claim. A GAO review, a Lockheed internal audit, and an independent accounting firm study found that Lockheed spent about \$10.8 million for about 134 million tons of steel instead of \$18.1 million estimated by the Renegotiation Board. The primary reason for the Board's miscalculation was an erroneous assumption that increased costs of the LFD program were due to increased steel usage. Lockheed could not account for all of the steel purchased and charged to LFD cost accounts, but this was not a contractual requirement. The contracts were competitive and firm fixed priced; the Navy did not require, and Lockheed did not keep, records showing how the steel was used. In addition, the amount of steel actually used did not affect the cost to the Government since the contract was firm fixed priced. (RRS)

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

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6/21/78

B-189978

June 8, 1978

The Honorable William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate

Dear Mr. Chairman:

In response to your August 8, 1977, request, we reviewed the Renegotiation Board's allegation that 117 million pounds of steel was unaccounted for and had been billed or was claimed to have been used for seven amphibious transport docks (LPDs) constructed by Lockheed Shipbuilding and Construction Company, Seattle, Washington. Lockheed, on the other hand, states that all steel is accounted for and that there is, therefore, no basis for the Board's claim. Our review included examinations of appropriate records and discussions with officials at Lockheed Shipbuilding and Construction Company, the Lockheed Corporation, the Department of the Navy, the Renegotiation Board, the Defense Contract Audit Agency, Arthur Young and Company, and the Shipbuilders Council of America.

We conclude that the allegation by the Chairman of the Renegotiation Board is unfounded. The Board estimated that Lockheed had charged \$18.1 million for 208 million pounds of steel for the LPD program. Our review, a Lockheed internal audit, and an independent accounting firm study, indicate that Lockheed spent about \$10.8 million for about 134 million pounds of steel. We have concluded that the primary reasons for the Board's miscalculation was an erroneous assumption that increased costs of the LPD program were due to increased steel usage.

Although Lockheed could not account for all of the steel purchased and charged to the LPD cost accounts, this was not a contractual requirement. Since the contracts were competitive, firm fixed priced, the Navy did not require, and Lockheed did not keep, records showing how the steel

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was used. In addition, the amount of steel actually used did not affect the cost to the Government since the contract was firm fixed priced.

Our findings have been discussed with Navy, Lockheed, and Renegotiation Board officials. Renegotiation Board officials stated that their concern in raising this issue was whether renegotiable business data was improperly reported to the Board since profits would be reduced by overstated costs charged to the LPD contract. Navy and Lockheed officials concurred in our findings.

We regret that obtaining access to the work of the Federal Bureau of Investigation at Lockheed delayed our response to you. We trust the information provided is responsive to your needs.

We will contact your office at a later date to arrange for the release of the report.

Sincerely yours,


ACTING Comptroller General
of the United States