

DOCUMENT RESUME

06096 - [B1426463]

[Compliance with Requirements To Include Comptroller General's Examination of Records Clause]. PSAD-78-111; B-169300. May 19, 1978. 2 pp.

Report to Secretary, Department of the Navy; by Richard W. Gutmann, Director, Procurement and Systems Acquisition Div.

Issue Area: Negotiation of a Reasonable Price Based on Incurred Costs and No More Than a Fair Profit. (1913).

Contact: Procurement and Systems Acquisition Div.

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

Organization Concerned: Lockheed Aircraft Corp., Burbank, CA.

Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services.

Five subcontracts awarded to Canadian firms were examined to determine the extent of compliance with procurement regulations to include the "examination of records by Comptroller General" clause in subcontracts awarded under Navy contracts with Lockheed-California Company of Burbank. The review disclosed that the Canadian subcontracts contained no provisions for examination of records by the Comptroller General. The Navy's failure to require Lockheed to incorporate the required audit clause in these subcontracts could impede efforts to audit the subcontractors' books and records. Lockheed officials declared that an attempt would be made to include an appropriate Comptroller General's examination of records clause by reference in the current subcontracts and agreed to include such a clause in all future subcontracts. The Secretary of the Navy should direct Lockheed to amend the current subcontracts and direct Navy contract administration personnel to report on their efforts to monitor contractor compliance with the requirement to include a Comptroller General audit clause in specified subcontracts. (RRS)

6463



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

B-169300

May 19, 1978

The Honorable
The Secretary of the Navy

Dear Mr. Secretary:

We have completed a limited review of the requirement to incorporate the "Examination of Records by Comptroller General" clause in subcontracts awarded to Canadian firms under U.S. Navy prime contracts with Lockheed-California Company, Burbank, California. This review was prompted by increased emphasis on coproduction/development ventures between U.S. Aerospace firms and foreign companies involving the sale of U.S.-designed weapon systems to foreign countries. We examined five subcontracts awarded to Canadian firms in partial fulfillment of requirements under Lockheed's prime contract N00019-77-C-0077 for the P-3C patrol aircraft program.

The Defense Acquisition Regulation requires that prime contractors performing under negotiated contracts include in all negotiated subcontracts, greater than \$10,000, a provision authorizing the Comptroller General of the United States, or any of his duly authorized representatives, access to and the right to examine directly pertinent books, papers, and records of the subcontractor for a period of 3 years after final payment of the contract. Our review disclosed that the Canadian subcontracts contained no provision for examination of records by the Comptroller General. We believe that the Navy's failure to require Lockheed to incorporate the required Comptroller General audit clause in these subcontracts could impede the General Accounting Office's efforts to audit the subcontractors' books and records.

Lockheed officials advised us that an attempt would be made to include an appropriate Comptroller General's examination of records clause by reference in the current subcontracts and agreed to include such a clause in all

PSAD-78-111
(990704)

future subcontracts. Naval Plant Representative officials advised us that during the approval process, subcontracts would be reviewed to insure that they contain an appropriate provision for audit by the Comptroller General.

We recommend that you (1) direct Lockheed to amend the current subcontracts, and (2) direct Navy contract administration personnel to report to you on their efforts to monitor contractor compliance with the requirement to include an appropriate Comptroller General audit clause in specified subcontracts.

Copies of this report are being sent to the Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, the House and Senate Committees on Appropriations and Armed Services; the Secretary of Defense; the Office of Federal Procurement Policy; and the Office of Management and Budget.

Section 235 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving a copy of these statements.

Sincerely yours,



R. W. Gutmann
Director