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REVIEW OF COSTS OF BIDDING AND RELATED TECHNICAL EFFORTS CHARGED TO GOVERNMENT CONTRACTS, DEPARTMENT OF DEFENSE AND NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

The General Accounting Office made a review of the costs of bidding and related technical efforts charged to Department of Defense and National Aeronautics and Space Administration contracts.

We found a need for improved control over the costs of contractors' bidding and other related technical efforts absorbed by the Government. Our findings were based on our review at Lockheed Missiles & Space Co., Division of Lockheed Aircraft Corp., Sunnyvale, Calif. However, auditors of the Departments of the Army and Air Force have noted similar problems during their audits of numerous other Government contractors.

In our opinion, the need for improved control resulted principally because the armed services procurement regulation, which provides the basis for limiting charges to contracts for contractors' bidding costs and other technical effort costs, was not sufficiently clear and was subject to varying interpretations. We, as well as agency auditors, had noted that, where the procurement regulations do not clearly define the types of costs allowable under Government contracts or do not clearly establish the extent of allowability, the interpretations made by contractors most often prevail.

This situation is best illustrated where contractors, such as Lockheed Missiles & Space Co., are engaged simultaneously in the preparation of bids and proposals and the conduct of independent research and development. These two activities involve similar technical efforts. For the larger contractors, including Lockheed Missiles & Space Co., agreements are negotiated in advance covering the extent of the contractors' independent research and development programs that will be absorbed by the Government but advance agreements generally are not made limiting the amount of bid and proposal expenses to be absorbed by Government contracts.

Thus, technical effort designated by the contractor as pertaining to its independent research and development program is subject to reduced reimbursement by the Government, whereas similar effort designated as bid and proposal expense may be accepted without limitation.

Our review indicated that at least half of the $3.8 million of bidding and related costs claimed by Lockheed Missiles & Space Co. for 1962 either were similar to independent research and development costs or were not, in our opinion, clearly necessary to support the contractor's bids and proposals. The items in question were costs incurred (1) after the Government indicated that it was not interested in a proposal, (2) before the time a request for proposal was received, (3) after a bid or proposal had been presented to the potential customer, and (4) to develop capability to respond to future anticipated requests for proposals.

The Lockheed Aircraft Corp., in commenting on our draft report, disagreed with our position with respect to these items.

The Department of Defense and other Government agencies, including the National Aeronautics and Space Administration, have