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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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RELEASED



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JAN 27 1976



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The Honorable William Proxmire
United States Senate

Dear Senator Proxmire:

This is in response to your letter of July 30, 1975, regarding the operations of the Lockheed-Georgia Company. A Lockheed employee claimed that Lockheed had (1) replaced a management system that had worked successfully on the C-130 aircraft with a more costly C-5A management system and (2) wasted thousands of dollars modifying four new C-130 tanker aircraft for the Marine Corps. *PLG 01060*

We reviewed selected information and interviewed Lockheed management officials, Air Force Plant Representative Office personnel, and Defense Contract Audit Agency personnel. The Air Force and Audit Agency personnel were responsible for administering and pricing the C-130 contracts at Lockheed. We also interviewed a Marine Corps officer concerning the C-130 modifications while he was visiting Lockheed. The Lockheed employee who made the assertions told us that he had met with Lockheed officials and discussed these same points.

Lockheed had increased its staff in the C-130 Mock-Up Department from 52 employees in 1973 to 132 employees in 1975. Our tests confirmed that there were increases in employment due to; (1) changed production methods considered to be cost effective by Lockheed, (2) increased monthly production rates, and (3) increased number of versions of the C-130 produced. Based upon these tests, we do not believe that further work is warranted.

There was considerable incentive for Lockheed to minimize costs since the sales of the C-130 were either to foreign and commercial customers (67 percent) or under firm fixed-priced contracts with the Government (33 percent). Lockheed's Government contracts were negotiated and subject to all of the normal reviews associated with noncompetitive contracts, including tests of costs for reasonableness. To the extent considered necessary, Air Force Plant Representatives and the Defense Contract Audit Agency personnel reviewed and audited Lockheed's cost proposals before the contracts were signed.

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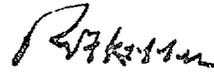
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The Lockheed employee was correct in his statement that avoidable costs were incurred in making modifications to the four new C-130 aircraft for the Marine Corps. A contract modification was made in March 1975, and the Government assumed the cost of modification. We found that the Government rather than Lockheed was responsible for about \$150,000 of additional costs which resulted from a Government delay of 4 months in approving changes in Government-furnished equipment. The delay prevented incorporating the changes during the normal production process. We called this to the attention of Air Force officials.

We would be pleased to discuss this information in further detail with you or members of your staff if you so desire.

Sincerely yours,



DEPUTY Comptroller General
of the United States

UNAVAILABLE