



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

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June 1, 1971



Dear Mr. Chairman:

We were requested by your office to determine whether the Grumman Aerospace Corporation management information system is capable of providing the Navy and the contractor with information necessary to maintain visibility over the costs of the F-14 aircraft program. In addition, we were asked to determine whether data from the system could be used to project the contractor's estimated costs of production for options not yet exercised.

Our work was performed at the Grumman Aerospace Corporation, Bethpage, New York. We interviewed officials responsible for maintaining the management information system and reviewed the method by which the contractor maintains its budget under the system. Documents on labor hours and projections of labor hours and material costs for aircraft on order and those under option were also examined.

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Under the terms of its contract with the Navy for the F-14 aircraft, Grumman Aerospace Corporation is required to maintain its management information system in accordance with the criteria set forth in Department of Defense Instruction 7000.2 titled Performance Measurement for Selected Acquisitions. Performance measurement is a term given to a set of criteria relating to the cost and to the schedule to which a contractor's management information system must adhere.

After Grumman was awarded the contract, the Navy performed a review of the contractor's management information system and upon correction of several discrepancies approved the system in January 1971.

According to the terms of the contract, Grumman is required to submit monthly reports to the Navy, the format and contents of which were developed as a result of negotiations between the contractor and the Navy.

The major monthly report on costs submitted to the Navy by Grumman for the 38 F-14 aircraft on order is the Cost Account Summary Status Report. This report shows the actual costs incurred, the

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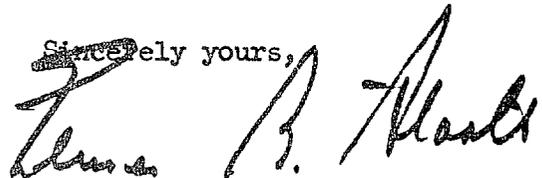
budgeted costs of work completed, and the budgeted costs of work scheduled to date. In addition, for the options exercised the report shows the estimated costs the contractor expects to incur at completion and the estimated cost overrun or underrun. This report to the Navy covers aircraft on order only. The Navy does not obtain information from Grumman as to the effect costs increases expected for aircraft on order may have on the costs of aircraft for which options have not yet been exercised.

For example, Grumman was experiencing increasing labor rates and advised the Navy in January 1970 that it anticipated costs of \$22 million in excess of those it accepted during negotiations with the Navy for the first 6 aircraft. In May 1970 Grumman reported to the Navy that procurement costs of airframe components were expected to increase by \$21.5 million for the first 6 aircraft. However, the Navy did not obtain from Grumman the effect that the increased labor rates and procurement costs could be expected to have on the remainder of the F-14 aircraft the Navy plans to purchase under the contract options.

Grumman's management information system provides the contractor with data by which it can maintain visibility over the cost of the program. In this regard, the contractor prepares for its own use an estimate of the total costs at completion for aircraft under option and those on order. This type of estimate has been prepared by Grumman about every 3 or 4 months since November 1969.

The Navy should obtain from Grumman, as part of its monthly report, the contractor's estimated costs to produce aircraft under option as well as those on order. We understand that the Navy is currently considering obtaining from Grumman this type of information for management purposes. Information of this nature would furnish visibility as to the costs the contractor expects to incur in relation to the prices that have been established for the program. This would give the Navy, the Department of Defense, and the Committees of the Congress current information as to cost growths being experienced and anticipated by the contractor in the performance of the contract.

Sincerely yours,



Comptroller General
of the United States

The Honorable John C. Stennis, Chairman
Committee of Armed Services
United States Senate

C. J. W. 00570