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REPORT TO THE CONGRESS

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Audit Of Payments From  
Special Bank Account  
To Lockheed Aircraft Corporation  
For The C-5 Aircraft Program  
During The Quarter Ended  
March 31, 1972

B-162578

Department of Defense

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

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MAY 30, 1975



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

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c1 To the President of the Senate and the  
Speaker of the House of Representatives

This is our fourth report on the audit of payments from the special bank account to the Lockheed Aircraft Corporation for the C-5 aircraft program. This report covers the quarter ended March 31, 1972. *C. 420*

This audit was made pursuant to section 504 of Public Laws 91-441 and 92-156, the Armed Forces appropriation authorities for fiscal years 1971 and 1972, respectively. Public Law 91-441 authorized \$200 million interim funding for the C-5 aircraft program, and Public Law 92-156 authorized \$325.1 million for the program.

Both laws provide that (1) the payments be made through a special bank account, (2) the funds be expended only for the reasonable and allocable direct and indirect costs incurred by Lockheed on the C-5 aircraft program, and (3) the funds not be used to reimburse Lockheed for intercompany profits, bid and proposal (B&P) costs, independent research and development costs, similar un-sponsored technical effort costs, and depreciation and amortization costs. These laws require the General Accounting Office to audit payments from the special bank account and to submit a report to the Congress not more than 30 days after the close of each quarter.

*a* Since June 16, 1971, the Air Force has paid Lockheed \$320,026,001 from the special bank account. (See appendix for the cumulative expenditures through March 31, 1972.) The amounts deposited in and withdrawn from the special bank account during the quarter ended March 31, 1972, were as follows: *35*

		Special bank account	Funds authorized by Public Laws	
			91-441	92-156
Beginning balance		\$ 635,736	\$1,169,698	\$299,021,172
Deposits		95,572,436		
Withdrawals			930,219	94,642,217
Labor	\$19,673,854			
Overhead	27,879,811			
Material and other charges	46,058,243			
Intercompany transactions:				
Charges	\$2,153,672			
Credits	12,973	2,140,699	95,752,607	
Balance as of March 31, 1972		\$ 455,565	\$ 239,479	\$204,378,955

SCOPE OF AUDIT

Our review was made at the Lockheed-Georgia Company, Marietta, Georgia; Lockheed Aircraft Corporation and Lockheed-California Company, Burbank, California; and Lockheed Electronics Company, Plainfield, New Jersey.

In our review of overhead costs, we examined into the reasonableness of provisional overhead rates and the costs eliminated to comply with Public Laws 91-441 and 92-156. Our audit of labor costs included tests to determine whether those costs appeared reasonable and applicable to the C-5 aircraft program.

We reviewed selected material and other costs shown on reimbursement vouchers and traced the amounts to such documents as purchase orders, receiving reports, vendors' invoices, and work orders to determine the accuracy and propriety of the amounts paid. Our review of costs incurred on the C-5 aircraft program by other Lockheed companies was directed toward testing the accuracy and allowability of labor, material, and overhead costs charged in intercompany billings and the exclusion of intercompany profit. We reviewed also the Defense Contract Audit Agency (DCAA) audit of payments from the special bank account for labor, overhead, material, and other costs. 473

Conclusion

Our review revealed no payments from the special bank account to Lockheed-Georgia during the quarter ended March 31, 1972, that were contrary to Public Laws 91-441 and 92-156. On two of the matters discussed below, however, we requested comments from the Department of Defense in respect to decisions on future payment practices. We also ascertained that actions were initiated, in response to findings presented in our third report, to improve labor productivity.

MANAGEMENT IMPROVEMENT OF LABOR PRODUCTIVITY

We reported the results of our work-sampling study of Lockheed-Georgia's direct labor force assigned to C-5 aircraft assembly operations during the quarter ended December 31, 1971. We suggested to Lockheed-Georgia management that attention be directed toward reducing the amount of time spent in supporting activities necessary for the performance of craft work and that the amount of idle and unobserved time be reduced to an absolute minimum.

We have been advised by a representative of Lockheed-Georgia that new control systems are being established, including (1) improved time-card handling, (2) means for enforcing timely observance of break periods, lunch periods, and shift starting- and stopping-time rules, and (3) job assignment and follow-up. Additional controls have been established over the in-plant movement of employees.

We also recommended that the Air Force evaluate the actions taken by the contractor. The Air Force has advised us that, although it may be too early

to see the results of the contractor's actions, the Air Force Plant Representative at Lockheed-Georgia reports that the overall tempo in the manufacturing area appears to have improved since the first of the year. The Air Force has advised us also that it is continuing to improve its capability to measure worker productivity.

#### INTERCOMPANY TRANSACTIONS

During the quarter intercompany charges totaling \$2,140,699 were paid to Lockheed-Georgia from the account.

Our review of these interdivisional billings showed that Lockheed-California had billed Lockheed-Georgia \$139,300 in duplicate overhead charges, of which \$137,188 was charged to the special bank account. When we notified Lockheed-California of this, the duplicate billings were corrected and charges to the special bank account were adjusted.

#### FURTHER STUDY NEEDED OF BID AND PROPOSAL OVERHEAD COSTS

As indicated earlier, Public Laws 91-441 and 92-156 provide that Lockheed-Georgia not be reimbursed for B&P costs. Lockheed-Georgia deducted its direct (material and labor) B&P costs allocable to the C-5 aircraft program but did not deduct overhead costs of about \$500,000 that for other purposes Lockheed had considered allocable to its B&P activities. We requested the Air Force to furnish us with its rationale for paying such costs. Upon receipt of the Air Force position, we plan to give further consideration to this matter.

#### WITHDRAWAL OF FUNDS FOR RETIREMENT CONTRIBUTIONS IN ADVANCE OF NEED

The Lockheed Aircraft Corporation has 10 separate retirement plans covering salaried and hourly employees of all divisions and subsidiaries, including the Lockheed-Georgia Company where most costs for the C-5 aircraft are incurred. Eight banks and trust companies serve as trustees for the plans, and they are authorized by Lockheed to receive, hold, and invest funds and to pay benefits. The annual amount each division must pay to the trustees is based on actuarial studies made by the corporate office.

Lockheed-Georgia accumulates retirement funds until the end of the year, and the funds then are remitted to the corporate office in approximately equal monthly installments during the first 9 months of the succeeding year. Before 1971 the corporate office paid the trustees monthly, which resulted in Lockheed's retention of the funds for 9 or 10 months. In 1971, Lockheed's working capital position deteriorated and the cash shortage required a deferral of payments to the trustees. As a result the corporate office did not make payments to the trustees on a monthly basis. Instead the payments were sporadic

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and in varying amounts. The average time between the receipt of funds from the Government for retirement costs and payment to the trustees in 1971 was about 14 months.

During January, February, and March 1972, monthly installments were transferred to the corporate office. Lockheed officials advised us that the first payment of 1971 retirement costs was made in April 1972 and that monthly payments would continue through September 15, 1972. This payment procedure will result in Lockheed's retention of the funds for slightly less than the 14 months experienced in 1971.

Lockheed-Georgia's estimated annual retirement-fund contribution for 1972 is \$10,907,709. About \$6,200,000 of this contribution is applicable to the C-5 aircraft program. The transfer of funds to the corporate office, and subsequently to the trustees, will not begin until about January 1973 and will continue until about September 1973.

The Armed Services Procurement Regulation provides that contributions to pension and annuity plans, whether paid immediately or deferred, are allowed costs under Government contracts.

Supplemental Agreement number 1000, dated May 31, 1971, which changed the contract from a fixed-price-incentive contract to a cost-plus-fixed-loss contract, included a provision which stated that:

"The contractor is required to submit a detailed justification to the Administrative Contracting Officer (ACO) to support requests for withdrawals of funds from the account. The justification is to be in the form of a listing of direct payrolls, direct material receipts/invoices, other direct or indirect allowable costs incurred which are reasonable and allocable in support of the C-5 program and which must be paid in a reasonable period of time." (Underscoring supplied.)

In order to appraise the reasonableness of Lockheed's practice in this instance, we made inquiries of several aerospace firms, as well as of the Air Force, regarding their policies with respect to retirement-fund contributions. We found inconsistent practices in that the period between the time payments were received by these contractors from the Government for retirement costs and the time payments were made by them to the trustees ranged anywhere from a month to a year or more.

It does not seem appropriate for the Government to make payments to contractors for their contributions to the employees' retirement funds significantly in advance of the time that the contractors are required to make payments to the trustees of the retirement funds. Further it appears to us that the Department of Defense should require consistent treatment of its contractors in this regard. Therefore we are recommending that the Department of Defense take action to 5

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establish consistent policies that avoid making such payments significantly in advance of need.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretary of the Air Force.

A handwritten signature in black ink, reading "James B. Stacks". The signature is written in a cursive style with a large, prominent initial "J".

Comptroller General  
of the United States

TOTAL AMOUNTS DEPOSITED IN AND WITHDRAWN FROM  
THE SPECIAL BANK ACCOUNT  
DURING THE PERIOD JUNE 16, 1971, TO MARCH 31, 1972

	<u>Special bank account</u>	<u>Funds authorized by Public Laws</u>	
		<u>91-441</u>	<u>92-156</u>
BEGINNING BALANCE		\$200,000,000	\$325,100,000 <sup>a</sup>
DEPOSITS	\$320,481,566		
WITHDRAWALS		199,760,521 <sup>b</sup>	120,721,045 <sup>c</sup>
Labor	\$ 58,972,133		
Overhead	87,635,300		
Material and other charges	171,897,166		
Intercompany transac- tions:			
Charges	\$16,495,209		
Credits	<u>14,973,807</u>	<u>1,521,402</u>	<u>320,026,001</u>
BALANCE AS OF MARCH 31, 1972	\$ <u>455,565</u>	\$ <u>239,479</u>	<u>\$204,378,955</u>

<sup>a</sup>Public Law 92-204 appropriated \$321.5 million which is \$3.6 million less than authorized.

<sup>b</sup>Initial payment from this fund was on June 16, 1971.

<sup>c</sup>Initial payment for this fund was on December 1, 1971.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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