



089199
RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations, a record of which is kept by the Distribution Section, Publications Branch, OAS
COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

RELEASED

B-162578

3.14.58
7
MAR 14 1973/9

The Honorable Les Aspin
House of Representatives

R Dear Mr. Aspin:

This is in response to your letters of September 14 and 28, 1972, regarding statements made by Mr. Henry M. Durham, a former Lockheed employee. Mr. Durham provided copies of 10 stores requisitions, as well as other documents, and charged that (1) Lockheed employees violated Air Force and Lockheed procedures by using a stores requisition instead of a discrepancy report to obtain replacement of damaged material, (2) Lockheed deliberately concealed evidence of millions of dollars worth of materials which had been scrapped, (3) Lockheed installed on C-130 and C-5 aircraft material which had not been heat treated, and (4) Lockheed incurred additional scrap by issuing material in sizes larger than called for by the shop orders.

We found that:

- Air Force regulations were not violated since no specific Air Force instructions cover the system that contractors are to follow in issuing material.
- Lockheed procedures were not violated since stores requisitions are normally used to obtain replacements for damaged material initially used on shop orders.
- Nine of the stores requisitions provided by Mr. Durham identified the initial shop orders for which replacement material was being obtained and carried evidence that appropriate approval was received. The remaining requisition did not require a shop order.
- Lockheed's quality control procedures provide assurance that untreated parts are not installed on aircraft.
- Lockheed procedures prescribe that material from stores be issued in the size nearest to that required and that remnants of 2 feet or more be returned to stores for further use.

~~904446~~ [089199]

We reviewed copies of Air Force and Armed Services Procurement Regulations concerning Air Force monitoring of Lockheed's manufacturing activities. We interviewed Air Force personnel responsible for quality assurance, property management, and production administration to determine the degree of surveillance.

We reviewed the 10 stores requisitions and related shop orders, pertinent Lockheed internal audit reports, and Lockheed manufacturing procedures. We interviewed management and engineering personnel in the fabrication control, stores, and quality control organizations at Lockheed-Georgia Company. DISCO

We observed Lockheed's methods for verifying that finished metal parts were heat treated to produce the required metal hardness and discussed the methods with the employees involved in the process. Additional information in response to your specific questions is presented below.

1. Have Air Force regulations and Lockheed Corporation regulations been violated by the failure to file discrepancy reports and the subsequent requisitions of material a second time through the use of a store's requisition?

Air Force and Lockheed regulations have not been violated. No specific Air Force instructions cover the system that contractors are to follow in issuing material. We noted that Lockheed obtains Air Force approval before disposing of scrap material.

Lockheed normally uses store requisitions to obtain replacements for damaged or lost materials initially used on a shop order when this would be less costly than processing a discrepancy report. Lockheed officials estimated that it costs about \$94 to process a discrepancy report. We believe that discrepancy reports generally would not be used to obtain replacement material on small shop orders of low value if time was an important factor or if the shop orders were in initial stages.

Our review of the original store requisitions confirmed that the related shop orders for which replacement material was being obtained were identified and appropriate approval was received.

2. What was the dollar value of the metal scrapped as indicated by the documents provided by Mr. Durham?

B-162578

The total value of the material on the 10 requisitions was \$578; 8 of the requisitions were for replacement material valued at \$292. The remaining two requisitions, valued at \$286, were not for replacement materials but for materials used in the fabrication of a shop tool for the L-1011 and material to strengthen a purchased part for the C-5. The value of the material by the individual requisition and by aircraft program is presented in the enclosure to this letter.

In regard to the variance between the amount of material requested and the amount shown to be required by the shop order, Lockheed procedures prescribe the issuance of material from stores in the size nearest to that required. Remnants of 2 feet or more are to be returned to stores for further use.

3. According to a statistical sample of similar documentation (i.e., stores requisition), what percentage of these requisitions were used to procure material ordinarily not requisitioned by this type of document?

Since the requisitions furnished by Mr. Durham are consistent with Lockheed's normal practices, we believe a statistical analysis would not be beneficial.

During our meeting with Mr. Broydrick on September 26, 1972, he expressed concern over the possibility that material that had not been heat treated had been substituted for material which had been treated.

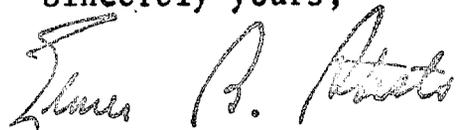
We found that Lockheed performs a hardness inspection of all parts that require heat treatment and another check just prior to acceptance by stores. We believe these quality control procedures provide assurance that untreated parts are not installed on aircraft.

The matters contained in this report were discussed with Air Force and Lockheed officials, but we did not request their formal comments.

B-162578

We trust that this information responds to your needs. We shall be pleased to discuss this information with you or members of your staff if you so desire.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Stewart".

Comptroller General
of the United States

Enclosure

VALUE OF REPLACEMENT MATERIAL

<u>Requisition number</u>	<u>Aircraft program</u>	<u>Value</u>	<u>Total</u>
1a-1	C-5	\$95.23	
1a-3	C-5	37.59	
1a-5	C-5	14.30	
1a-9	C-5	<u>11.34</u>	
	C-5 Total		\$158.46
1a-6	C-130	10.02	
1a-8	C-130	<u>63.05</u>	
	C-130 Total		73.07
1a-2	L-1011	54.47	
1a-7	L-1011	<u>6.02</u>	
	L-1011 Total		<u>60.49</u>
	Total value of replacement material		<u>292.02</u>

VALUE OF MATERIAL USED IN FABRICATION

<u>Requisition number</u>	<u>Aircraft program</u>	<u>Value</u>
1a-4	L-1011	269.38
1a-10	C-5	<u>16.60</u>
	Total value of fabrication material	<u>285.98</u>
	Total value of material	<u>\$578.00</u>