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Statement of

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before the

Subcommittee on Defense
House Committee on Appropriations

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Mr. Chairman, members of the committee, I welcome the opportunity to again discuss with you the subject of multiyear procurement. We continue to believe that multiyear procurement, when appropriate, can offer advantages over annual contracting. But, we also continue to advise a cautious approach in applying it to major weapon systems, as well as their major subsystems.

I think it appropriate to comment here that estimates of savings achievable from multiyear procurement have, for the most part, been disappointing. Although many projections were made that savings from multiyear procurement would be in the range of 10 to 20 percent, few of the fiscal year 1984 candidates show savings at those levels.

Public Law 97-86 and subsequent appropriation acts and reports established certain procedures for notifying the Congress and criteria for justifying candidates for multiyear procurement. At your request, we initiated an analysis of Defense's proposed fiscal year 1984 weapon system multiyear candidates for compliance with the prescribed criteria and procedures. As we have not yet completed our work on these candidate systems the results that follow should be considered preliminary. We expect to submit a formal report on our analyses during September 1983.

I would like to briefly review the criteria for multiyear contracting before we describe our analysis of the 1984 candidates.

MULTIYEAR CONTRACTING CRITERIA

Criteria were established in Public Law 97-86, and expanded by the Secretary of Defense, to guide the selection of procurements which should be proposed for multiyear contracting. Those criteria are shown in Chart 1.

Benefit to the Government/cost avoidance

The costs to be avoided by multiyear contracting should be significant since the commitment to a multiyear contract reduces future budget flexibility and entails some added risks, particularly if the requirement, configuration, and funding prove not to be stable, or if cost estimates ultimately prove to be inaccurate. If a multiyear contract was awarded and later changed significantly, or terminated the ultimate cost of the effort could well be higher than under annual contracting. The remaining criteria--confidence in cost estimates, stability of requirements, stability of funding, and stability of design--focus on the risk of losing savings attributed to efficiencies of production and economic order quantity buying because the parts may no longer be needed or become obsolete.

Overall the margin of difference between annual contracting and multiyear contracting must not only recognize the differences in the pattern of outlays and related cost of financing but must also be large enough to offset any erroneous assumptions in the estimates. We do not believe it is reasonable to establish a finite savings percentage that must be achieved by using multiyear versus annual contracting. Rather, we believe each case, including the savings margin, risks, and uncertainties, must be judged on its own merits.

High degree of cost confidence

Initially, the services produce budgetary estimates of the potential savings available from multiyear procurement. Those

estimates may be based on prior history, information received informally from contractors, or inhouse estimates. They have varying degrees of validity, but are usually the basis for the original justification submitted to the Congress.

Firm contractor proposals on an annual and multiyear basis must then be obtained and analyzed prior to obtaining congressional approval to award a multiyear contract for major weapon systems. This is meant to provide the Congress with a more realistic view of the cost of the procurement and the savings available from use of multiyear versus annual procurement.

Stability of requirement

The requirement for the system or subsystem must be stable, and be expected to remain relatively stable throughout the multiyear procurement period. We believe a stable requirement means the quantity needed is not expected to vary significantly over the term of the multiyear contract.

Stability of funding

There must be a commitment within the Defense Department and the Congress to ensure sufficient funds to complete the multiyear contract at planned production rates.

The current and anticipated budget deficits and probable reduced defense spending, create considerable concern whether any such commitment can be guaranteed. Consequently, while Defense may provide amounts in its Five Year Defense Plan for the proposed multiyear efforts, that does not necessarily ensure the stability of funding required to sustain the contractual production schedule over the life of the contract.

Balancing national priorities and achieving lowered budget targets established by the congressional budget process has created pressures to adjust ongoing programs. These pressures increase the risks of using multiyear contracts for major weapon systems.

Stability of design

The design of a system or subsystem should be stable before initiating multiyear procurement. Tests and evaluation should also be complete and should have demonstrated that the item is operationally effective. We still hold the view made during our June 15, 1981 testimony before the committee that a program is mature and stable when the research and development is completed and one or two production runs are completed.

With this criteria in mind, I will proceed with the preliminary results of our review.

PRELIMINARY RESULTS - FISCAL YEAR 1984 CANDIDATES

Our efforts to date indicate that all of the fiscal year 1983 supplemental and fiscal year 1984 candidates may not meet one or more of the legislated criteria for multiyear contracting. Chart 2 shows the criteria across the top and the systems we reviewed down the side. We note with an X, those criteria for which we believe there exists a significant question whether the system fully meets the criteria.

Benefit to the Government/
cost avoidance

Although savings in the range of 10 to 20 percent were put forth in testimony by Defense when supporting the enhanced multiyear contracting authority enacted in Public Law 97-86 there is no indication in the legislative history as to what the savings should be to meet the reduced contract cost criteria.

Based on the testimony we expected to see savings in the range of 10 to 20 percent. However, based on Defense data, as shown on Chart 3, there are only 5 proposed contracts in this range. This indicates, in our opinion that Defense should be more aggressive in screening out multiyear candidates which show only marginal savings based on budgetary estimates.

We believe the Congress should give particular attention to proposed systems which have projected discounted savings of less than 10 percent based upon budgetary data. We continue to hold the view that budgetary data are insufficient to establish the reasonableness of claimed savings.

Stability of requirement

We made only a cursory review of requirement stability on the programs. While production rates and total requirements have been or may be adjusted for several of the programs, we found none which would impact the proposed multiyear contracting except for the F/A-18 (engine). The aircraft program requirement is currently unstable because of uncertainty on the force mix of aircraft to be procured for the Navy.

Stability of funding

As previously discussed we believe the stability of funding is potentially a serious concern for many of the proposed multi-year candidates. Chart 4 shows the cumulative fiscal year 1983 through 1988 outlay demand for previously approved and currently proposed multiyear contracts. As can be seen, the commitment is greater in the out-years. Specifically, we believe the following systems are especially susceptible to funding instability.

- B-1B because initial proposals are significantly higher than budgeted amounts;
- F/A-18 engine because of uncertainty on the mix of aircraft to be procured for the Navy;
- F-15 because of historical fluctuation of production rates and annual funding and possible continuation of that pattern; and
- KC-135 reengining because of continuing dialogue about how many aircraft to reengine with JT3D engines versus CMF56 engines.

Stability of design

To assess the stability of design, we reviewed prior production history, engineering changes in process, and where appropriate, test results.

We questioned design stability on nine proposed multiyear contracts for the following reasons:

- AN/TSQ-111 and the armored combat earthmover because fiscal year 1984 represents its first meaningful production;

- B-1B airframe, engine, offensive and defensive avionics because testing is incomplete, the items have not been procured in the B-1B configuration previously, and over 5 years has elapsed since the last B-1A was delivered;
- KC-135 because tests are not complete and no prior production items have yet been delivered;
- the Bradley Fighting Vehicle transmission which has experienced both design and quality control problems in past procurements. Deliveries on prior contracts are behind schedule.
- MK-30 Target because hundreds of engineering change proposals are in process and only one of 12 targets produced since 1978 has been accepted.

COMPLIANCE WITH LANGUAGE IN FISCAL
YEAR 1983 REPORT OF HOUSE COMMITTEE
ON APPROPRIATIONS

We also reviewed Defense's compliance with the language in the fiscal year 1983 report of this committee. Defense complied with the direction included in the fiscal year 1983 appropriations committee report concerning:

- submission under separate cover of a budget justification document for planned multiyear procurement requests, and
- inclusion in the justification backup material of the estimated savings at a discounted rate as required by OMB Circular A-94.

Defense, however, did not prioritize multiyear candidates nor provide a complete picture of future year commitments as requested in the report.

Compliance with direction concerning solicitation of proposals for multiyear candidates was mixed. The Committee directed that Defense solicit proposals on a multiyear basis, and on an annual basis with options covering the quantities and

timeframes in the multiyear proposal. However, in 5 instances Defense requested only a multiyear proposal and in 2 instances the requests were only for a multiyear and an annual proposal without options.

ASSESSMENT OF THE B-1B
MULTIYEAR JUSTIFICATION

You asked that we also testify concerning our analysis of the B-1B multiyear justification. Overall, we do not believe the Air Force has demonstrated that the B-1B program fully meets the criteria in Public Law 97-86. As you know, the B-1B program cost estimate, was based on achieving an \$800 million (FY 81 dollars) savings from multiyear procurement. Therefore, achieving those savings is important to maintaining total program cost within the baseline of \$20.5 billion (FY 81 dollars). The baseline program assumed that multiyear authority would begin in fiscal year 1984. The Air Force, however, requested fiscal year 1983 multiyear authority to initiate economic order quantity (EOQ) buying of selected B-1B components after it learned that a fiscal year 1984 multiyear start would not provide the desired savings.

Cost avoidance and confidence in cost estimates

In terms of the criteria we presented earlier, we believe the cost avoidance figures included in the multiyear justification package (based on budgetary estimates) were marginal for the engine (4.6 percent), offensive avionics (3.5 percent), and defensive avionics (0.5 percent). The program director stated that the proposals received confirmed the estimated savings, but assumed that EOQ would start by April 1, 1983. Since authority to initiate EOQ by

April 1, 1983 was not granted, the savings estimate of \$800 million (FY 81 dollars) has, according to the Air Force decreased to about \$600 million (FY 81 dollars) assuming authority to start EOQ takes place in early June 1983.

We understand the proposals, in total, exceed the amounts budgeted by the Air Force for those efforts by about 31 percent. Therefore, it may be difficult for the Air Force to achieve the savings originally estimated and to acquire the system within the baseline cost of \$20.5 billion (FY 81 dollars).

Although the Air Force has received proposals from the contractors, the Air Force denied us access to the proposals because they believed the proposals should remain confidential to the negotiation process. The Air Force does not intend to complete their analysis on the proposed multiyear prices with the contractors until they receive multiyear authority.

The award of the single largest contract and the one with the greatest potential savings, the airframe contract, is not planned until fiscal year 1985. Therefore, negotiations on the major part of the system will not begin until late 1984. Consequently, there will be little basis for confidence in the total cost or the estimated cost avoidance until that time.

Design stability

The Air Force has testified that the design of the B-1B airframe, engine and avionics are stable. However, the

operational testing that remains to be done on the B-1B could ultimately require some design change. In our April 13, 1983 report to the Secretary of Defense (GAO/MASAD-83-21) we stated:

"The research, development, test and evaluation phase for the B-1B, full-scale development effort is scheduled to continue into fiscal year 1987. For fiscal year 1984 through 1987, 51 percent of the research, development, test and evaluation funds are to be requested for the B-1B program. Further, the development flight testing for the program is to continue through June 1986. Avionics flight testing will not start until July 1984."

Since the operational testing of the B-1B program is only beginning, there is no basis to more specifically identify potential design problems or their impact on the program, either based on annual or multiyear contracting.

Matters for consideration

When the Committee is satisfied that the Air Force has provided sufficient information to demonstrate confidence in the design stability of all B-1B systems, and determines that the B-1B program is an acceptable candidate for multiyear contracting, it may want to consider quickly approving EOQ for fiscal year 1983 because the Air Force states that delay is jeopardizing claimed savings. We believe, however, that approval of fiscal year 1983 EOQ authority and the fiscal year 1984 budget request for multiyear contracting authority should carry certain conditions. We suggest the Committee require the Air Force to:

--make a detailed analysis of both multiyear and annual proposals for all associate contractors based on a fiscal year 1984 start before any multiyear contracts can be awarded;

--provide a detailed assessment that demonstrates the extent to which the negotiated multiyear target prices plus work already on contract and work not yet on contract compares with the \$20.5 billion program baseline.

In addition, if the Committee wants our assessment of savings and total program cost based on negotiated multiyear contract prices prior to final congressional approval it should consider requiring the Air Force to provide all proposals and analyses for GAO review when the initial negotiation objectives under either multiyear and/or contract basis are established. Timely access to this data would be essential for us to be responsive to the Committee needs.

This concludes my statement Mr. Chairman, and I would be happy to answer any questions you or the other members may have.

MULTIYEAR APPROVAL CRITERIA

PUBLIC LAW 97-86

- **BENEFIT TO THE GOVERNMENT**

- **NATIONAL SECURITY**

- **REDUCED CONTRACT COSTS**

- **DEGREE OF COST CONFIDENCE**

- **STABILITY OF REQUIREMENT**

- **STABILITY OF FUNDING**

- **STABILITY OF DESIGN**

PRELIMINARY EVALUATION OF CANDIDATES
(X indicates a question whether criteria has been met)

System/subsystem	Savings ^{1/}	Degree of cost confidence	Requirement stability	Funding stability	Design stability
<u>ARMY</u>					
Bradley Fighting Vehicle:					
Transmission	X	X			X
Turret Drive	X	X			
Power Control Unit		X			
Tow Subsystem		X			
CH-47D Modification ^{2/}					
M-60 Thermal Sight		X			
AH-64 Engine	X	X			
Tow II Missile ^{2/}		X			
Armored Combat Earthmover		X			X
<u>NAVY</u>					
F/A-18 Engine ^{2/}		X	X	X	
TB-16 Sonar		X			
MK-45 Gun Mount/ MK-6 Ammo Hoist		X			
AN/TSQ-111 ^{2/} CNCE		X			X
AN/SSQ-62B Sonobuoy ^{2/}		X			
LSD-41 Ship		X			
MK-30 Target		X			X
<u>AIR FORCE</u>					
B-1B Bomber:					
Airframe		X		X	X
Engine	X	X		X	X
Offensive avionics	X	X		X	X
Defensive avionics	X	X		X	X
Spares					
F-15 Aircraft ^{2/}	X	X		X	
KC-135 Re-engining ^{2/}	X	X		X	X

^{1/}We have considered all systems with a projected savings of less than 5 percent based upon budgetary data to be questionable.

^{2/}Multiyear authority denied by House Armed Services Committee

ESTIMATED MULTILATERAL CONTRACT SAVINGS
(\$ in millions)

<u>System/Subsystem</u>	<u>Present Value^{1/}</u>	
	<u>Savings</u>	<u>Percent</u>
M-60 Thermal Sight	\$ 36.6	14.0
MK-30 Target	3.9	13.3
Tow II Missile	39.3	11.1 ^{2/}
AN/SSQ-62B Sonobuoy	11.3	10.9
TB-16 Sonar	.7	9.9
LSD-41 Ship	94.9 ^{3/}	9.6
AN/TSQ-111 Communications Nodal Control Element	31.9	8.8
CH-47D Modification	36.6	7.4
Armored Combat Earthmover	33.4	7.0
MK-45 Gun Mount/ MK-6 Ammunition Hoist	19.4	6.5
B-1B Bomber:	398.4	5.8
<ul style="list-style-type: none"> - Airframe 303.5 7.5 - Engine 49.5 4.6 - Offensive Avionics 28.5 3.5 - Defensive Avionics 3.6 .5 - Spares 13.3 6.4 		
Bradley Fighting Vehicle	29.3	5.6
<ul style="list-style-type: none"> - Transmission 3.3 2.3 - Turret Drive 2.0 2.3 - Power Control Unit 7.6 21.3 - Tow Subsystem 16.4 6.4 		
F/A-18 Engine	43.0	5.2
KC-135 Re-engining	66.9	5.1
AH-64 Engine	10.7	3.8
F-15 Aircraft	<u>52.3</u>	1.8
TOTAL	<u>\$908.6</u>	5.6

^{1/} Using directed OMB Circular A-94 Method.

^{2/} Figures in the Tow II justification package are incorrect. The projected cost avoidance is about 8 percent.

^{3/} Based on program cost.

SOURCE: Defense Multiyear Contract Justification Materials.

**DOD MULTIYEAR OUTLAYS FY82-FY84 FROM FY83 TO FY88
FOR PROPOSED WEAPON SYSTEMS
(\$ IN BILLIONS)**

