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UNITED STATES GENERAL ACCOUNTING OFFICE

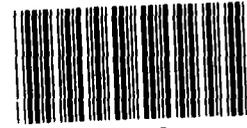
WASHINGTON, D.C. 20548

MISSION ANALYSIS AND
SYSTEMS ACQUISITION DIVISION

B-206836

DECEMBER 14, 1982

The Honorable John G. Tower
Chairman, Committee on Armed Services
United States Senate



120098

Dear Mr. Chairman:

Subject: Evaluation of MAVERICK Missile System Unit Cost
Report Submitted Under Public Law 97-86, Section
917 (GAO/MASAD-83-7)

Your letter of February 5, 1982, requested us to examine unit cost reports submitted to your Committee by the Secretary of Defense in compliance with Public Law 97-86. Accordingly, we reviewed the most recent such report on the Air Force's AGM-65D imaging infrared MAVERICK missile program. The Secretary of the Air Force notified you on July 30, 1982, that the MAVERICK program had exceeded the 25-percent baseline cost threshold. The unit cost report was submitted to your Committee by the Secretary of the Air Force on August 30, 1982. We reported to you earlier 1/ on 21 unit cost reports previously submitted to the Congress. Our May report included our comments on a 15-percent cost increase for the MAVERICK which occurred earlier this year.

We found the June 30, 1982, MAVERICK unit cost report to be complete and current. In making our review we examined the unit cost report, MAVERICK Selected Acquisition Reports (SARs), and documentation supporting these reports. We also interviewed officials who contributed information used in preparing these reports.

The unit cost report appeared complete from the standpoint of including all costs comprising the program cost estimate. However, description of the cost increases contained little detail and did not identify important program changes which resulted in the revised estimate. This data is readily available from the SARs and, in our opinion, would enhance unit

1/GAO/MASAD-82-36, May 10, 1982, and GAO/MASAD-82-42, August 12, 1982.

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cost reporting. For example, the enclosure to this letter provides a summary of the cost increases reported on SARs for the period March 31, 1981, through June 30, 1982.

On September 17, 1982, after the unit cost report was submitted to the Congress, the Air Force Systems Acquisition Review Council recommended changing the production schedule back to the originally planned higher production rate after the first 3 years. The Air Force expects this higher production rate will reduce the total program cost by approximately \$278 million.

In our May 10, 1982, report we said that one primary item of cost uncertainty was a projected 10-percent savings expected from using either multiyear contracting or developing a competitive second source. At that time the Air Force projected savings of \$378.9 million. This was based on the contractor's proposed savings for multiyear procurement and an independent analysis of second source cost benefits. The June 30, 1982, unit cost report includes an additional expected cost savings of \$214.8 million or a total savings of \$593.7 million from the use of multiyear contracting and competitive procurement practices. If for any reason competition or a multiyear contract cannot be accomplished, a substantial growth of program cost could be expected.

We hope this information will be useful to you. We are available to discuss it with you or your staff.

Sincerely yours,



W. H. Sheley, Jr.
Director

Enclosure

BASIS FOR COST CHANGESMAVERICK PROGRAM

The total program cost estimate was increased by \$2,042.1 million between March 31, 1981, and June 30, 1982, as reflected in the unit cost report. The cost estimating changes creating this \$2,042.1 million increase were reported in the December 31, 1981; March 31, 1982; and June 30, 1982 Selected Acquisition Reports (SARs). The changes and the reasons therefor are as follows:

	<u>Then- year dollars</u>	<u>Base- year dollars (FY 1975)</u>
	(millions)	
December 31, 1981, SAR:		
Addition of multipurpose test set and aircraft integration effort to the SAR	\$ 7.0	\$ 3.8
Revised economic escalation rates	371.9	-
Realignment of the fiscal year procurement quantity to fit approved program funding profile for fiscal years 1983-87	8.4	5.5
Increased estimate of guidance unit cost reflecting technical and cost problems in the research and development phase; increased estimate of center/aft section cost to reflect actual cost from current foreign military sales program	755.8	282.6
Estimated decrease (fiscal years 1985 and beyond) for savings associated with competitive and/or multiyear procurement	-378.9	-131.9
Transfer of launcher procurement funding from the MAVERICK program	-92.7	-45.6
Adjustment for 1982 and prior year escalation	<u>-5.7</u>	<u>-2.8</u>
Total program cost change reported in December 31, 1981, SAR	\$ <u>665.8</u>	\$ <u>111.6</u>

	<u>Then- year dollars</u>	<u>Base- year dollars (FY 1975)</u>
	(millions)	
March 1982, SAR:		
Revised economic escalation rates	\$ 2.7	\$ -
Adjustment for 1983 and prior year escalation	-2.7	-1.7
Revised economic escalation rates	167.5	-
Adjustment for 1983 and prior year escalation	<u>-21.2</u>	<u>-9.6</u>
Total program cost change report- ed in March 31, 1982, SAR	\$ <u>146.3</u>	\$ <u>-11.3</u>
June 1982, SAR:		
Funds withdrawn by Air Force Headquarters	\$ -1.0	\$ -0.5
Revised procurement quantity profile directed by the Office of the Secretary of Defense	601.7	78.1
Adjustment to the Office of the Secretary of Defense approved inflation rates in prior years	331.7	117.2
Revised estimating methodology/ acquisition of vendor quotes and other data updates	255.0 <u>a/</u>	86.5
Schedule and engineering changes to support/training equipment and data	<u>42.6</u>	<u>11.2</u>
Total program cost change reported in June 30, 1982, SAR	\$ <u>1,230.0</u>	\$ <u>292.5</u>
Total program cost change March 31, 1981, through June 30, 1982, per SARs	\$ <u><u>2,042.1</u></u>	\$ <u><u>392.8</u></u>

a/This includes technical uncertainty/correction of deficiencies
+\$65.1 million, effect of 3 year production line shutdown
+\$219.3 million, increased second source startup cost

+\$150.9 million, increased estimated savings from using multi-year contracting coupled with dual source competition
-\$214.8 million, and increased unencumbered funds allowance (management reserve and economic change orders) +\$34.5 million.