

GAO

Briefing Report to the Chairman,
Committee on Armed Services,
House of Representatives

April 1987

PROCUREMENT

Status of Simplified Munition Lift Trailer Program



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-220113

April 27, 1987

The Honorable Les Aspin
Chairman, Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

On September 10, 1986, we reported on development problems occurring in the Air Force's simplified munitions lift trailer (SMLT) program.¹ We advised you that questions had surfaced concerning the (1) capability of the trailer to meet certain contractual design requirements, (2) transfer of technical data to PACCAR Defense Systems (the SMLT contractor) to define the trailer interfaces with bombers, weapons, and adapters, (3) total cost of development and production, and (4) ability of PACCAR to meet required production delivery dates. As a result of disagreements regarding these questions, claims and potential contract disputes had surfaced between PACCAR and the Air Force. You asked us to continue monitoring the program. This report presents information on the program's status in January 1987 and the subsequent termination by the Air Force.

Development of the SMLT was continuing in January 1987 but was about 16 months behind the original schedule. The trailer as designed needed certain modifications to meet critical nuclear safety requirements. It was expected to meet loading requirements for the B-1B, but for the B-52 and advanced technology bomber, the lift system would have to be redesigned. The Air Force and PACCAR continued to disagree over contract terms and specifications as well as the validity of firm fixed-contract prices for development and production.

Based on direction from the Assistant Secretary of the Air Force (Research, Development, and Logistics) in October 1986, the Air Force considered restructuring the SMLT program and contract within the existing total program cost estimate of \$27.15 million. A restructured SMLT program was expected to result in a revised development schedule and achievable performance requirements while meeting Strategic

¹Procurement: Simplified Munitions Lift Trailer Development Problems (GAO/NSIAD 86-210BR).

Air Command remaining needs for lift trailers to support B-1Bs. To fulfill urgent operational needs, 19 lift trailers were acquired in November 1986 from the current supplier, the AAI Corporation.

The Assistant Secretary of the Air Force, citing PACCAR's failure to provide an adequate design or to deliver a development prototype as required by the contract and lack of success in restructuring the program, ordered the contract with PACCAR terminated. He further decided to procure 44 more munitions lift trailers from the AAI Corporation to meet Air Force operational requirements, and an order was placed with AAI Corporation on February 24, 1987.

BACKGROUND

In August 1985, following an industrywide competition, the Air Force awarded PACCAR Defense Systems, Renton, Washington, a contract to develop a simplified munitions lift trailer for the strategic bomber force. The trailers were to be capable of transporting both nuclear and conventional weapons and their launchers and loading them on B-1B, B-52H, and advanced technology bombers. The Air Force estimated the total program cost at \$27.15 million, including \$6.15 million for development. The SMLT was expected to be less costly than continued procurement of lift trailers from the existing supplier. Full compatibility of the SMLT with all three types of strategic bombers was a basic objective of the program, since this would give the Strategic Air Command maximum operational flexibility.

The Air Force's firm fixed-price contract with PACCAR provided \$4.185 million for development of the trailer and delivery of three prototypes for testing. It also included three options for producing a total of 90 trailers.

DEVELOPMENT PROGRAM BEHIND SCHEDULE

Air Force projections in January 1987 indicated that SMLT development and testing could be finished in December 1987. This was about 16 months later than originally estimated. The Air Force and PACCAR in December 1986 informally agreed to a revised schedule (see table 1), but PACCAR did not sign the contract modification to formally implement the schedule.

Table 1: Comparison of Original and Proposed Contract Schedules for SMLT

<u>Milestone</u>	<u>Original schedule</u>	<u>Proposed schedule</u>	<u>Difference in months</u>
Contract award	Aug. 1985	Aug. 1985	0
Critical design review	Feb. 1986	Mar. 1987 ^a	13
Prototype delivery:			
Prototype 1	Feb. 1986	Aug. 1987 ^b	19
Prototype 2	Mar. 1986	May 1987	14
Prototype 3	Apr. 1986	May 1987 ^b	13
Complete development and testing	July 1986	Nov. 1987	16
Exercise production option	Aug. 1986	Dec. 1987	16
Initial production delivery	May 1987	Dec. 1988	19

^aCritical design review conducted in March 1986; however, correcting deficiencies noted during review was projected to delay completion until March 1987.

^bUnder proposed schedule these prototypes were to be delivered earlier for initial testing, returned to PACCAR, and modified to meet nuclear safety requirements and then redelivered by date shown.

Since development and operational testing were to be completed before production was begun, the delay in the development program caused a similar delay in planned deliveries of production trailers to the Air Force.

UNCERTAIN COST OF DEVELOPMENT

As of January 31, 1987, the Air Force had committed about 76 percent of the \$6.15 million approved for development, as shown in table 2.

Table 2: Status of Funds

<u>Development effort</u>	<u>Status of budgeted funds</u>
PACCAR contract as modified	\$4,096,700 ^a
Other contracts and commitments ^b	598,300
Funds budgeted but not obligated or committed	<u>1,457,000</u>
Total program budget	<u>\$6,152,000</u>

^aIn January 1987, the Air Force had not fully funded the contract, which had a fixed price of \$4,185,059.

^bContract authorization to Boeing and Rockwell to provide interface control documents and Air Force commitments for test and support costs.

PACCAR claimed there were additional costs for which the Air Force was liable. PACCAR submitted one claim to the Air Force and is planning to submit a second; the value of these claims, if accepted, would total \$10,807,985, far exceeding available development funds.

The claim that PACCAR has submitted involves \$9.5 million and is based primarily on the charge that the Air Force failed to contractually arrange for timely transfer of interface data to PACCAR from bomber contractors. Air Force program office officials told us they have asked PACCAR for additional documentation to support its claim and that after they review this information negotiations will be conducted to reach an equitable settlement.

Air Force officials expect PACCAR to submit a second claim based on its previous request for equitable adjustment, which the Air Force did not accept. That request involved PACCAR's assertion that nuclear safety requirements for the trailer were not clearly spelled out in the contract and that the \$1,260,500 cost of additional development would have to be added to the contract price.

If the parties cannot resolve the claims, the disputes can be appealed to the Armed Services Board of Contract Appeals. Air Force officials said resolution of these disputes could take several years.

SMLT PERFORMANCE LESS THAN
ORIGINALLY PLANNED

Air Force officials said the SMLT as designed did not meet the program's objective of being fully compatible with all bombers. The SMLT design, with modifications for nuclear safety, could have met loading requirements for B-1B bombers. However, PACCAR design studies submitted to the Air Force in August 1986 showed a major redesign of the SMLT lift system would be necessary to meet all B-52 and advanced technology bomber loading requirements.

PRODUCTION QUANTITIES REDUCED

When the SMLT program began, the Air Force intended to acquire 90 SMLTs and structured the contract with PACCAR to acquire them. In September 1986, because of changing B-52 retirement plans, the Strategic Air Command reduced the total remaining requirements for B-52 and B-1B lift trailers from 90 to 63. Since the delay in SMLT development precluded delivery of production trailers in time to support B-1Bs, the Air Force in November 1986 exercised an option to acquire 19 lift trailers and associated support equipment from the current supplier of lift trailers, the AAI Corporation, thus reducing its requirements for SMLTs to 44.

Had the Air Force procured 44 SMLTs from PACCAR rather than the 90 provided for in the original contract, the contract prices would have had to have been renegotiated. The contract provided a priced production option for the first 22 trailers. Two other options were included in the contract, but the production quantities in these options would no longer have coincided with the quantity of trailers the Air Force needed to purchase. (See table 3.)

Table 3: SMLT Production Options

<u>Option</u>	<u>Quantity</u>	<u>Total price</u>	<u>Unit price</u>
Lot I	22	\$ 5,507,991	\$250,363
Lot II	48	10,425,129	217,190 ^a
Lot III	<u>20</u>	<u>4,547,930</u>	227,397 ^a
	<u>90</u>	<u>\$20,481,050</u>	

^aThese prices are maximum prices, established at a "not-to-exceed" limit.

Program officials maintained they could have exercised the existing Lot I fixed price option for 22 SMLTs at \$5.5

million as provided by the contract. PACCAR disputes this based on the significant schedule changes which had occurred. Exercising the first two options (Lots I and II) would have provided more trailers than the Air Force needed and a new option would have had to have been negotiated in order to limit the procurement to the Air Force's current requirements. PACCAR officials stated that procurement of a smaller quantity in the second option would have invalidated the price in the contract.

At the Air Force's request, PACCAR provided preliminary price estimates in December 1986 for 44 SMLTs at substantially higher prices than those in the original contract, as shown in table 4.

Table 4: Price Estimates by PACCAR for 44 SMLTs

<u>Option</u>	<u>Quantity</u>	<u>Total price</u>	<u>Unit price</u>
Lot I	22	\$21,714,775	\$987,035
Lot IIA	<u>22</u>	<u>11,207,310</u>	509,423
Total	<u>44</u>	<u>\$32,922,085</u>	

The 19 lift trailers the Air Force procured in November 1986 from the AAI Corporation cost \$490,804 each. At that time, the Air Force negotiated an option with AAI for future delivery of 44 more trailers at a not-to-exceed unit price of \$467,536. That option was exercised on February 24, 1987, shortly after the SMLT program was terminated.

TOTAL COST HAS INCREASED

The original cost estimate for 90 SMLTs was \$27.15 million. Although the quantity of trailers to be procured has been reduced to 63, it appears that the Air Force will have to pay about \$35 million to meet the current requirements (see table 5), excluding any liability resulting from PACCAR claims.

Table 5: Cost Estimates for 63 SMLTs

<u>Description</u>	<u>Estimated cost</u> (millions)
Development contract price	\$ 4.19
Other contracts and commitments	.60
Procurement of 19 trailers	9.33
Procurement of 44 trailers	<u>20.57</u>
Total cost for 63 trailers (before PACCAR claims)	<u>\$34.69</u>

OBJECTIVES, SCOPE, AND METHODOLOGY

We made this review to maintain surveillance of the SMLT program. Our work was done during October 1986 to February 1987. We visited the SMLT program office (Air Force Systems Command Armament Division) at Eglin Air Force Base, Florida. We reviewed contract files, program direction and status reports, and other documents and talked with program officials. We also discussed the program with Headquarters Air Force and Strategic Air Command officials. The information presented in this report was the most current available as of February 1987. Our work was done in accordance with generally accepted government auditing standards.

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This report supplements the information reported to the Committee in September 1986. As you requested, we did not obtain comments on this briefing report from the Air Force or from PACCAR.

As requested by your office, we plan no further distribution of this briefing report until 30 days from the date of issuance, unless you publicly announce its contents earlier. At that time, we will send copies to the Chairmen, Senate Committee on Armed Services and Senate and House Committees on Appropriations; Secretaries of Defense and the Air Force; Director, Office of Management and Budget; and other interested parties.

B-220113

If we can be of further assistance, please call me on
275-4268.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Harry R. Finley". The signature is written in a cursive style with a large, prominent initial "H".

Harry R. Finley
Senior Associate Director

(392010)

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