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United States General Accounting Office

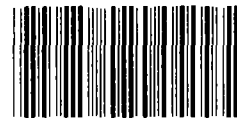
GAO

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

October 1987

DOD PROCUREMENT

Multiyear and Annual Contract Costs



134529

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**National Security and
International Affairs Division**

B-228775

October 30, 1987

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

Dear Mr. Chairman:

As you requested, we have reviewed several Department of Defense (DOD) acquisition programs approved by the Congress for multiyear procurement to attempt to determine whether savings resulted from multiyear contracting. As agreed with your office, we compared the unit prices paid under 11 multiyear contracts with the unit prices paid under prior annual contracts and obtained the views of DOD officials on the reasons contract prices changed. Our results are summarized below and discussed in detail in appendix I.

The effect on cost or price of using multiyear contracting instead of a series of annual contracts cannot be quantified because of a variety of factors. Among these factors are quantity changes, schedule changes, engineering or design differences, the differences in the competitive environment when the contracts were awarded, and cost reductions resulting from "learning" during earlier production. Our comparisons are not conclusive because price changes resulting from some of the factors listed above could also contribute to the price differences. Nevertheless, our comparisons disclosed that, in most cases, unit prices¹ were lower for multiyear contracts than for prior annual contracts.

When compared to the prior year annual contract unit prices, multiyear unit prices ranged from 26.5 percent to 0.2 percent lower for eight contracts and 10.3 percent to 2.4 percent higher for three contracts. When compared to the previous 2 years average annual unit prices, multiyear prices ranged from 27.9 percent to 2.6 percent lower for 9 of the 11 contracts and 9.4 percent to 3.2 percent higher for the remaining 2 contracts. Overall, the average unit price change for the 11 multiyear contracts was a reduction of 7.8 percent from the prior annual year contracts and 9.9 percent from the average of the two prior annual year contracts.

¹Unless specified, all price data in this report are in constant 1985 dollars.

Table 1 compares the unit prices for the 11 multiyear contracts we reviewed with unit prices for the prior annual contract and for the previous two annual contracts.

Table 1: Schedule of Average Unit Prices

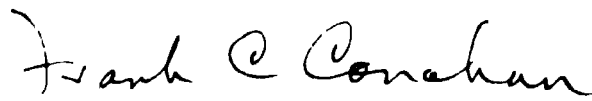
(constant year 1985 dollars)

Multiyear contracts	Multiyear contract		Annual Contracts				Multiyear contract unit price variance from annual contracts			
	Annual quantity	Unit price	Previous 2 years		Prior year		Previous 2 years		Prior year	
			Average annual quantity	Unit price	Quantity	Unit price	Amount	Percent	Amount	Percent
Bradley										
Turret drive	601	\$77,147	502	\$83,073	601	\$77,270	\$-5,926	-7.1	\$-123	-0.2
TOW subsystem	600	206,721	500	219,703	600	187,433	-12,982	-5.9	+19,288	+10.3
Power control unit	618	17,257	500	23,339	600	22,604	-6,082	-26.1	-5,347	-23.7
Transmission	617	95,753	564	92,790	600	87,613	+2,963	+3.2	+8,140	+9.3
M-1 gunner's auxiliary sight	840	6,485	729	6,655	800	6,683	-170	-2.6	-198	-3.0
M-1 laser range finder	626	138,402	586	191,849	657	188,260	-53,447	-27.9	-49,858	-26.5
T-700 engine	518	484,200	257	526,300	291	545,000	-42,100	-8.0	-60,800	-11.6
UH-60A helicopter	98	3,020,000	90	2,760,000	85	2,949,000	+260,000	+9.4	+71,000	+2.4
AN-SSQ-36 sonobuoy	31,714	125	25,902	163	22,530	161	-38	-23.3	-36	-22.4
MK-46 torpedo	1,068	158,400	288	192,900	288	194,000	-34,500	-17.9	-35,600	-18.4
F-16 airframe	178	4,660,000	178	4,790,000	180	4,740,000	-130,000	-2.7	-80,000	-1.7
Average percentage change									-9.9	-7.8

To conduct our audit work, we (1) examined production contracts and extracted outlay spending figures, (2) obtained explanations from DOD officials as to why contract prices changed, and (3) visited weapon system program offices to discuss our results. Details on our objectives, scope, and methodology are presented in appendix II.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of issue. At that time, we will send copies to the Secretaries of Defense, the Army, Navy, and Air Force, as well as to other interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Assistant Comptroller General

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Abbreviations

DOD Department of Defense