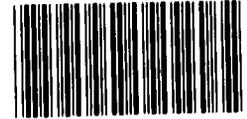




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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548



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MISSION ANALYSIS AND  
SYSTEMS ACQUISITION DIVISION

B-200766

**RESTRICTED** — Not to be released outside the General Accounting Office without the specific approval of the Office of Congressional Relations. **DECEMBER 30, 1982**

**RELEASED**

The Honorable Robert J. Dole  
United States Senate

Dear Senator Dole:

Subject: Cost Information Presented to the Congress  
on the C-5B Aircraft Program (GAO/MASAD-83-5)

Your letter of October 6, 1982, requested that we determine whether or not the C-5B cost data provided by the Air Force to the Congress during the fiscal year 1983 authorization process were the most current available.

We examined the Air Force cost estimates for the C-5B program and other documents relating to these estimates. We discussed the cost estimates and the policies, procedures, and regulations pertaining to reporting cost estimates to the Congress with the Air Force and the Office of the Secretary of Defense (OSD). Our review was performed in accordance with our "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

The President's fiscal year 1983 budget, submitted to the Congress in February 1982, included a proposal to acquire 50 C-5B aircraft at a procurement cost of \$8.8 billion. The Air Force notified the Congress in August 1982 that the C-5B procurement cost estimate had increased to \$10 billion. The increase of \$1.2 billion, according to Air Force calculations, consists of (1) an underestimate of \$870 million in acquisition costs and (2) a \$345 million inflation adjustment due to the slippage in planned start dates for the C-5B program. 1/

In our view, a revised cost estimate for the C-5B program could have been prepared and reported to the Congress by May 1982. We found, however, no evidence that the Air Force or OSD consciously withheld information on the projected increase in C-5B

1/Air Force calculations are based on use of March 1982 OSD inflation rates.

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acquisition costs. It was a judgment by the Air Force to report the increase when it had restructured the program.

#### COST UNDERESTIMATED

The C-5B cost estimate of \$8.8 billion supporting the fiscal year 1983 budget was understated by about \$700 million at the time the budget was submitted to the Congress in February 1982. Air Force Headquarters attributes the understatement to an omission of certain acquisition costs (ground support equipment, simulators, technical data, etc.) from its estimate.

Of the \$8.8 billion estimated procurement cost reported in the fiscal year 1983 budget, \$8.2 billion <sup>1/</sup> was for the C-5B aircraft and add-on acquisition costs. Air Force Headquarters officials said that the \$8.2 billion estimate in the budget was developed from a \$5.0 billion base-year (1980) estimate and using January 1982 inflation rates. The cost estimate prepared by the Air Force's Aeronautical Systems Division also showed an \$8.2 billion C-5B procurement cost but was calculated using a \$5.4 billion base-year estimate and July 1981 inflation rates. Because both Air Force Headquarters and Aeronautical Systems Division estimates were about the same in then-year dollars, Air Force Headquarters officials said that it was not immediately apparent to them that there was a problem with the cost estimate reported to the Congress.

Although as early as February 17, 1982, cost estimates by the Aeronautical Systems Division showed C-5B costs to be higher than the fiscal 1983 budget estimates, Air Force Headquarters officials said that they did not realize that there might be a problem with the cost estimate used in the budget until late April 1982. On April 21, 1982, the Air Force Systems Command notified Air Force Headquarters that the estimated cost of the C-5B program was more than was included in the President's budget and that, if funding could not be adjusted during the budget process, the directed C-5B program could not be achieved.

Air Force Headquarters officials said that when it was determined in late April that there was a difference between its base-year dollar estimate (\$5.0 billion) and the Aeronautical Systems Division base-year estimate (\$5.4 billion), they researched the cause of the difference. According to these officials, the time between April and July 1982 was spent determining what constituted the \$400 million difference in base-year cost estimates and whether the cost estimate for the C-5B program would need to be changed. It was also during this time when it became apparent that a C-5B program start would slip significantly.

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<sup>1/</sup>Excludes initial spares.

PROGRAM SLIPPAGE

The proposed C-5B funding and aircraft delivery schedules assumed the use of fiscal year 1982 funds for an April 1982 program start. The Congress had not approved funds for the C-5B proposal by this anticipated start date. According to Air Force officials, when the April 1982 start date passed they determined that if a June 1, 1982, start date could be met, the cost increase would be negligible. However, they said that when funds had not been approved by June 1982, they knew the program would slip significantly. The slip from April 1982 to November 1982 caused a further increase in the cost estimate due to inflation because the aircraft delivery schedule was extended.

During the time when the Air Force Headquarters became aware of a problem in the original cost estimate on the C-5B and when it was evident in June 1982 that a significant slip had occurred in the program start, the Air Force was developing its program proposals for its fiscal year 1984 budget. The Air Force prepared new estimates for the C-5B program shortly after receiving a revised fiscal guidance from OSD in late July 1982. According to Air Force Headquarters officials, it was not until early August that they could clearly determine what the C-5B program would cost, as restructured within OSD fiscal guidance, considering both the underestimated acquisition costs and the program slippage to a November 1982 start.

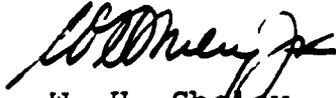
On August 6, 1982, the Secretary of the Air Force formally reported to congressional authorization committees that the C-5B cost estimate was \$1.2 billion higher than reported in the fiscal year 1983 budget. The administration's airlift acquisition proposals had been the subject of considerable congressional debate during the March-August 1982 authorization process. At the time the Air Force notified the authorization committees, House and Senate conferees were meeting to resolve differences in Defense authorization bills. The conferees completed their work on August 16, 1982, and the Congress passed the 1983 Defense Authorization Act on August 18, 1982. Thus, it appears that the authorization committees were aware of the \$1.2 billion program increase before taking final action in conference.

As requested by your office to provide a timely response, we did not obtain written Department of Defense comments on this report. We discussed the matters in this report with OSD and Air Force officials and have considered their comments in preparing this report.

As arranged with your office, unless the contents are publicly announced earlier, we plan no further distribution of the report until 10 days from the date of this report. At that time,

we will send copies to interested parties and make copies available to others upon request. We trust that the report is responsive and we would be pleased to provide further information on these matters if you wish.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "W. H. Shelley, Jr.", written in dark ink.

W. H. Shelley, Jr.  
Director