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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548



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LOGISTICS AND COMMUNICATIONS
DIVISION

B-177422

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JUN 27 1973

The Honorable
The Secretary of Defense 5

Dear Mr. Secretary:

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At the request of a congressional subcommittee, we made a limited examination into the Air Force and Navy practices and procedures for selling fuel to commercial air carriers for use in providing contract airlift services for the LOGAIR and QUICKTRANS operations. The subcommittee had been informed that commercial air carriers in the Detroit, Michigan, area may be using the military fuel in their commercial operations. 35,1

Our analysis of pertinent contracts showed that air carriers are authorized to purchase fuel for use in performing the contracted services. However, we identified weaknesses in the procedures established to control these sales which would make it possible for the carriers to obtain fuel at substantial savings for use in their commercial operations.

At the time we reported our findings, we advised the subcommittee that we would bring this matter to your attention to ensure that appropriate action is taken.

CONTRACT AIR CARRIERS AUTHORIZED
TO PURCHASE FUEL AT MILITARY RATES

There are basically two types of military contract air cargo service within the United States--the Air Force's LOGAIR and the Navy's QUICKTRANS. Contracts negotiated for

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these services authorize air carriers to purchase fuel at military bases for use in performing the contracted services in accordance with applicable military regulations.

Air Force Regulation 144-9 applies to Air Force bases, and paragraph 25320 of the Navy Supply System Command Manual applies to naval air stations. At the time of our review quantity restrictions were imposed only by the Air Force directive.¹ These restrictions applied upon completion of contract flights, at which time the quantity of fuel to be provided the carriers was restricted to an amount needed to reach one of the following desired destinations.

1. The aircraft's nearest home base.
2. The point from which, or any point short of the point from which, the terminated flight commenced.
3. The point from which another immediate contract flight was scheduled to originate.

The rates for military flights are based, in part, on the carriers being able to purchase military fuel at substantially lower prices than they would have to pay commercial sources. Air Force and Navy standard prices for grade JP-4 jet fuel are 10.7 cents and 12.3 cents a gallon, respectively. Prices charged by commercial sources vary by locality. For example, in the Detroit area the commercial price for the same grade of fuel is about 38 cents a gallon, not including State taxes.

¹After we brought this matter to the attention of the Department of Navy, the Navy manuals were revised to include identical quantity restrictions.

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NEED TO IMPROVE PROCEDURES TO PREVENT
UNAUTHORIZED PURCHASE OF MILITARY FUEL

Although Air Force and Navy directives describe the forms of identification acceptable for identifying contract aircraft, we found that no provisions are made for determining the actual flight status of contract aircraft at the time fuel purchases are made.

Aircraft operating under the terms of the contracts for LOGAIR and QUICKTRANS cargo services are identified by certificates of operations. These certificates are signed by the contracting officer and indicate the tail number of the aircraft, the type of service involved, and the contract under which the operations are being performed. The certificates are generally prepared at the time the cargo airlift contracts are awarded. The certificates are issued for each aircraft designated to perform the services contracted for, even though the contractors are not required to use these aircraft exclusively for the contract operations. These same aircraft are used intermittently for commercial operations.

The certificates of operation do not provide information concerning the actual flight status of the aircraft when fuel is being purchased, and the aircraft operators are not required to provide such information in any other form. We believe this information is essential not only to comply with the quantity restriction imposed by the Air Force at the termination point of contract flights but also to preclude the carriers' purchasing fuel at the lower military rates for aircraft being used in commercial activities.

Because of the time-consuming nature of the work, we did not attempt to determine the extent to which the airlift carriers may have used low-cost military fuel for their commercial flights. However, we found that during fiscal year 1972 the Air Force sold over 36 million gallons of fuel to

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the carriers participating in the LOGAIR system. If only one percent of this fuel was used in the carriers' commercial operations, the carriers could have saved approximately \$100,000.

AGENCY ACTIONS

Officials at the Air Force Logistics Command, Wright-Patterson Air Force Base, Ohio, and the Navy Materiel Transportation Office, Norfolk, Virginia, (headquarters for LOGAIR and QUICKTRANS, respectively) acknowledged to us the inadequacies of the identification procedures.

As a result of our inquiries, Air Force officials have reemphasized to the contract carriers for LOGAIR the requirement to limit purchases of fuel to the extent authorized by the contracts. They advised the base fuels managers at all LOGAIR-serviced installations to make every effort to establish the flight status of all contract aircraft purchasing fuels to ensure compliance with existing regulations.

Navy officials have revised their manuals to clarify the instructions concerning the amount of fuel to be sold to the carriers. In addition, the carriers for QUICKTRANS were advised to limit purchases of fuel to the extent authorized by the contracts.

CONCLUSIONS AND RECOMMENDATIONS

We believe that the Government's transportation costs have not been affected by air carriers' possible misuse of military fuel. However, by purchasing the fuel from the military departments, the carriers could have achieved greater profit margins in their commercial operations and possibly could have enjoyed an unfair competitive advantage over noncontract carriers vying for commercial cargo. In addition, the military departments could have been subjected to criticism from the State governments for tax losses, since

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State taxes are not collected on the sale of petroleum products by the military.

We therefore recommend that you review the effectiveness of the actions taken by the Air Force and Navy to ensure that adequate controls are established to preclude the unauthorized sale of fuel at all military installations. We would appreciate being advised of the results of your review.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. J. Shapiro".

for J. K. Fasick
Director