



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

January 31, 1978

IN REPLY  
REFER TO: B-115398

The Honorable Melvin Price  
Chairman, Committee on Armed Services  
House of Representatives

Dear Mr. Chairman:

Pursuant to our responsibilities under the Impoundment Control Act of 1974, we have been closely monitoring Department of Defense (DOD) efforts to restart production activities in the B-1 bomber program. The purpose of this letter is to inform you of our latest findings and conclusions with respect to the program.

On December 27, 1977, we sent a letter to the Secretary of Defense requesting a statement of DOD's progress and plans concerning B-1 bomber production activities. By letter dated January 18, 1978, copy enclosed, we received the DOD reply. Based upon the information we have obtained from DOD and our independent review of the situation, the pertinent facts may be summarized as follows.

When the Congress failed to act favorably on the President's request to rescind \$462 million in budget authority determined to be excess to DOD needs as a result of the decision to terminate production of the B-1 bomber, the funds were made available for obligation and DOD began taking steps to utilize the budget authority. Initially, DOD embarked on determining those actions needed to restart B-1 bomber production. To fund these "restart planning" activities, DOD released for expenditure \$88,000 in the month of October and \$100,000 in the month of November. The \$188,000 was obtained from the \$462 million proposed, but rejected, for rescission.

The Department of the Air Force released \$2 million during December for formulation of a formal proposal to begin B-1 production activities. And, for January 1978, the Department of the Air Force obligated \$3.5 million for the program. DOD plans to further increase the amount of funding for proposal formulation for the month of February. The Department of Defense estimates that it will take about 3 months after the formulation of the proposal in order to definitize a contract for B-1 bomber production.

Incident to the Department's proposal formulation efforts, we understand that the contractor has provided firm commitments to the Air Force confirming its estimate of the cost to complete aircraft five and six. As of January 18, 1978, the Secretary stated that there was about a \$200 million difference between the contractor's estimate and the Government's estimate of the cost to complete two aircraft and uncertainty regarding the specifics of the aircraft program. We discussed these points with representatives of Rockwell. Rockwell agrees that there do remain for resolution several matters affecting the price and specifications of future B-1 bombers. Rockwell states that its firm commitments are lower than comparable estimates of DOD and that a significant portion of the difference in the cost estimates is attributable to a disagreement over whether certain costs should be considered production costs (and, therefore, included in the contract to build additional B-1 bombers) or research and development costs to be included in the existing research and development contracts. The contractor's officials also stated that one item to be clarified concerns the technical requirements for future B-1 bombers with regard to Cruise Missile carriage. Rockwell anticipates that such requirements would be defined by means of routine engineering change proposal activity under the existing development contract. In view of the above, the Department intends to determine the accuracy of the contractor's estimate prior to reaching an agreement regarding a ceiling on the contract price and resolve the matters relating to the specifications of the B-1. Until the parties agree upon a ceiling price and finalize the contract, actual production activities will not resume.

In view of these developments and the absence of a defined contract containing the costs and exact specifications of future B-1 bombers, DOD states that it would be imprudent to obligate funds at a faster rate than the Department has done thus far.

Section 1012(b) of the Impoundment Control Act provides that budget authority proposed to be rescinded shall be made available for obligation in the event the proposed rescission is not approved by the Congress. In our view section 1012(b) requires the executive branch to exert reasonable efforts to utilize the budget authority, taking into consideration sound financial practices.

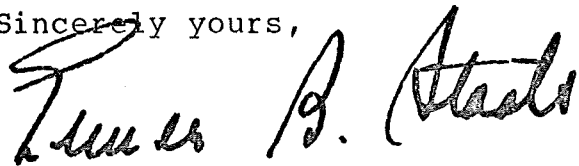
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Our review of the DOD activities does not reveal any actions that are inconsistent with the Act's requirements. In view of the facts presently available to us, we believe that DOD has acted reasonably in its efforts to resume production activities and to utilize the budget authority. Thus we conclude that there does not exist an impoundment of budget authority in violation of the Act's requirements.

We intend to continue to monitor DOD's efforts with respect to the B-1 bomber program. We appreciate your interest in this matter and will inform you of further developments and findings, as appropriate.

Copies of this letter are being provided to those Members of Congress who have expressed interest in this matter.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Thomas B. Stach". The signature is written in a cursive, flowing style with a large initial "T".

Comptroller General  
of the United States

Enclosure