COMPTROLLER GENERAL'S REPORT TO THE CONGRESS INCREASED USE OF GENALCIAL DATA AND AN IMPROVED TARIFF SYSTEM NEEDED BY THE MILITARY AIRLIFT COMMAND

Department of the Air Force B-133025

<u>DIGEST</u>

WHY THE REVIEW WAS MADE

The Military Airlift Command (MAC), Department of the Air Force, provides air transportation for all military and certain civilian agencies. An industrial fund system is used whereby MAC is paid by its customers for a significant part of the expenses it incurs in providing services. In fiscal year 1970 the fund incurred expenses and collected revenue amounting to almost \$1 billion.

The General Accounting Office (GAO) audited the Airlift Service Industrial Fund to determine whether financial information and the tariff system were being used by airlift managers to maintain an economical airlift service.

FINDINGS AND CONCLUSIONS

<u>Use of financial data</u>

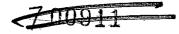
Decisions regarding the initiation, expansion, and continuation of service over established routes are made by Headquarters, Air Force, and MAC airlift managers on the basis of operations information but without considering financial data.

For example, revenue and cost data were not considered by airlift managers before a request for weekly service to Woomera, Australia, was approved in June 1970. GAO, using data available to MAC, found that a weekly flight between Travis Air Force Base, California, and several locations in Australia earned about \$144,000 and cost slightly over \$305,000 during a recent 3-month period, or a projected annual loss of about \$643,000. (See p. 11.)

GAO recognizes that a military requirement might be the overriding factor in approving an additional route. Financial data should be available to managers and customers, however, so that they will be fully aware of the financial consequences of their decisions.

Need for an improved tariff system

The tariff rates established (one for passengers and one for cargo) to reimburse the fund do not differentiate between high- and low-cost services. As a result it is not possible to bill a customer for the approximate costs incurred by MAC in providing the services. For example, one flight, of which the Navy was a principal user, was incurring a projected annual loss



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of \$469,000, while another flight, of which the Army was the principal user, was resulting in a projected annual gain of \$481,000. This may result in using the appropriation of one agency to subsidize that of another. (See pp. 19 to 21.)

Fund can be of greater assistance to managers

GAO believes that, in general, the fund has been used solely as a device to finance airlift services. Other important benefits could be gained by managers through the use of the fund. For example, the fund should provide:

- --Airlift managers with data on costs and associated revenues by manageable segments of operations. Managers then would have meaningful financial information which should be considered, along with military requirements, in the process of deciding whether services should be initiated, expanded, or continued. Data are not presently compiled and used in this manner.
- --A tariff system in which the rates charged more closely approximate the cost of providing services. Because the fund now uses only two tariff rates, the amounts billed to customers are not commensurate with the cost of services rendered. Therefore customers may be precluded from making prudent transportation decisions which would include consideration of alternatives.

GAO believes that significant benefits would be possible if the Department of Defense (DOD) directive governing industrial funds were revised to show more clearly the specific objectives and purposes of industrial funds.

Rejection of bills by the Navy

For over 5 years the Navy has been rejecting bills by the fund for significant amounts for temporary duty travel, primarily because the Navy lacks an effective system for verifying charges. The rejection of bills by the Navy delays payments and deprives the fund of needed operating cash. As of June 30, 1970, the balance of the Navy's rejected bills amounted to \$3.85 million. DOD advised GAO that the Navy issued instructions in April 1971 providing guidance to improve its system for verifying charges. GAO believes that the newly issued instructions, if implemented properly, should minimize the problem. (See pp. 25 to 29.)

RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that the Secretary of Defense:

- --Require the Air Force to compile available financial data by identifiable operational segments of airlift established routes and to distribute these data to managers for their use in airlift services management. (See p. 15.)
- --Direct the Air Force to make a study to determine the feasibility of devising and implementing a tariff system in which the rate more closely approximate the cost of services. (See p. 23.)

--Revise the DOD directive to show more clearly the objectives and purposes of industrial funds. Emphasis should be given to the important benefits managers can obtain through the use of the fund. (See p. 15.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD agreed with GAO's recommendation concerning the reporting and use of cost and revenue data for consideration in decisions regarding the initiation, expansion, and continuation of service. It preferred, however, to delay implementation of the recommendation until a new financial management system became operable in fiscal year 1975. GAO sees no need to wait until 1975 because the present accounting system contains data that could be used now by MAC management in maintaining an economical airlift system.

DOD agreed in principle with GAO's recommendation that having tariff rates more closely aligned with the cost of providing services was a worthwhile goal. DOD feels, however, that it is not feasible from a practical standpoint at this time to devise and implement such a system since the costs would exceed the potential benefits. DOD said that the matter would be reevaluated by the Air Force after the new financial management system, mentioned above, had become operative. DOD has not determined the cost of operating the present tariff system, nor has DOD determined what, if any, additional cost would be incurred to devise and implement the system recommended by GAO. Since DOD did not obtain the necessary cost information to adequately evaluate the feasibility of establishing a tariff system more closely aligned with the cost of providing services, GAO is of the view that a feasibility study by the Air Force at this time is warranted.

DOD agreed also to implement GAO's recommendation to revise its industrial fund directive.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is to inform the Congress of the potential benefits to DOD by its taking immediate action to implement GAO's recommendations rather than waiting until fiscal year 1975.

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