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

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Dear Mr. Chairman:

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Congressman John D. Dingell received information from one of his constituents suggesting that commercial air carriers in the Detroit, Michigan, area may be using military fuel for their commercial operations. He directed the information to the attention of your subcommittee, and on September 14, 1972, you requested the General Accounting Office to review the matter.

Our analysis of pertinent contracts showed that air carriers are authorized to purchase fuel at military bases when performing contract flights for the military services. During our review we identified weaknesses in the procedures established to control the sale of such fuel. These weaknesses would make it possible for the carriers to obtain fuel for their commercial flights at prices substantially lower than they could obtain from commercial sources.

CONTRACT AIR CARRIERS AUTHORIZED TO PURCHASE FUEL AT MILITARY RATES

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

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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. Quantity restrictions are only imposed by the Air Force directive. These restrictions apply upon completion of contract flights, at which time the quantity of fuel to be provided the carriers will be 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 is scheduled to originate.

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B-177422

The rates for military flights are based, in part, on the air 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. In the Detroit area the commercial price for the same grade of fuel is about 38 cents a gallon, not including State taxes.

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.

AGENCY ACTIONS

As agreed to with your staff 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, contract administration officials at the Air Force Logistics Command,

B-177422

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 re-emphasized 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 insure compliance with existing regulations.

Navy officials have advised us that they will initiate action to revise their regulations and take other necessary action to prevent the unauthorized use of military fuel for commercial purposes.

CONCLUSIONS

We believe that the Government's transportation costs have not been affected by air carrier's 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 State taxes are not collected on the sale of petroleum products by the military.

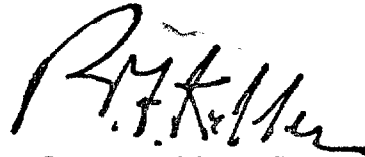
Although the actions taken or promised may correct the problem, we plan to report this matter to the Secretary of Defense and to recommend that he determine whether further action is needed to preclude the unauthorized sale of fuel at all military installations. We will also follow up on this matter to determine the effectiveness of the actions taken.

As requested by you because of time restraints, we have not obtained official comments on our findings from the Department of Defense, but we have discussed them with officials in the Office of the Assistant Secretary of Defense (Installations and

B-177422

Logistics). We will be glad to discuss this matter with you or with members of your staff.

Sincerely yours,



Deputy Comptroller General
of the United States

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The Honorable Chet Holifield, Chairman
Subcommittee on Legislative and
Military Operations
House of Representatives

Joint Committee on Atomic Energy

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