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

MISSION ANALYSIS AND  
SYSTEMS ACQUISITION DIVISION

B-206836

AUGUST 12, 1982

The Honorable John G. Tower  
Chairman, Committee on Armed Services  
United States Senate



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Dear Mr. Chairman:

Subject: Evaluation of Unit Cost Reports Submitted Under  
Public Law 97-86, Section 917 (GAO/MASAD-82-42)

As requested in your letter of February 5, 1982, we have reviewed unit cost reports for the HARM Missile and Ground Launched Cruise Missile weapon system programs. The unit cost reports were submitted to your committee by the Secretary of the Air Force on June 4, 1982, in compliance with Section 917, Public Law 97-86, Department of Defense Authorization Act, 1982. We found the reports to be reasonably complete, current, and accurate. Specific comments on each system follows. We had reported to you earlier (GAO/MASAD-82-36, May 10, 1982) on 19 unit cost reports submitted to the Congress by the Department of Defense in March 1982.

AGM-88A HARM MISSILE

The information contained in the Air Force's unit cost exception report for the AGM-88A HARM appears to be reasonable and consistent with the March 31, 1982, Selected Acquisition Report (SAR). According to project officials, the primary reason for the Air Force breach in the unit cost was the change in the service's assumption about production buildup. The Air Force had assumed a high production buildup in the March 31, 1981, SAR, but had to reduce it in the March 31, 1982, SAR. Since the total production quantity for HARM has remained constant and the changes involved production buildup rates, the reasons reported in the unit cost exception report for cost increases in escalation and schedule appear reasonable.

Although HARM is a joint Navy/Air Force program, the procurement profiles reported by the two services in the March 31, 1981, SAR were inconsistent. The Air Force based its report on a combined Air Force/Navy production of 4,614 missiles over a 3-year period beginning in fiscal year 1983. The Navy assumed a combined production of 2,332 missiles over the same period. These different assumptions resulted in combined production estimates varying

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by 2,282 missiles over the 3-year period. Project officials stated that this inconsistency resulted from a number of reasons including

- timing of the Air Force's March 31, 1981, SAR;
- separate reporting channels; and
- assumptions of a very aggressive buildup rate by the Air Force as opposed to very conservative buildup by the Navy.

The potential for additional cost growth appears high. While the unit cost exception report states that the Air Force and the Navy are jointly doing a comprehensive review which may identify additional cost growth, the March 31, 1982, SAR noted that a potential total program cost growth has been identified, but not yet quantified. Project officials stated that although the results of the cost review had not been computed, the potential does exist that the cost growth determined may result in a breach in the unit cost reported by the Navy. Project officials stated that alternatives are available and are being studied, and that until the cost review is computed, the amount of additional cost growth remains uncertain.

#### GROUND LAUNCHED CRUISE MISSILE PROGRAM

Based on our evaluation, the information provided in the unit cost exception report, dated June 4, 1982, for the Ground Launched Cruise Missile appears to reflect the position of the project office. The total program acquisition cost of \$3,911.7 million included in the unit cost exception report represents a \$725.6 million increase over the March 31, 1981, SAR; \$120.9 million of the increase is attributed to funding requirements for military construction and \$577.9 million for the procurement authorization account. It is in these areas that Air Force officials said reductions are being considered.

According to project officials, the determination of the amount of the cost growth to be reported in the unit cost report was not completed until May 7, 1982. Thus, the unit cost exception report is in error in that it should have shown May 7, 1982, and not March 31, 1982, as the date of the current total program acquisition unit cost estimate.

Project office officials stated that an independent cost group had prepared the May 7, 1982, cost estimate which they feel is representative of the program. Project officials also stated that reviews are continuing in an effort to reduce cost. They believe that the June 30, 1982, SAR will show a total program acquisition cost of \$3,784 million, a reduction of \$127 million.

We did not submit a copy of this report to the Department of Defense for comment due to time constraints.

If you have any further questions please feel free to call me.

Sincerely yours,

  
W. H. Shelley, Jr.  
Director