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STATEMENT OF

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SYSTEMS DEVELOPMENT AND ACQUISITION SUBDIVISION

BEFORE THE

SUBCOMMITTEE ON THE DEPARTMENT OF DEFENSE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ON

THE NAVY'S F/A-18 AIRCRAFT ACQUISITION PROGRAM

Mr. Chairman and distinguished members of the committee. I am privileged to present to you a brief discussion of the results of our review of the F/A-18 program. Our written report on this subject "Navy's F/A-18 Program Faces Budget Concerns And Performance Limitations As Aircraft Enter The Fleet," GAO/MASAD-83-28 was issued June 10, 1983.

In February 1982, you asked us to monitor the program's cost, schedule, and performance, and to identify potential problems. In later discussions with your staff, we were told of your concern that F/A-18 logistics support funds were being used to finance airframe cost growth and overruns. In July 1982, you asked us to refocus our monitoring effort to determine:

(1) The amount of F/A-18 support funds used to finance budget shortfalls and overruns, and the operational effect of this practice on the Navy's ability to adequately support the aircraft, and

(2) The operational test and evaluation results and the effect of performance problems on the aircraft's operational effectiveness.

In assessing F/A-18 finances, we calculated the extent to which the F/A-18's production costs were over budget, the source of funding used to cover it, and the resulting implications. We reviewed the Navy's 1979-83 budget submissions and justifications, spending execution plans, obligation/expenditure status reports, logistics support plans, and contractor cost performance reports.

To review the F/A-18's technical and operational test and evaluation results, we reviewed testing plans, test results reports, summaries and briefing materials, and discussed them with the Commander and testing staff of the Navy's Operational Test and Evaluation Force as well as with test pilots.

Between 1979 and 1982, the Congress appropriated $5.2 billion to build 157 F/A-18s and to buy the unique logistics support equipment needed to field the aircraft, not including the cost of initial spares. During that time, the cost of building the aircraft exceeded the funds budgeted for this purpose by about $310 million. This was because of the negotiated F/A-18 contract prices from 1979 to 1982 having consistently exceeded what the Navy budgeted, and the prime contractor having projected overruns on the 1979, 1980, and 1981 contracts. The Navy did not seek additional appropriations from the Congress to cover this shortfall. Instead, it used funding from within its own resources. To pay for most of the shortfall, the Navy used funds budgeted for F/A-18 logistics support, which supplied $161 million, and funds appropriated for other Navy aircraft programs which have or are projected to supply about $139 million more. As a result, executing the F/A-18 budget over the last 4 years has differed significantly from the program presented and justified to the Congress.

Using F/A-18 support funds to pay for increases in the cost of building the F/A-18 does not appear to have adversely affected the Navy's ability to adequately support the aircraft in any significant way to date. There have been delays in the F/A-18 automatic test and training equipment programs, but these

seem attributable to other causes. We did not review how using funds appropriated for other Navy aircraft programs affected these other programs.

Although logistics support does not appear to have been adversely affected, the funding practices employed by the Navy to cover increases in the cost of building the F/A-18 cause concern.

The Navy has

--twice requested and received funds for the same support items,

--used the support portion of the budget to include unidentified management reserves,

--shifted the cost of some essential support items out of the F/A-18 program, and

—avoided obtaining the approval of congressional committees by reprogramming funds after they expired. (Unobligated funds from expired accounts are available for use by the Navy for 2 additional years.)

Double budgeting of support

One reason F/A-18 logistics support was not significantly affected was that support programs were deferred to make funds available for program cost growth and later rebudgeted. In each case where this occurred, the Navy, in effect, budgeted support items twice; once to pay airframe cost growth and overruns, and a second time to actually buy the support items. In fiscal year 1980, the Navy deleted $60 million budgeted to develop the

F/A-18's radar and avionics testers and test program sets. These funds were then rebudgeted in fiscal year 1983 with no resultant funding reduction or schedule slippage. In fiscal year 1982, the Navy deleted about $74 million, most of which was to procure two Weapons Tactics Trainers. While we agree that technical problems made buying the trainers at that time unwise, FY 1982 money is available for obligation until September 1984. These funds could have been held in abeyance until the technical problems were solved. Instead, when the Navy does procure these trainers as they now intend to, their cost will have to be included in future budgets. Thus in large part, funds taken from support were passed on as future program costs. Approximately $125 million was passed on in this manner.

Management Reserves

Some funds shifted from the F/A-18 support budget were project management reserves. According to Navy officials, these reserves were not identified in the budget as such, but rather were placed in various support line items to cover unanticipated cost growth. For example, the publications line item contained over $25 million in management reserves in one year and was consistently used to fund flyaway cost growth. In fact, little more than half the $160 million budgeted for publications over four years was actually used for that purpose.

Cost Transfer

In addition to shifting support funds to alleviate budget contingencies, the Navy took longer term actions to avoid future support costs. While these costs are avoided by the F/A-18 program, some will have to be funded by increasing other budget requests. For example, the Navy reclassified certain F/A-18 ground support equipment from "peculiar" (unique to the F/A-18)

to "common" (used by two or more aircraft). The F/A-18's avionics tester has, since 1981, been funded as common support equipment. Although future aircraft may use the tester, and certain components are compatible with other testers, the F/A-18 is currently the only aircraft in the Navy's inventory that uses this tester. Because the tester is classified as common, its procurement cost is not borne by the F/A-18 program or included in the total F/A-18 program cost estimate.

Use of Other Navy Aircraft Program Funds

The Navy has or will soon shift an estimated $139 million from funds budgeted for other Navy aircraft acquisition programs to the F/A-18. As of March 1983, $68 million had been shifted and based on contractor estimates, an additional $71 million may be required. Congressional reprogramming approval was not obtained because funds used to date were transferred after the aircraft appropriations' three year availability period expired.

Because funds were used to pay obligations incurred while the appropriation was active, the Navy did not formally notify Congress on how funds from the expired account were used. Consequently when the expired APN appropriations were used, the Congress was not informed as it would have been if an active appropriation had been reprogrammed. To date, the Navy has used around $51 million from the 1979 expired account and around $16 million from the 1980 expired account for the F/A-18. Based on contractor estimates, the Navy will incur additional overruns of $19 million on the 1980 contract which it intends to take from the 1980 expired account. The contractor projects the 1981 overrun will be $52.4 million. The Navy is taking special actions to reserve funding in the 1981 appropriation to pay this overrun. First, on July 9, 1982, the Navy froze all new obligations for

all Navy aircraft procurement programs, which would normally have had until September 30, 1983, to obligate the funds. Second, the Navy is holding $50.6 million appropriated to other aircraft programs in abeyance, in what the Navy refers to as an "administrative reserve" account. Because the funds were not transferred from one program to another, but are rather being held in reerve, the Navy does not consider this to be a reprogramming action and thus not subject to congressional controls.

Our concern focuses on the lack of adequate procedures to formally notify the Appropriations /cmmittees on the use of these funds. The lack of any reporting requirements for expired funds is in sharp contrast to the tight control over reprogramming of active appropriations.

F/A-18 TESTING ISSUES

In March 1983, the Secretary of Defense approved full production of the F/A-18 to fulfill the Navy's light attack mission. This action followed an independent evaluation by the Navy's Operational Test and Evaluation Force made from May to October 1982. The independent testers noted several deficiencies, the range of the aircraft being the most serious. Based on several factors, the testers recommended that service-use-approval of the F/A-18 for the Navy's light attack mission not be granted. The Navy believes that the problems identified in the operational test and evaluation have been or will be corrected. The Navy's independent testers stated in their report that unless a resolution is found for the F/A-18's demonstrated range limitations, the capabilities the Navy will gain in replacing the A-7 with the F/A-18 will not offset the capabilities the Navy will lose. The Deputy Secretary of Defense and the Navy have also stated that enhancing the

F/A-18's operational range is required for long-range wartime attack interdiction missions and peacetime carrier training operations.

The Navy considered two options to enhance the F/A-18's problems. On April 6, 1983, the Department of Defense told GAO it had decided to provide aerial refueling to resolve F/A-18 range limitations. Based on the limited assessment we've made of this option since then, we have some concerns about the feasibility of aerial refueling.

Current fleet aerial refueling assets are not adequate to support the additonal refueling requirements imposed by the F/A-18. The Navy has stated that to support the F-14 and F/A-18 in peacetime carrier operations, seven KA-6 or A-6E tanker configured aircraft would be required. In its written response to our report, DOD stated one additonal A-6E medium attack aircraft would be added to the carriers.

To achieve the seven tanker designated aircraft needed, the Navy can use any of the ten A-6Es on board as tankers by adding appropriate external fuel tanks. This, however, reduces the number of A-6Es available for medium attack mission requirements. It is our understanding that the Navy has recently deployed a fifth KA-6D tanker on a carrier because of KA-6D reliability and maintainability problems. If reliability and maintainability problems persist and more A-6Es are used as tankers, an even greater shortfall in carrier medium attack capabilities would occur.

In addition, A-6E procurement rates may not be adequate to support the additional tankers that F/A-18 deployment will require. In June 1982, the Navy stated that providing five A-6

tanker designated aircraft per carrier would necessitate procuring A-6Es at an annual rate of 18 through the 1980's. The Navy's FY 1984 budget requests an annual procurement rate of just six in 1984 and 1985. We did not evaluate the number of tanking aircraft which will be needed to be procured annually to support the F/A-18, but it does appear that a substantial new investment may be required.

FLEET INTRODUCTION

The F/A-18 entered fleet service in 1983 as the first three Marine Corps squadrons began receiving their aircraft. These squadrons are scheduled to receive all their aircraft by August. The squadrons will train during 1983, and two of them will begin reporting combat readiness in January 1984. Two areas may limit the F/A-18's operational effectiveness and supportability as the aircraft enters fleet service. First, effective F/A-18 deployment depends on successfully developing a new generation of electronic warfare systems. These systems are experiencing some problems.

The F/A-18 is to be equipped with the ALR-67 radar warning receiver and the HARM system. The ALR-67's technical evaluation, done in early 1982, revealed several significant deficiencies including low system reliability. The Navy believes most of the deficiencies have been corrected; however, these corrections were not extensively flight tested before operational evaluation began in January 1983.

In addition to technical problems, the F/A-18 electronic warfare program schedules are tight and may slip. Even if they

do not, EL Toro's Marine squadrons will not have electronic warfare capability when they begin reporting combat readiness in 1984.

Second, technical and schedule problems have delayed the development and delivery of equipment needed for the Navy to take over F/A-18 logistics support from its contractors. As a result, the F/A-18 is now entering fleet service largely dependent on contractor support. The Navy believes that by the end of this year, Navy personnel will be able to repair 40 percent of the aircraft's avionics repairable components. During 1984, the Navy expects this capability to increase to 60 percent, and to 90 percent when the first F/A-18 deploys aboard a carrier in early 1985. They expect full capability will be achieved in late 1985, with the single exception of one newer piece of equipment.

SUMMARY

In summary, although we found that the Navy's funding actions did not adversely affect its ability to adequately support the aircraft, we have concerns. As a result of the shifting of F/A-18 support funding, the execution of the F/A-18 budget over the last four years has differed significantly from the budget submitted and justified to the Congress. The Navy's practices has made it difficult to understand which funds are being used to buy what. We believe that as the system matures and fixed price type contracts are negotiated that these practices should be minimized. Our long range concern is whether these kinds of practices can be controlled by the Navy in future development programs.

With regard to performance concerns and the deficiencies identified by the Navy's independent testers, it would appear

that the Navy does have most of the technical problems under control. While the Navy's proposed solution of providing aerial refueling may be viable, we are concerned that the necessary budgetary adjustments have not been made to accomplish the requirements and may not be feasible within available Navy resources. Also, risks are still involved in this programin that it is dependent on the successful development of a new generation of electronic warfare systems and the Navy's ability to take over the maintenance of the F/A-18. If the deficiencies are corrected, the electronic warfare systems are developed and maintenance take over is successful then we believe the Navy will have an effective and capable weapon system. But a lot still as to happen before this assessment can be made.

We appreciate the opportunity to appear before this committee and will try to respond to any questions you or the members may have.

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