



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

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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

NOVEMBER 27, 1984

B-206613

The Honorable Joseph P. Addabbo
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives



Dear Mr. Chairman:

Subject: Cost Projections For The B-1B Bomber Program
(GAO/NSIAD-85-15)

On February 2, 1984, you asked us to review the Department of Defense report on B-1B cost projections, made pursuant to section 1240 of the 1984 Department of Defense Authorization Act. You requested our assessment before the scheduled March 1984 hearings. In addition, you requested periodic reports on the status of the B-1B program based on our review of contractor proposals and/or negotiated multiyear contracts.

We met with your office on February 27, 1984, to provide information about Defense's assessment of the B-1B cost estimate. Subsequently, we provided information on various B-1B issues. On June 15, 1984, we briefed your office on the following B-1B program areas:

- Key events remaining in the program.
- Results of multiyear negotiations with the General Electric Company.
- Contract cost and schedule performance.
- Office of the Secretary of Defense and Air Force analyses and projections of cost and funding requirements.
- Basis of cost growth in past acquisitions and their relationship with the B-1B program.
- Program budget reserves.
- Testing.

In early September, your office expressed interest in having more detailed cost and funding information relative to the General Electric Company multiyear contract and B-1B conversion kits for the Common Strategic Rotary Launcher (CSRL). That information, which has already been provided to your office informally, is summarized below.

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In July 1984, the Air Force awarded a \$1.6 billion multiyear contract to the General Electric Company for 428 B-1B engines. A comparison shows the July 1984 contract value to be about \$352 million less than the B-1B budget estimate dated September 1983, which was used to support the fiscal year 1985 budget. The following chart provides a fiscal year breakout of the budget estimate for engines compared with the engine funding schedule based on the negotiated contract.

Basis for the funding schedules	Fiscal year				TOTAL
	1983 ^a	1984	1985	1986	
	------(millions ^b)-----				
Budget estimate	\$ 18.2	\$511.6	\$872.5	\$560.2	\$1,962.5
Contract (includes the most cost-effective warranty option)	<u>103.0</u>	<u>317.2</u>	<u>674.3</u>	<u>516.4</u>	<u>1,610.9</u>
Difference	<u>\$-84.8</u>	<u>\$194.4</u>	<u>\$198.2</u>	<u>\$ 43.8</u>	<u>\$ 351.6</u>

^aAdvanced buy funding.

^bThen year dollars.

B-1B program officials stated that although the contract was negotiated for about \$352 million less than the budget estimate, the funds were not excess. Multiyear contracts for the three remaining associate contractors have not yet been awarded. These remaining three contracts account for about 82 percent of the value of the B-1B multiyear effort and negotiations could result in values higher than current budget estimates for these efforts. Therefore, program officials maintain that funding requirements cannot be accurately measured until all the B-1B multiyear contracts are awarded.

Regarding the CSRL conversion kit, the Air Force plans to buy 102 kits so that CSRLs installed in B-52H bombers can be eventually transferred to B-1B bombers. About \$90 million of B-1B production funds are planned for these kits, of which \$8.3 million was approved in fiscal year 1984, \$31.6 million was requested in fiscal year 1985, and the balance is to be requested in fiscal year 1986. Most of these conversion kits would be delivered in the late 1980s but are not expected to be used until the mid- to late-1990s when CSRLs are scheduled to be transferred to the B-1Bs. Air Force officials told us conversion kits are to be acquired in the next several years instead of the mid-1990s because they are included in the B-1B baseline production program. They believe it would be very difficult to change the B-1B program baseline and obtain additional production funds in the 1990s.

We are not planning further review work on the B-1B program until the Air Force completes all multiyear contract negotiations. Current Air Force plans call for multiyear contract awards to the Rockwell International Corporation in

December 1984 and the AIL Division of Eaton Corporation and the Boeing Military Airplane Company in March 1985. Until these contracts are awarded, information will not be available that would allow us to form a conclusion on total B-1B costs or fiscal year funding requirements.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed the B-1B Program Office cost estimate, the Air Force and the Office of the Secretary of Defense analyses of this estimate, program budget and funding requests, and test plans and available test results. We also reviewed cost and schedule performance at the Rockwell International Corporation and the AIL Division of Eaton Corporation and multiyear contract information relative to the General Electric Company. As requested by your office, we did not obtain official agency comments on this report; however, we did discuss its contents with program officials and have incorporated their views where appropriate.

Our review was conducted in accordance with generally accepted government auditing standards.

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We are sending copies of this report to the Chairmen, Senate Committees on Appropriations, Armed Services, and Governmental Affairs and House Committees on Appropriations, Armed Services, and Government Operations; the Director, Office of Management and Budget; and the Secretaries of Defense and the Air Force.

Sincerely yours,



Frank C. Conahan
Director