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United States General Accounting Office

GAO

Report to the Chairmen, House and Senate Committees on Appropriations

November 1987

MILITARY AIRLIFT

C-17 Wing Competition Fair, but Savings Lower Than Air Force Estimates

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National Security and
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November 13, 1987

The Honorable John C. Stennis
Chairman, Committee on Appropriations
United States Senate

The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives

In September 1986, Douglas Aircraft Company, McDonnell Douglas Corporation, prime contractor for the Air Force's C-17 aircraft, decided to subcontract a major portion of the C-17 wing components rather than make them itself. The House of Representatives directed the Air Force to report on the cost savings resulting from the decision to compete the C-17 wing components. We were asked to provide an independent assessment of the fairness of the competition and of the Air Force's analysis of the resulting cost savings. This report summarizes the results of our review.

We are sending copies of this report to the Chairmen, House and Senate Committees on Armed Services; the Secretaries of Defense and the Air Force; the Director, Office of Management and Budget; and other interested parties upon request.

Frank C Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

In September 1986, Douglas Aircraft Company, McDonnell Douglas Corporation (Douglas), prime contractor for the Air Force's C-17 aircraft, decided to subcontract a major portion of the C-17 wing components rather than make them itself. The House of Representatives directed the Air Force to report on the savings resulting from the decision to compete the C-17 wing components. GAO was asked to provide an independent assessment of the fairness of the competition and of the Air Force's analysis of the resulting cost savings.

Background

The C-17 aircraft is being developed by the Air Force to provide additional inter-theater (from one theater of operation to another) and intra-theater (operations within a theater) airlift capabilities. It is being designed to fly the full range of military cargo into a wide variety of airfields. The Air Force currently plans to acquire 210 C-17 aircraft at an estimated cost of about $35 billion (in then-year dollars).

The prime contract for the C-17 was awarded to Douglas in 1982. It is a fixed-priced incentive fee contract that provides for a $4.1 billion Full Scale Engineering Development (FSED) program and includes the fabrication of one test aircraft and other test articles. The total value of the contract is $6.3 billion.

During consideration of the fiscal year 1987 defense budget request, the House Committee on Appropriations expressed concern about the cost effectiveness of having Douglas manufacture the C-17 wing. In September 1986, in response to these concerns, Douglas decided to subcontract a significant portion of the C-17 wing.

In November 1986, Douglas solicited proposals for the wing components. Three companies submitted proposals. On May 22, 1987, Douglas announced that Lockheed-California Company, Burbank, California, was the winner of the C-17 wing components competition. The subcontract value was $350 million (in then-year dollars).

Results in Brief

Douglas held a fair and adequate competition for the C-17 wing components. However, the Air Force's estimate of savings resulting from the competition is overstated by about $18.8 million.

Principal Findings

Competition Adequate and Fair

The Air Force monitored the C-17 wing components competition and on November 5, 1987, reported to the Senate and House Committees on Appropriations that (1) Douglas conducted a "complete, fair, and reasonable" competition and (2) a savings to the government of $77.3 million resulted from the competition.

GAO believes that the C-17 wing components competition was adequate and fair. GAO found that Douglas conducted the competition using source selection procedures which are part of an Air Force approved purchasing system. (See ch. 2.)

Air Force Savings Overstated

GAO believes that the Air Force's estimate of the savings resulting from the competition is overstated by about $18.8 million because the Air Force did not make all the necessary adjustments to Douglas' costs to reflect the most probable savings to the government. (See ch. 3.)

Disposition of Savings

The Air Force and Douglas agreed that any savings resulting from the wing components competition would not be removed from the prime contract through renegotiation and that there would be no change in contract cost, price, or profit. This treatment of the savings is in accordance with the provisions of the prime contract which allows Douglas to change its make-or-buy plan and share any resulting savings with the government. The Air Force and Douglas also agreed that the savings resulting from the wing competition would be placed in a separate C-17 account. (See p.24.)

Recommendation

GAO recommends that the Air Force consider GAO's adjustments in determining the amounts to be placed in the separate C-17 account.

Agency and Contractor Comments

GAO did not obtain official Department of Defense comments on its report, but it discussed its findings with Air Force and Douglas officials. Douglas officials agreed with GAO's conclusion on the fairness of the competition and on the adjustments to the Air Force's estimated cost savings. Air Force officials agreed with GAO's conclusion on the fairness of the competition and that GAO had a reasonable basis for its adjustments to the Air Force's estimated cost savings.

Contents

Abbreviations

AFPRO	Air Force Plant Representative Office
FSED	Full Scale Engineering Development
GAO	General Accounting Office
RFP	Request For Proposal
SSB	Source Selection Board