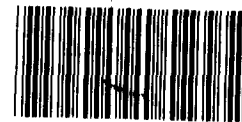
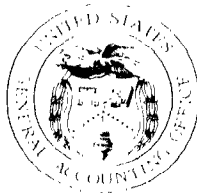


November 1990

AIR FORCE BUDGET

Potential Reductions to Fiscal Year 1991 Stock Fund Budget



142648

**National Security and
International Affairs Division**

B-241112

November 15, 1990

The Honorable John P. Murtha
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

As requested, we reviewed selected aspects of the Air Force's fiscal year 1991 stock fund budget to identify potential reductions for your consideration. As agreed with your staffs, we concentrated our review on that portion of the Air Force's stock fund budget pertaining to aircraft spare parts. In June and July 1990, we briefed your staffs on the preliminary results of our review.

Results in Brief

We identified potential reductions and rescissions totaling \$1,088.2 million: \$995.3 million in potential reductions to the 1991 stock fund budget and \$92.9 million in potential rescissions to fiscal year 1990 appropriated funds for aircraft spare parts. The major reasons and associated dollar amounts for these potential reductions and rescissions are shown in table 1 and discussed in detail in appendix I.

Table 1: Potential Reductions and Rescissions

Dollars in millions			
Reason for reduction/rescission	Fiscal year		Total
	1991	1990	
Decrease in budgeted flying hours	\$275.8 ^a	0	\$275.8
Buy computations did not consider available assets	199.2	0	199.2
Increased costs for spare parts safety levels not justified	170.0 ^a	0	170.0
Unjustified upward funding adjustment	137.4 ^a	0	137.4
Unjustified foreign military sales additive	61.1 ^a	59.7	120.8
Unrequired war reserve material	90.3	0	90.3
Request to pay back the "M" account	79.3	0	79.3
Premature buy requirements	0	33.2	33.2
Unrequired B-1B defensive avionics system spares	33.1 ^a	0	33.1
Duplicate budgeting and funding	8.8 ^a	0	8.8
Unrequired B-2 aircraft spares	7.7 ^a	0	7.7
Understatement of disallowed buy requirements	2.2 ^a	0	2.2
Subtotal	1,064.9	92.9	1,157.8
Minus 10 percent stock fund conversion discount ^a	- 69.6		- 69.6
Total	\$995.3	\$92.9	\$1,088.2

^aThe Department of Defense's Comptroller's Office discounted the Air Force's fiscal year 1991 budget for peacetime aircraft replenishment spares by 10 percent to reflect anticipated savings associated with the conversion from procurement appropriation funding to stock funding. Accordingly, we applied a 10-percent offset to that portion (\$696.1 million) of our identified reductions applicable to the fiscal year 1991 peacetime aircraft spares budget.

Objectives, Scope, and Methodology

Historically, Air Force aircraft replenishment spares were procured with funds from the procurement account, repaired with operation and maintenance funds, and issued free to users. Beginning in fiscal year 1991, the Air Force will fund these activities through the stock fund. Our primary objective was to identify potential reductions to the fiscal year 1991 stock fund budget and potential rescissions to fiscal year 1990 procurement appropriations for aircraft spare parts. Also, we reviewed the Air Force's compliance with congressional direction to reimburse the "M" account for money previously withdrawn to pay stock fund fuel bills and a congressional recommendation to consider on-hand depot maintenance assets in formulating the stock fund budget.

This review is one of a series that examines defense budget issues. In conducting our evaluation, we reviewed the Air Force Logistics Command's and the Air Logistics Centers' fiscal year 1991 budget requests,

various directives, and budget instructions. We tracked the aircraft spares budget from the procurement account to the stock fund. We interviewed budget and program officials at the Office of the Assistant Secretary of Defense and Air Force Headquarters, Washington, D.C; Air Force Logistics Command Headquarters, Wright-Patterson Air Force Base, Ohio; and Oklahoma City Air Logistics Center, Oklahoma. We performed our work between March 1990 and September 1990 in accordance with generally accepted government auditing standards.

As requested, we did not obtain written agency comments on this report; however, we discussed our findings with Department of Defense and Air Force officials and incorporated their comments where appropriate.

We are sending copies of this report to interested congressional committees, the Secretaries of Defense and the Air Force, and the Director of the Office of Management and Budget. Copies will be made available to others on request.

This report was prepared under the direction of Nancy R. Kingsbury, Director, Air Force Issues, who may be reached on (202) 275-4268 if you or your staff have any questions. Other major contributors to this report are listed in appendix II.



Frank C. Conahan
Assistant Comptroller General

Contents

Letter		1
Appendix I		6
Potential Reductions to Air Force Fiscal Year 1991 Stock Fund Budget and Rescissions to Fiscal Year 1990 Procurement Appropriation	Decrease in Budgeted Flying Hours Buy Computations Did Not Consider Available Assets Increased Costs for Spare Parts Safety Levels Not Justified Unjustified Upward Funding Adjustment Unjustified Foreign Military Sales Additive Unrequired War Reserve Material Request to Pay Back the "M" Account Premature Buy Requirements Unrequired B-1B Defensive Avionics System Spares Duplicate Budgeting and Funding Unrequired B-2 Aircraft Spares Understatement of Disallowed Buy Requirements	6 6 7 8 9 9 10 11 12 12 13 13
Appendix II		14
Major Contributors to This Report		
Tables	Table 1: Potential Reductions and Rescissions Table I.1: Potential Reductions to the Fiscal Year 1991 WRM Funding Request	2 9

Abbreviations

AFLC	Air Force Logistics Command
ALC	Air Logistics Center
DOD	Department of Defense
WRM	war reserve material

Potential Reductions to Air Force Fiscal Year 1991 Stock Fund Budget and Rescissions to Fiscal Year 1990 Procurement Appropriation

We identified \$995.3 million in potential reductions to the Air Force's fiscal year 1991 stock fund budget and \$92.9 million in potential rescissions to fiscal year 1990 procurement funding for aircraft spares. These potential reductions and rescissions are discussed in detail in the following sections.

Decrease in Budgeted Flying Hours

The Air Force Logistics Command's (AFLC) latest updated fiscal year 1991 computed buy requirements for peacetime aircraft replenishment spares, dated August 15, 1990, shows a \$275.8 million reduction due to a 13.2 percent decrease in flying hours. According to AFLC budget personnel, this reduction in flying hours represents a "peace dividend" resulting from the easing of East/West tensions.

AFLC personnel told us that they had not completed their manual error validation of the updated fiscal year 1991 buy computation and that the final validated reduction due to decreased flying hours could be somewhat less than \$275.8 million. However, we noted that error adjustments made by AFLC to its earlier fiscal year 1991 budgeted buy computation actually resulted in a net increase of \$3.1 million to the computed buy requirements. Therefore, the Air Force's fiscal year 1991 stock fund budget could be reduced by \$275.8 million.

Buy Computations Did Not Consider Available Assets

In June 1989, we reported¹ that the Air Force's fiscal year 1989 budgeted buy requirements for consumable aircraft items took into consideration depot supply level (depot maintenance) requirements valued at \$464.8 million but did not consider \$185.2 million of applicable on-hand depot supply level assets that were available to satisfy these requirements. In response to our report, the House Committee on Armed Services, in its report on the 1989 National Defense Authorization Act, directed the Air Force to apply depot supply level assets to applicable depot maintenance requirements in buy computations.

We found that the Air Force considered depot maintenance requirements valued at \$273.7 million when it developed its fiscal year 1991 stock fund budget for consumable aircraft items. However, it did not consider \$199.2 million of applicable on-hand depot supply level assets. According to the Department of Defense (DOD), depot supply level assets, like base maintenance assets, are owned by the retail system and are

¹Military Logistics: Air Force's Management of Backordered Aircraft Items Needs Improvement(GAO/NSIAD-89-82, June 2, 1989).

therefore not considered available to offset wholesale requirements. We do not agree with this position. Unlike base maintenance assets, depot supply level assets have not been issued from wholesale storage and sold to the retail system. These assets are reserved in wholesale storage to satisfy forecasted depot maintenance requirements. Since wholesale requirements include forecasted depot maintenance needs and depot supply level assets are reserved in wholesale storage to satisfy these future needs, it is reasonable to expect that these assets should be used in buy computations to offset the applicable wholesale requirements. Therefore, the Air Force's fiscal year 1991 stock fund budget could be reduced by \$199.2 million.

Increased Costs for Spare Parts Safety Levels Not Justified

In August 1990, we reported² on the increased costs associated with the Air Force's implementation of a new model, the aircraft availability model, for computing aircraft spare parts safety level requirements. Safety levels are quantities of stocks in addition to normal operating requirements. They provide protection against shortages in the event that demands or resupply time are greater than predicted.

The increased costs occurred because the aircraft availability model used higher aircraft availability rates to compute safety level requirements than did its predecessor, the variable safety level model. An aircraft availability rate for any specific type of aircraft is essentially the percentage of aircraft not missing designated parts. The higher aircraft availability rates were not justified on the basis of operational needs, as reflected by mission capable rates. A mission capable rate is the primary measure of aircraft readiness and is that portion of total time that the aircraft can perform its mission. Prior to implementation of the aircraft availability model, the Air Force was achieving a desired overall aircraft mission capable rate of 80 percent. The Air Force reported satisfaction with its ability to perform needed missions, and it neither requested nor justified an increase in aircraft mission capability.

By reprogramming the aircraft availability model with the average aircraft availability achieved under the prior model, we estimate that the Air Force could reduce its fiscal year 1991 budgeted procurement and repair costs for safety level stocks of aircraft spares by \$170 million. In its comments on our findings, DOD and the Air Force agreed that spare parts safety level costs could be substantially reduced if the higher

²Air Force Logistics: Increased Costs for Spare Parts Safety Levels Are Not Justified(GAO/NSIAD-90-148, Aug. 23, 1990).

availability rates used in the aircraft availability model were reset at the prior average level of the variable safety level model. Also, the Air Force advised us that it was studying ways to better relate aircraft availability rates to operational needs. Therefore, the Air Force's fiscal year 1991 stock fund budget could be reduced by \$170 million.

Unjustified Upward Funding Adjustment

During the fiscal year 1991 budget preparation process, AFLC calculated its requirements for peacetime operating stock, which were lower than the requirements for previous years. AFLC decided to increase its fiscal year 1991 budget request to bring it up to the same level as its fiscal year 1990 requirement. The increase included \$132.5 million for the restoration of requirement reductions and \$167.5 million for an arbitrary upward adjustment.

For fiscal years 1989 and 1990, AFLC reduced the five Air Logistics Centers' (ALC) budget requests to allow for anticipated price decreases and other expected changes in requirements. AFLC directed the ALCs to calculate this reduction in their fiscal years 1991 and 1992 budget requests. The ALCs calculated a reduction totaling \$132.5 million for fiscal year 1991, which AFLC then incorrectly restored as an upward funding adjustment to the fiscal year 1991 budget request. Since AFLC has made such reductions of a similar magnitude in the past, initially made the reductions to its fiscal year 1991 budget, and again has directed the ALCs to calculate this reduction in fiscal year 1992, we consider the restoration of \$132.5 million to be unjustified. Therefore, the Air Force's fiscal year 1991 stock fund budget could be reduced by \$132.5 million.

In addition, AFLC arbitrarily added \$167.5 million to its fiscal year 1991 budget request to bring it up to the fiscal year 1990 level. However, AFLC incorrectly cited this upward adjustment as \$162.6 million in its budget submission to DOD. AFLC officials could not explain why the reported amount was \$4.9 million less than the actual amount. DOD disallowed the reported arbitrary upward adjustment of \$162.6 million. Since the upward adjustment was underreported by \$4.9 million, the reduction was \$4.9 million less than it should have been. Therefore, the Air Force's fiscal year 1991 stock fund budget could be reduced by an additional \$4.9 million, for a total potential reduction of \$137.4 million for the unjustified upward funding adjustment.

Unjustified Foreign Military Sales Additive

The ALCS' fiscal year 1991 budget requests for peacetime aircraft spares included an additive of \$120.8 million for foreign military sales buy requirements—\$61.1 million for fiscal year 1991 and \$59.7 million for fiscal year 1990. Additive buy requirements are intended to satisfy miscellaneous needs that are not provided for by the normal budget computation process.

According to AFLC officials, these foreign military sales additive buy requirements were intended to maintain Air Force stock levels of aircraft spares for sales to foreign countries. However, we found that these additive buy requirements are unnecessary because the normal budget computation process takes into consideration the total foreign military sales stock level requirement and computes the buys needed to maintain this stock level.

AFLC officials agree that the foreign military sales additive buy requirement is unnecessary and directed the ALCS not to include this additive in future budgets. Therefore, the Air Force's stock fund budget could be reduced by \$61.1 million for fiscal year 1991 and \$59.7 million could be rescinded from the fiscal year 1990 procurement appropriation.

Unrequired War Reserve Material

We identified potential reductions of \$90.3 million in unrequired war reserve material (WRM) in the Air Force's fiscal year 1991 stock fund budget request for WRM as shown in table I.1.

Table I.1: Potential Reductions to the
 Fiscal Year 1991 WRM Funding Request

Dollars in millions	
Unneeded WRM for F-16 and C-17 aircraft	\$56.6
Unjustified upward funding adjustment	33.3
Unsupported WRM for B-52 and MH-53 aircraft	.4
Total	\$90.3

Unneeded WRM for F-16 and C-17 Aircraft

The Air Force's fiscal year 1991 funding request for aircraft spare parts includes WRM buy requirements of \$36.3 million for F-16 ALQ-165 system airborne self protection jammers and \$20.3 million for C-17 parts. DOD recommended that these budgeted WRM buy requirements be eliminated because of (1) operational testing problems in the case of the F-16 jammers and (2) prematurity in the case of the C-17, which has not been flight tested. The Air Force did not eliminate this \$56.6 million from its budget on the basis that it is needed to satisfy other unbudgeted

buy requirements. We found that the Air Force has no current plans to fund these unbudgeted requirements in fiscal year 1991. Therefore, the Air Force's fiscal year 1991 stock fund WRM budget request could be reduced by \$56.6 million.

Unjustified Upward Funding Adjustment

To maintain fiscal year 1990 funding levels, AFLC made an arbitrary upward adjustment of \$33.3 million to the aircraft spares WRM funding budgeted by the ALCS for fiscal year 1991. AFLC made this upward adjustment by restoring reductions it had previously directed the ALCS to make to their budgets to reflect anticipated price decreases and other economies. We believe the \$33.3 million restoration is unjustified because similar reductions were made to prior years' budgets and AFLC has directed the ALCS to make these reductions in finalizing their fiscal year 1991 buy requirements and preparing their fiscal year 1992 budgets. Therefore, the Air Force's fiscal year 1991 stock fund WRM budget request could be reduced by \$33.3 million.

Unsupported WRM for B-52 and MH-53 Aircraft

AFLC officials reduced peacetime requirements for B-52 control panels and the MH-53 (helicopter) ALQ-162 electronic countermeasure system spare parts because of insufficient documentation to support the requirements and program slippages. However, they failed to reduce \$400,000 in WRM funding requirements for these items. AFLC officials agreed that WRM requirements should also have been reduced for these items. Therefore, the Air Force's fiscal year 1991 stock fund WRM budget request could be reduced by \$400,000.

Request to Pay Back the "M" Account

The Air Force's fiscal year 1991 stock fund appropriation request includes \$79.3 million to partially repay the stock fund customer "M" account³ for prior years' withdrawals to offset losses to the stock fund resulting from underbilling of customers for aircraft fuel sales. In our October 17, 1989, letter to the Chairman of the Subcommittee on Defense, House Committee on Appropriations, we reported that the Air Force had transferred \$238 million from the "M" account to the stock fund account to offset losses of stock fund cash that resulted from underbilling of customers for aircraft fuel sales during fiscal years 1981 to 1986.

³Merged account to which an agency transfers prior years' lapsed funding authority 2 years after expiration of the period for which the funding was authorized. Balances in this account remain available indefinitely for payment of valid prior years' obligations.

We further reported that the Air Force did not have adequate documentation to support the reason for the transfer of \$238 million from the "M" account to the stock fund. Consequently, the Congress, in its fiscal year 1990 conference report on appropriations for DOD, directed the Air Force to pay back the \$238 million it had transferred from the "M" account by increasing stock fund charges for customer sales for fiscal years 1991, 1992, and 1993. Instead of adjusting its fiscal year 1991 stock fund charges to customers to recoup the \$79.3 million needed to make the first incremental stock fund payback to the "M" account, the Air Force requested an additional appropriation to the stock fund to make the payback.

In our opinion, this request for \$79.3 million in appropriated funds to payback the "M" account is not consistent with the congressional direction and should not be appropriated for this purpose.

Premature Buy Requirements

In preparing its fiscal year 1991 budget, the Oklahoma City ALC added to its latest fiscal years 1989 and 1990 computed buy requirements for aircraft spares future years' projected buys totaling \$112.1 million. The Oklahoma City ALC added future years' buy requirements to its latest buy computations to justify use of fiscal years 1989 and 1990 monies to fund outstanding purchase requests for quantities of spares that exceeded the latest buy computations.

We reported in 1986⁴ that the Air Force was incurring added procurement and storage costs of millions of dollars annually by procuring aircraft spares more than a year earlier than necessary. In response to our report, DOD directed the Air Force to limit its early procurements to 1 year.

We found that \$33.2 million of the \$112.1 million was for projected fiscal year 1992 buys and therefore was not valid current buy requirements. The remaining \$78.9 million of added requirements was deemed valid because they were advanced only 1 year.

Oklahoma City ALC officials agreed that funding of fiscal year 1992 buy requirements was premature and advised us that their buy guidelines had been amended in July 1990 to preclude future early buys. The use of fiscal years 1989 and 1990 monies to fund fiscal year 1992 projected

⁴Military Logistics: Buying Spares Too Early Increases Air Force Costs and Budget Outlays (GAO/NSIAD-86-149, Aug. 1, 1986).

buy requirements indicates that the Air Force is having problems spending prior years' aircraft spares funds on valid current requirements. Therefore, a rescission of at least \$33.2 million from fiscal year 1990 procurement funding appears warranted.

Unrequired B-1B Defensive Avionics System Spares

The Air Force's fiscal year 1991 stock fund budget included \$33.1 million requested by the Warner Robins ALC for the purchase of replenishment spare parts for the B-1B's ALQ-161 defensive avionics system. We found that this was not a valid funding requirement because continuing design stability problems with this system preclude the purchase of these spare parts in fiscal year 1991.

AFLC officials agreed that the original need for the \$33.1 million funding was not valid, but they stated that this funding was needed to satisfy other unbudgeted requirements. However, they were unable to validate this position. Therefore, the Air Force's fiscal year 1991 stock fund budget could be reduced by \$33.1 million.

Duplicate Budgeting and Funding

In November 1989, we reported⁵ that the Air Force's fiscal year 1990 funding request included \$88.9 million of Oklahoma City ALC buy requirements that had been budgeted for and funded by the Congress in fiscal year 1989. We identified this amount as a potential reduction to the fiscal year 1990 budget and discussed this duplicate budgeting with Air Force officials. As a result, the Oklahoma City ALC revised its procedures for preparing the fiscal year 1991 budget. By following the revised procedures, the Oklahoma City ALC identified and excluded \$42.4 million of spares requirements from its fiscal year 1991 budget that duplicated spares requirements funded in prior years.

While we acknowledge the Air Force's effort to reduce duplicate budgeting and funding, our review of fiscal year 1991 budget documents showed that \$8.8 million of the \$77.1 million included in the Oklahoma City ALC's budget submission for first-time aircraft spares buys had been budgeted for and funded by the Congress in fiscal year 1990. We believe that the remaining requirements were valid because they represented updated buy requirements for fiscal year 1989 and 1990 that had not been included in previous budgets.

⁵Air Force Budget: Potential for Reducing Funding for Aircraft Spares (GAO/NSIAD-90-18, Nov. 28, 1989).

**Appendix I
Potential Reductions to Air Force Fiscal Year
1991 Stock Fund Budget and Rescissions to
Fiscal Year 1990 Procurement Appropriation**

Oklahoma City ALC officials agreed that the \$8.8 million represents items that were erroneously left in the fiscal year 1991 budget request. Therefore, the fiscal year 1991 stock fund budget could be reduced by \$8.8 million.

**Unrequired B-2
Aircraft Spares**

The Air Force's fiscal year 1991 budget included \$7.7 million for replenishment spares support for the B-2 aircraft. However, according to B-2 program officials, no funding is currently needed for B-2 replenishment spares in fiscal year 1991 because of program slippage. Therefore, the fiscal year 1991 stock fund budget could be reduced by \$7.7 million.

**Understatement of
Disallowed Buy
Requirements**

In reviewing the fiscal year 1991 aircraft replenishment spares budgets of the five ALCS, AFLC disallowed buy requirements totaling \$62.9 million because of insufficient supporting data and program slippage or cancellation. However, in preparing a consolidated fiscal year 1991 budget, AFLC deducted only \$60.7 million for these disallowed requirements—a \$2.2 million understatement.

Responsible AFLC aircraft spares budget personnel agreed that consolidated budget reductions for disallowed buy requirements were understated by \$2.2 million. Therefore, the Air Force's fiscal year 1991 stock fund budget could be reduced by \$2.2 million.

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