



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

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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-196893

May 9, 1984

The Honorable Charles E. Bennett
Committee on Armed Services
House of Representatives



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The Honorable Nickolas Mavroules
Committee on Armed Services
House of Representatives

Subject: Status of Peacekeeper (MX) Fiscal Year 1984
Procurement Funding (GAO/NSIAD-84-113)

By letter dated March 13, 1984, you asked us to provide data concerning the Peacekeeper (MX) weapon system's fiscal year 1984 procurement budget authority. We provided preliminary information on March 23, 1984, and agreed to report updated information when the March 31, 1984, funding information became available.

As of March 31, 1984, the Air Force had obligated \$486,463,000, or 23 percent, of the \$2,102,200,000 appropriated for Peacekeeper procurement in fiscal year 1984. Air Force records showed no expenditures charged against the obligated funds as of March 31, 1984.

Detailed responses to the questions you raised are provided in the enclosure.

OBJECTIVE, SCOPE, AND METHODOLOGY

To accomplish our objective of obtaining data in response to your questions, we held discussions with Air Force program officials, obtained computerized Air Force records of current financial status, and reviewed production contracts funded with fiscal year 1984 funds. Our work was performed primarily at the Ballistic Missile Office, Norton Air Force Base, California.

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Our review was conducted during March and April 1984. Data was collected in accordance with generally accepted government auditing standards. However, in accordance with your instructions we did not request official comments on this report from Department of Defense officials.

for Bill T. Thuman
Frank C. Conahan
Director

Enclosure

RESPONSES TO QUESTIONS RAISED BY
REPRESENTATIVES BENNETT AND MAVROULES

The Congress appropriated \$2,102,200,000 for fiscal year 1984 Peacekeeper procurement. These funds have to be obligated within 3 years. The Air Force's Ballistic Missile Office expects to obligate about 85 percent of the funds by the end of fiscal year 1984 and to expend about 15 percent of the funds obligated.

As of March 31, 1984, \$486,463,000 of procurement funds had been obligated. No expenditures were recorded.

STATUS OF PEACEKEEPER FISCAL YEAR
1984 PROCUREMENT BUDGET AUTHORITY

What MX Peacekeeper procurement contracts have been awarded to date?

As of March 31, 1984, four contracts had been awarded for the procurement of the four propulsion stages. These contracts are fully funded, that is, obligation authority for the full contract price (cost and fee) was established at the time of contract award. The dates of these fixed price incentive fee contract awards and their negotiated prices are as follows.

<u>Propulsion stage</u>	<u>Contractor</u>	<u>Date of award</u>	<u>Contract price</u> (millions)
Stage I	Thiokol	3/13/84	\$ 137.6
Stage II	Aerojet	3/13/84	125.0
Stage III	Hercules	1/31/84	99.5
Stage IV	Rockwell/ Rocketdyne	3/14/84	<u>92.0</u>
			<u>\$454.1</u>

In addition, the Air Force has obligated \$32.4 million on other contracts for long-lead items.

What is the Air Force's schedule for obligating budget authority for remaining Peacekeeper procurement contracts?

As of March 31, 1984, six major contracts using fiscal year 1984 procurement funds remained to be negotiated. Four of the contracts scheduled for award in late May 1984, will be for guidance and control system components. Two contracts, scheduled for award in August 1984, will be for reentry vehicles.

In addition, the Ballistic Missile Office provided about \$2.4 million to the U.S. Army to procure missile propellant and missile emplacer transporters and about \$5.5 million to the Department of Energy for reentry system hardware needed for war-head production. As of March 31, 1984, none of these funds had been obligated, but according to a Ballistic Missile Office official, these funds will be obligated in the near future.

Is budget authority for Peacekeeper procurement being obligated where procurement contracts have not yet been signed?

As previously indicated, about \$32.4 million has been obligated for long-lead production components. These funds were obligated under existing Peacekeeper development contracts. These amounts will eventually be transferred to the procurement contracts.

Is such obligation of funding standard policy?

Long-lead funding is a common and accepted procedure to enable program managers to fund procurement of components with lead times in excess of 12 months.

CURRENT TOTAL PROGRAM COST
ESTIMATE FOR PEACEKEEPER

What is the current planned total program cost for the Peacekeeper missile program?

Currently, the Air Force estimates total Peacekeeper program costs at \$21.7 billion (\$16.6 billion in fiscal year 1982 dollars). This amount does not include \$4.7 billion incurred before 1983. In our view total program cost should include both of these amounts for a total of \$26.4 billion.

PROGRAM MISSILE QUANTITY

If 100 missiles is the correct deployment number, why does the Air Force procurement program extend to 223 missiles?

The Air Force plans to procure 223 missiles--100 for deployment, 108 for operational test and evaluation, and 15 to monitor the effects of ageing. The planned procurement by fiscal year is as follows:

Planned Procurement of
Peacekeeper Missiles

	Fiscal year						Total
	1984	1985	1986	1987	1988	1989	
Deployment	20	30	31	19	0	0	100
Operational test and evaluation	1	9	16	28	47	7	108
Ageing	0	1	1	1	1	11	15
Total	<u>21</u>	<u>40</u>	<u>48</u>	<u>48</u>	<u>48</u>	<u>18</u>	<u>223</u>

The 108 missiles needed for operational test and evaluation is a statistically derived number independent of the number of missiles to be deployed. It represents the number of tests required to meet Joint Chiefs of Staff established levels of confidence that the Peacekeeper missile will achieve desired levels of accuracy and flight reliability. Eight test flights will be flown in each of the first 3 years after initial deployment and seven flights each will be flown for the next 12 years.

Is additional missile procurement beyond the planned 100 to be deployed justified on the basis of spare or testing requirements, or is deployment beyond 100 missiles under consideration?

We found no evidence that the Air Force plans to deploy more than 100 Peacekeeper missiles.

CONTRACT TERMINATION LIABILITY

What is the termination liability provision between the Air Force and Peacekeeper contractors?

Contracts awarded by the Air force for fiscal year 1984 Peacekeeper production items include the standard Defense Acquisition Regulation Termination for Convenience of the Government (DAR 7-103.21) clause.

When a contract is terminated for convenience of the Government, the Government generally pays the contractor for all completed supplies or services accepted by the Government, the cost incurred in the performance of the work terminated, the cost of settling and paying claims arising out of the termination of work under subcontracts, and a profit on cost incurred on the terminated effort. The amount paid the contractor should not exceed the total contract price as reduced by payments previously made. The contractor is entitled to additional payments to cover the reasonable costs of settlement, such as accounting, legal, clerical, and other expenses for the preparation of settlement claims.

We cannot make an estimate of termination costs. The total amount of Government termination costs would vary depending upon the date of termination, status of individual contracts, and the costs to settle claims.