

GAO

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**Report to the Chairman, Subcommittee
on Investigations, Committee on Armed
Services, House of Representatives**

December 1991

NAVAL AVIATION

Changes in Naval Aviation Budgets Since A-12 Termination



**National Security and
International Affairs Division**

B-245231

December 19, 1991

The Honorable Nicholas Mavroules
Chairman, Subcommittee on Investigations
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

In April 1991 we testified before you on the termination of the Navy's A-12 program.¹ In July 1991 we were asked to provide additional details on the status of A-12 appropriations and the expenditures that are planned because of the termination. This report provides that information. We are also providing information on the lawsuit by the A-12's contractors against the government.

Background

In the 1980s the Navy began a program that would replace its aging fleet of A-6 medium attack aircraft with a new aircraft—the A-12—that would incorporate stealth technology and could be deployed from an aircraft carrier. In January 1988 the Navy awarded a fixed-price incentive contract for full-scale development of the A-12 to the team of General Dynamics and McDonnell Douglas Corporations. The contract had a target price of \$4.4 billion and a ceiling price of \$4.8 billion.

On January 7, 1991, the Navy terminated the A-12 contract for default due to difficulties the contractors had in executing the contract. As we reported in March 1991, expenditures on the contract, which amounted to \$2.7 billion, had not exceeded the contract's \$4.4 billion target price.² However, we also reported in July 1991 that, at the time of termination, the Navy was projecting the contractors would overrun the contract's ceiling price of \$4.8 billion and that the A-12's first flight would be delayed by over 2 years.³

When the contract was terminated, the Secretary of Defense acknowledged that the Navy still needed to develop a next-generation replacement for its A-6 strike aircraft. According to Navy data, the A-6 inventory is not sufficient to meet the Navy's current medium attack

¹A-12 Default Termination Issues (GAO/T-NSIAD-91-14, Apr. 9, 1991).

²Naval Aviation: Navy A-12 Aircraft Funding Status (GAO/NSIAD-91-171, Mar. 22, 1991).

³Naval Aviation: Status of Navy A-12 Contract and Material at Termination (GAO/NSIAD-91-261, July 24, 1991).

aircraft needs, and the inventory level is expected to decline sharply in 1995. On July 3, 1991, the Under Secretary of Defense for Acquisition authorized the Navy to proceed with concept exploration and definition for a replacement aircraft, referred to as the AX. However, to deal with the shortfall of medium attack aircraft in the near term, the Navy plans to procure additional aircraft and modify others.

Results in Brief

Approximately \$3.7 billion of the \$6.8 billion appropriated for the A-12 program remained unexpended when the program was terminated. From the unexpended appropriations, the Navy proposed reprogramming \$137.5 million to initiate the development of the AX program and using \$89.3 million for other purposes, including shutting down the A-12 program. The Navy also proposed rescinding \$1.6 billion and reprogramming another \$1.8 billion from the unexpended A-12 appropriations. The proposed reprogrammings were approved by the Congress. The rescissions were not approved, but the funds either expired or were transferred to other budget accounts within the Navy.

As a result of the A-12 termination, the Navy plans to spend \$8.4 billion through fiscal year 1997 on the existing A-6E and F/A-18 programs to deal with the immediate shortfall in Navy medium attack aircraft. According to Navy Comptroller officials, these programs will be funded from unused A-12 appropriations and from appropriations the officials originally planned to seek for other Department of Defense programs. The Navy also plans to spend funds on the AX program. According to the Navy, development of the AX is projected to cost over \$14 billion.

Additional expenditures related to the A-12 termination may occur if the contractors are successful in their lawsuit contesting the termination. McDonnell Douglas and General Dynamics are asking the U.S. Claims Court to decide, among other things, whether the A-12 contract was terminated for the convenience of the government and not for default. In addition, the contractors have asked the court to hold that they are not required to return the \$1.35 billion in progress payments that the government is seeking.

Disposition of A-12 Appropriations

Through fiscal year 1991, the A-12 program received \$6,785.5 million in research, development, test, and evaluation and aircraft procurement appropriations. This amount was reduced by \$61.3 million as a result of internal Navy budget adjustments and other undistributed reductions. As of May 7, 1991, the Navy had spent \$2,995.9 million of its A-12

appropriations. In addition, \$62.5 million in unobligated research, development, test, and evaluation funds from fiscal year 1989 and prior years has expired. Of the remaining \$3,665.8 million in unexpended funds, the Navy has proposed to the Congress that \$1,615.7 million be rescinded and \$1,960.8 million be reprogrammed. The Navy also plans to use \$89.3 million for other purposes, including shutting down the A-12 program and addressing other fiscal year 1989 aircraft procurement funding requirements it has identified. This accounts for all funds appropriated to the A-12 program, as shown in table 1.

Table 1: A-12 Appropriations

Dollars in millions	
Category	Amount
Amount appropriated	\$6,785.5
Reductions	
Undistributed reductions	61.3
Expended funds	2,995.9
Expired funds	62.5
Amount unexpended	3,665.8
Proposed dispositions	
Rescissions	1,615.7
Reprogrammings	1,960.8
Other costs	89.3
Balance	0

Rescissions

In February 1991 the Navy proposed rescinding \$1,615.7 million of the A-12 appropriations. Of this amount, \$722.2 million would be rescinded from fiscal year 1990 research, development, test, and evaluation funds and \$893.5 million from fiscal year 1990 aircraft procurement funds. According to Navy officials, the \$722.2 million in research, development, test, and evaluation funds expired in September 1991, and the aircraft procurement funds will expire in September 1992. In our September 1991 report (GAO/NSIAD-91-324BR) on the Navy's budget, we stated that \$893.5 million in unobligated fiscal year 1990 funds for the terminated A-12 program was available for rescission. According to a Navy Comptroller official, the Congress rejected this rescission proposal and chose instead to transfer the \$893.5 million to the Navy's ship-building account.

Reprogrammings

In its April 26, 1991, amended budget submission, the administration proposed reprogramming \$1,960.8 million of the A-12 appropriations. It

proposed reprogramming \$1,823.3 million to upgrade existing A-6 aircraft and procure additional F/A-18 aircraft to support the Navy's medium attack aircraft requirements until the AX could be designed and built. These funds would also be used to shut down the F-14 program and start development of an advanced version of the F/A-18. The Navy also planned to reprogram \$137.5 million from unused fiscal year 1991 A-12 research, development, test, and evaluation appropriations to initiate the AX program.

These proposals were considered and approved by the Congress in its deliberations of the fiscal year 1992 defense budget request. Table 2 shows the source and planned use of the reprogrammed A-12 funds.

Table 2: Reprogrammed A-12 Funds

Dollars in millions			
Source of funds	Fiscal year		Total
	1990	1991	
Research, development, test and evaluation	0	\$859.6	\$859.6
Aircraft procurement	\$353.7	610.0	963.7
Total	\$353.7	\$1,469.6	\$1,823.3
Planned use of funds			
A-6	353.7	1,147.6	1,501.3
F/A-18	0	214.0	214.0
F/A-18 advanced version	0	8.0	8.0
F-14	0	100.0	100.0
Total	\$353.7	\$1,469.6	\$1,823.3

Impact of A-12 Termination on Other Aircraft Programs

The Navy has become concerned about its ability to meet future medium attack aircraft requirements with the termination of the A-12 program, and the declining inventory of A-6 aircraft. For the near term, the Navy has proposed procuring and modifying aircraft with attack capability. For the long term, the Navy has begun to develop a medium attack aircraft, the AX, that the Secretary of Defense has stated will incorporate stealth technology.

A-12

As shown in table 3, the Navy's A-12 funding profile before program termination was \$14.6 billion for fiscal years 1990 through 1997. The profile assumed that the government's cost for the full-scale development of the A-12 would remain within the \$4.8 billion ceiling price of

the contract. On the basis of the terms of that contract, development costs that exceeded the \$4.8 billion ceiling would be paid by the contractors. At the time of termination, the contractors estimated that the cost of full-scale development at completion would be \$5.4 billion, whereas the Navy estimated that the cost would be \$7.5 billion.

Table 3: Navy's A-12 Funding Profile

Dollars in millions

Fiscal year	Research, development, test, and evaluation	Aircraft procurement	Total
1990	\$1,543	\$1,277	\$2,820
1991	1,027	610	1,637
1992	509	0	509
1993	351	0	351
1994	414	223	637
1995	141	1,883	2,024
1996	166	2,406	2,572
1997	177	3,844	4,021
Total	\$4,328	\$10,243	\$14,571

AX

The Navy does not have a firm estimate of AX funding needs, since a specific design has not yet been chosen. Nevertheless, the Department of Defense's fiscal year 1992 amended budget submission contained the estimated annual funding needed through fiscal year 1997 for a notional AX development program. These costs are shown in table 4. In addition, the Navy has developed a long-range AX funding profile, which envisions that the total development cost will be approximately \$14 billion. According to Navy officials, AX production deliveries are projected to begin in fiscal year 2003. The number of aircraft to be procured has been identified but is classified.

Table 4: AX Development Funding Profile

Dollars in millions	
Fiscal year	Research, development, test, and evaluation
1990	0
1991	\$138
1992	0
1993	313
1994	705
1995	495
1996	317
1997	1,685
Total	\$3,653

A-6

The Navy's fleet of A-6 aircraft has been undergoing rewinging since the mid-1980s when the Navy determined that flight safety could not be ensured for many of the A-6s that had experienced wing fatigue. Originally, the Navy believed that by rewinging 174 A-6s it could meet medium attack requirements until the A-12 began replacing the A-6 in the mid-1990s. However, as a result of A-12 development schedule slippage and eventual termination of the program, the Navy decided to rewing an additional 120 A-6s and planned other modifications to enhance the A-6's ability to counter the projected threat. The Navy believes that the A-6 will have to remain in service until approximately 2015. Table 5 compares the A-6 aircraft modification budget requests before and after termination of the A-12.

Table 5: Projected A-6 Funding

Dollars in millions			
Fiscal year	Before A-12 termination	After A-12 termination	Difference
1990	\$110	\$464	\$354
1991	97	1,245	1,148
1992	564	5	-559
1993	435	164	-271
1994	58	257	199
1995	74	243	169
1996	72	233	161
1997	91	141	50
Total	\$1,501	\$2,752	\$1,251

F/A-18

The F/A-18 is both a fighter and attack aircraft. It was introduced into the Navy's inventory in 1980 as a replacement for A-7 light attack and F-4 fighter aircraft. Due to the termination of the A-12, the Navy plans to procure additional models of the current F/A-18 aircraft. The Navy is also seeking funds in its fiscal year 1992 budget request to start development of the advanced version of the F/A-18.

Officials within the Department of Defense have different opinions on whether the costs of the advanced version of the F/A-18 are attributable to the termination of the A-12. Comptroller officials from the Navy and the Office of the Secretary of Defense told us that the advanced version of the F/A-18 was planned prior to the termination of the A-12. However, an official in the Office of the Chief of Naval Operations stated that the A-12 termination did have an impact on the Navy's decision to request research and development funding in its fiscal year 1992 budget submission for the advanced F/A-18. Navy officials agreed that the advanced F/A-18 would eventually replace all other F/A-18s, including those that would be used to supplement declining A-6E inventories. Regardless of the Department of Defense's position, funding of the F/A-18 program will not be affected through fiscal year 1997, since the number of advanced F/A-18s to be procured will not change. Table 6 compares F/A-18 research, development, test, and evaluation and aircraft procurement budget requests before and after termination of the A-12.

Table 6: Projected F/A-18 Funding

Dollars in millions			
Fiscal year	Before A-12 termination	After A-12 termination	Difference
1990	\$2,037	\$2,037	0
1991	1,683	1,905	\$222
1992	2,423	2,674	251
1993	2,534	2,958	424
1994	2,312	3,268	956
1995	1,926	3,080	1,154
1996	2,202	4,204	2,002
1997	3,065	5,220	2,155
Total	\$18,182	\$25,346	\$7,164

F-14

Before termination of the A-12 program, the Navy planned to remanufacture some of its F-14 aircraft from the F-14A to the F-14D configuration, which has an enhanced air-to-ground strike capability.

However, after termination of the A-12, the Navy sought \$173 million in its fiscal year 1992 amended budget submission to terminate the F-14 remanufacture program and eventually replace this aircraft with the advanced version of the F/A-18.

The House Armed Services Committee considered the administration's request to terminate the F-14 program but chose instead to add \$679.7 million to the fiscal year 1992 budget request. This additional funding would support procurement of 19 F-14As and F-14A+s to the F-14D configuration. The Committee also recommended that \$50 million be used to initiate development of an F-14 Quickstrike aircraft that the Grumman Corporation, the F-14's prime contractor, stated would exploit more extensively the F-14's air-to-ground potential. According to one member of the House Armed Services Committee, the F-14 Quickstrike would be a backup to the advanced F/A-18. In an April 1991 letter to the Secretary of Defense, the Chief Executive Officer of the Grumman Corporation proposed a fixed-price contract for \$743.7 million in fiscal year 1993 for 24 F-14D Quickstrike aircraft.

In November 1991 conferences, the House and Senate Armed Services and Appropriations Committees decided to terminate further remanufacture of F-14s. Table 7 compares the F-14 aircraft procurement budget requests before and after termination of the A-12. The funding added after the termination is associated with shutting down the F-14 program.

Table 7: Projected F-14 Funding

Dollars in millions			
Fiscal year	Before A-12 termination	After A-12 termination	Difference
1990	\$1,536	\$1,536	0
1991	978	1,089	\$100
1992	0	173	173
1993	0	144	144
1994	0	94	94
1995	0	0	0
1996	0	0	0
1997	0	0	0
Total	\$2,514	\$3,025	\$511

Contractors' A-12 Termination Lawsuit

On June 7, 1991, the contractors filed a lawsuit in U.S. Claims Court, asking that the court change the A-12 contract type from fixed-price incentive to a cost plus fixed fee. The contractors also allege that the Navy breached the contract and that the termination was for the convenience of the government rather than for default. The contractors have asked that they be awarded all of their incurred costs and a reasonable profit, plus settlement expenses. If the lawsuit is successful, the government's liability to the contractors could be substantial, but the exact amount cannot be predicted.

The contractors have also asked the court to order the contracting officer to increase the price of the A-12 contract in accordance with claims submitted on December 31, 1990, which the contractors valued at \$1.4 billion. In addition, the contractors have asked the court to hold that they are not required to return \$1.35 billion in progress payments.

Scope and Methodology

To accomplish our work, we gathered information from the Navy's A-12 Program Office and Office of the Comptroller. We also spoke with officials involved with aviation requirements and budgets within the Office of the Chief of Naval Operations.

We conducted our work from July to November 1991 in accordance with generally accepted government auditing standards. We did not obtain written agency comments on this report. However, we discussed the information in a draft of this report with Navy officials and incorporated their comments where appropriate.

We are sending copies of this report to the Secretaries of Defense and the Navy, appropriate congressional committees, and the Director of the Office of Management and Budget. We will also make copies available to others.

Please contact me on (202) 275-6504 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Martin M. Ferber", with a long horizontal flourish extending to the right.

Martin M Ferber
Director, Navy Issues

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