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Reliability of Weapon System Cost Reports Is Highly Questionable

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The Honorable Les Aspin
The Secretary of Defense

General Gordon R. Sullivan
Acting Secretary of the Army

To help reduce the federal government's annual deficits while maintaining needed levels of operations, agencies and the Congress must have reliable, complete information on the cost of all phases of government operations. Acquiring and using weapon systems is a major defense cost. For fiscal year 1992, the Department of the Army received $8.3 billion in appropriations for procurement of weapons and other systems. As part of our audit of the Army's fiscal year 1991 financial statements, we conducted a case study of the Black Hawk helicopter program. We used this study to gain an understanding of the information systems the Army uses to identify, record, and report weapon system costs. The results of this study demonstrate that the Army cannot adequately ensure that its weapon system cost reports are complete, consistent, accurate, and supportable. The Army uses this cost information to formulate budget requests and account for its weapon systems.

Results in Brief

The reliability of weapon system cost information in the Army's reports to the Congress and the Department of Defense and in Army reports used to support critical cost decisions was highly questionable. Specifically, this cost information, which came from at least 18 disparate financial and logistics systems, (1) was incomplete and inconsistent among systems, (2) did not include all costs required by Army guidelines, (3) reflected unsupported adjustments, and (4) could not be independently verified. In June 1993, we reported in our audit of the Army's financial statements for fiscal year 1992 that the accuracy of weapon system cost information in the Army's logistics systems continues to be a major problem. As a result, the Congress and other users of the reports cannot have full confidence that reported weapon system costs are reliable. Unreliable weapon system cost reports can seriously undermine the resource decision-making process.

Background

The Army considers all the major categories of costs—acquisition, operating, and support—in budgeting for and managing its weapon

systems. To keep track of and report on these costs, the Army uses at least 18 logistics and accounting systems, which are listed in appendix I.

For purposes of this report, acquisition costs include the amounts spent on research and development, procurement, and major modifications of a weapon system. Operating and support costs include the amounts spent on fuel, maintenance, repairs, and overhauls.

The Army's acquisition costs for weapon systems are funded by its Research, Development, Test, and Evaluation (RDT&E) appropriation and one of several procurement appropriations for aircraft, missiles, weapons and tracked combat vehicles, and other procurement. Operating and support costs are funded through the Army's Operations and Maintenance appropriation.

Weapon System Costs Reporting

The Army reports its weapon system costs to a wide range of external and internal users. The Congress receives information on the development and acquisition of major Defense acquisition programs[1] in annual Selected Acquisition Reports (SARs) as well as in budget requests and supplementary information.[2] The Army also reports weapon system costs in other financial reports to Defense and its internal managers. In addition, weapon system costs are reflected in annual financial reports prepared by the Army pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576).

As listed below, the Army's key weapon system reports contain different information.

- Annual SARs for major defense acquisition programs are to reflect the programmed funding levels (total actual funding for prior years and estimated funding for future years) as well as obligations and disbursements, by fiscal year, for the RDT&E, procurement, and Military Construction (if applicable) appropriations. Total costs of operating and modifying weapon systems are not included.

[1]Major Defense acquisition programs include those costing more than $1.8 billion in total procurement expenditures, measured in constant 1990 dollars.

[2]The Army's portion of the President's budget request submitted to the Congress, however, does not explicitly identify all weapon system costs. These costs are included in different sections of the request and supplementary information. Specifically, RDT&E, procurement, and major modification costs are explicitly identified by weapon systems. Operating and support costs are not identified by weapon systems but are commingled with total operation and maintenance expenses in the Army's budget request.

- Budget formulation documents are to reflect all costs related to a weapon system, including RDT&E, procurement, operating, support, and modifications.
- Annual financial reports are supposed to represent the asset value of weapons based on the latest acquisition costs (the acquisition cost for the most recent weapon system procurement contract) multiplied by the quantity on hand. They do not include modification and overhaul costs.
- Internal management reports to support weapon system procurement programs are to reflect RDT&E, procurement, and major modification costs. They do not include operating and support costs.

Army Systems Used to Record and Report Weapon System Costs

At least 18 different logistics and accounting systems record and report on the Army's weapon system acquisition, operating, and support costs. The accounting systems are supposed to record and report the appropriated funds allocated to, as well as obligations and expenditures made for, (1) the costs of acquiring each weapon system and (2) operating and support costs commingled for all weapon systems.

Two accounting systems initially record the various types of budget formulation data for each type of weapon system. Detailed budget request data for the RDT&E and procurement appropriations are recorded on the Research, Development, and Acquisition Information Systems Activity system. Similar data for the Operations and Maintenance appropriation are recorded on the Budget Management Information System. Both of these systems provide summary information to the Program Optimization and Budget Execution (PROBE) system, which is the Army-wide budget formulation and execution system.

The information in PROBE is categorized by Management Decision Package (MDEP) cost centers, which are four-character codes that identify organizational components (such as the Second Infantry Division), weapon systems (such as the Black Hawk), or particular missions (such as Desert Shield/Desert Storm). The Army's budgeting and accounting systems use these MDEP codes to accumulate cost data. PROBE is supposed to include cost data for 9 years—the budget execution information for the prior year(s) and the estimated costs for the current and future years.

The Army also records budget execution information—obligations and disbursements of appropriated funds—for weapon systems in two accounting systems. Procurement costs are initially recorded on the Standard Army Procurement Accounting System (SAPAS). RDT&E and

Operations and Maintenance appropriations costs are recorded in the Standard Operations and Maintenance, Army, and Research and Development System. These two systems provide summary budget execution information to be recorded in PROBE. In addition, the Army records cost information in various logistics systems to help track the various costs of using weapons systems, such as maintenance and training costs.

Objectives, Scope, and Methodology

Our review objectives were to determine whether weapon system costs (1) reported to the Congress in the SARS are consistent with those in the Army's budget requests and in internal reports the Army uses to manage weapon system programs and (2) reported in the SARS and the Army's annual financial statements are accurate and can be independently verified.

To accomplish our objectives, we reviewed the procedures, processes, and systems used by the Army to (1) convert the Army's planned force structure into financial resources in its budget requests and (2) account for its financial resources used to acquire, maintain, and operate weapon systems. Because the Black Hawk helicopter was one of the largest weapon systems, in terms of appropriated funds in the Army's fiscal year 1992-1993 budget request, we selected it to be our case study to illustrate how weapon system costs are recorded and reported.

In performing our work, we reviewed the Army's and the Department of Defense's policies and procedures for budgeting, recording, and reporting weapon system costs. We discussed budgeting procedures with Army officials and analyzed documents used to prepare the budget and manage weapon system programs at Army Headquarters, the Army's Aviation Systems Command, and the Army's Cost and Economic Analysis Center. We compared estimated Black Hawk costs reported in Army budget documents with those recorded in internal Army management records and in the SARS.

At the Aviation Systems Command and the Depot Systems Command, we reviewed Black Hawk obligation and disbursement data from various accounting and logistics systems. To determine whether the Army's accounting policies were being followed, we traced Black Hawk obligation and disbursement data from accounting and logistics systems to the Army-wide general ledger and to the information reported in the SARS and the Army's financial statements. In addition, we took physical inventories

of Black Hawk helicopters at three judgmentally selected sites—Fort Belvoir and Fort Eustis in Virginia and Corpus Christi Army Depot in Texas—to determine if they had accurate inventory records for this weapon system.

We conducted our review in accordance with generally accepted government auditing standards. The Department of Defense provided written comments on a draft of this report. These comments are discussed in the "Agency Comments and Our Evaluation" section of this report and are reprinted in appendix II.

Weapon System Cost Reporting Not Complete or Consistent

The cost reports that the Army submitted to the Congress did not clearly present or capture all relevant costs that must be authorized and appropriated by the Congress. The Army is not required to, and does not, include significant modification costs (a major cost element of the capital cost of a weapon system) or support costs in these reports. In internal management reports for managing weapon system procurement, the Army also excluded operating and support costs. In addition, the Army also did not consistently report the same dollar amount for the same types of costs in different reports.

Table 1, using the Black Hawk helicopter as a case study, illustrates the differences between the Army's various weapon system cost reports.

Table 1: Estimated Fiscal Year 1992 Black Hawk Helicopter Costs

Dollars in millions

	Black Hawk Costs[a]			
	RDT&E and procurement	Major modifications	Operating and support	Total
SAR sent to the Congress	$507.5	$ [b]	$ [b]	$ [c]
MDEP reports	513.5	34.8	[c]	[c]
Army budget formulation documents	507.5[d]	34.8	152.7[e]	695.0

[a]Estimated costs as reported to the Congress came from the December 1991 SAR; costs for internal management were derived from the weapon system MDEP record as of March 1992; and costs in budget formulation documents were developed during March-April 1992.

[b]The SAR presents the average annual operating, support, and modification costs per flying hour in 1971 dollars; it does not provide an estimate of total operating, support, and modification costs or the information in current dollars.

[c]Data are not reported for this category.

[d]While $507.5 million was reported, the cost estimates developed as support ranged from $405.3 million to $507.5 million.

[e]This does not include training or military personnel costs.

Weapon System Costs Reported to the Congress

SARs present information to the Congress on how certain weapon system costs compare to the baseline estimates of those costs. As shown in table 1, most SARs submitted to the Congress included RDT&E and procurement costs but did not clearly present total modification, support, and operating costs. Defense guidance on preparing SARs[3] does not require SARs to estimate current modification, operating, and support costs, even though all of these costs must be funded by congressional appropriations. The SARs present these costs in base-year dollars[4] and in terms of a unit of operation, such as 1 flying hour for an aircraft, rather than total costs. To be useful for current authorization and appropriation decisions, this unit cost information must be multiplied by the expected rate of use of the weapon system and adjusted to reflect current, rather than base-year, dollar values.

[3]Defense Acquisition Management Documentation and Reports (DOD Manual 5000.2-M, February 1991).

[4]For systems in production, the base year is the first year that a production estimate was made.

In a soon-to-be-issued report[5] on modifications to certain Black Hawk and Chinook helicopters, we pointed out that at least $3.6 billion in life cycle support costs had not been reported to the Congress. The report further stated that without complete information about the estimated costs to develop, procure, support, and maintain a system, decisionmakers—including the Congress—do not have all the information necessary to make fully informed program and funding decisions.

Information on these costs is reflected in the President's budget submissions to the Congress. However, these costs are commingled with similar costs from different weapon systems. For example, while the budget submission will identify the amounts needed to purchase fuel, it will not identify how that fuel cost is allocated to different weapon systems. Thus, neither the SARs nor the budget submissions present the Congress with clear and complete information on the costs of a particular weapon system.

The Congress has recognized the need for more complete cost information. In 1989, the Congress directed that Defense may not enter into a multiyear contract for certain acquisition programs unless the Secretary certifies that the total operating and support costs for that program are included in the Future Year Defense Program.[6]

In April 1992, the Army concluded negotiations on a new multiyear procurement contract for the Black Hawk and certified to the Congress that estimated support costs of $966 million for fiscal years 1992 through 1997 were fully funded in the Future Year Defense Program. An Army official said this was the first time that such information on the Black Hawk had been provided to the Congress and only the second time that this type of information had been reported for any Army weapon system.

Internal Army Management Reports

As shown in table 1, reports drawn from the Army's weapon system MDEP records included RDT&E and procurement costs, as well as major modification costs. However, the weapon system MDEP records did not include operating and support costs. Operating and support costs are recorded, reported, and managed by type of cost—fuel and maintenance, for example—rather than by weapon system. Consequently, the reports on support costs by type of costs must be further analyzed to assemble and

[5]Special Operations Forces: Costs and Reliability Measures Inadequate for MH-47E and MH-60K Program (GAO/NSIAD-94-46).

[6]Title 10, U.S. Code, Section 2306(h)(9)(a).

report all costs for particular weapon systems. Doing so is inefficient in that it requires extra processing steps. Such reporting methods also increase the chance for data errors, since information must be extracted from a series of reports and subsequently recorded, summarized, and analyzed. For example, total Army expenditures for aircraft fuel use will be allocated by type of aircraft, based on actual flying hours recorded and engineering-determined fuel consumption per flying hour. Other support costs, such as those for lubricants and spare parts, will be similarly analyzed based on information in other logistics and accounting systems.

However, the Army's Standard Financial Information System (STANFINS) is capable of recording and reporting the cost of commodities purchased in bulk, such as aircraft fuels, by the type and model of aircraft. STANFINS is the Army's standard accounting system for operations and maintenance appropriated funds and is used to pay weapon system operating and support costs. The STANFINS 96-character accounting classification code includes the MDEP code and a 4-character code called the Account Processing Code (APC), which, together, allow Army commands to record and report the use of operations and maintenance funds at various levels of detail. The Military District of Washington, for example, uses the STANFINS codes to record and report the cost of aircraft fuels and spare parts by each type of aircraft in its fleet, which consists of fixed wing, jet, and rotary wing aircraft, including five Black Hawk helicopters. Military District of Washington officials told us that the APC code could be used to further break down costs by particular models of aircraft, such as the Black Hawk.

The Army weapon system MDEP coding structure could routinely record and report the full support costs of a given weapon system. For example, by assigning a four-digit MDEP code for support costs for each weapon system, the Army could routinely identify obligations and expenditures for support costs for each weapon system as these transactions are authorized, executed, and recorded. The Army's accounting systems could then routinely summarize and report all actual support costs by weapon system. This would avoid the risk for error inherent in the current practice of having to determine full weapon system costs by ad hoc analyses of information coming from various logistics systems for operating and support costs.

The Army used the four-digit MDEP codes to accumulate operating costs for operation Desert Shield/Desert Storm. Using similar MDEP codes for weapon system costs could give the Army better information for making

important decisions, such as whether to modify an existing weapon system to enhance its capabilities or extend its service life, or to acquire a new replacement weapon.

Army Budget Formulation Documents

As shown in table 1, the costs captured to support budget formulation purposes give a more complete picture of the cost of procuring, supporting, and operating a weapon system. Such information is more useful to all resource decisionmakers as well as those with oversight responsibilities. The support costs included in budget formulation documents are developed for each weapon system by special analyses of information recorded in various accounting and logistics systems. However, as discussed earlier, the Army's accounting systems do not routinely record and report these costs by weapon system. While the costs captured for budget formulation purposes reflect a more complete picture of the total cost for a weapon system, the actual costs cannot effectively be independently verified as discussed later in this report.

Data Consistency Among Reports

As detailed in table 1, reported costs for weapon system acquisition—RDT&E and procurement—can differ among the SARs, internal management reports, and Army budget formulation documents. Further, in reviewing the supporting documentation for the Army's budget request for the Black Hawk helicopter program, we found that reported costs ranged between $405.3 million and $507.5 million for fiscal year 1992. Army officials could not explain the reason for the wide range in the cost figures or why they reported the higher end of the range.

Such differences call into question the reliability and usefulness of the various internal and external weapon system cost reports. As pointed out later in this report, these differences also are a major impediment to independent verification of weapon system costs.

Reported Weapon System Costs Not Accurate

Weapon system costs reported in the Army's financial statements did not flow from historical cost data recorded in the Army's accounting systems. Instead, the Army used the latest acquisition costs and quantity data from its logistics systems to develop overall values for all but four select weapon systems. Though this procedure conflicts with the current Defense and Army criteria, it may provide more meaningful management information.

referred to as standard price) as recorded in the Army Master Data File (AMDF).

In an effort to comply with the historical cost valuation method required by Defense and Army guidance, the Army attempted to determine the historical costs for four of its weapon systems—the Black Hawk and Apache helicopters, the Bradley Fighting Vehicle, and the Abrams M-1 tank. However, the Army's historical cost data for these systems included only procurement costs. The Army did not include the significant costs of modifying and overhauling these systems, as required by Defense and Army guidance.

Army's Fiscal Year 1991 Estimates of Black Hawk Costs Were Inaccurate

In its fiscal year 1991 financial statements, the Army initially valued the Black Hawk fleet based on prices recorded in the AMDF, which were supposed to represent the latest acquisition costs. The Army later adjusted the Black Hawk valuation upward by about $4.9 billion to reflect historical costs. However, neither the latest acquisition price recorded in the AMDF nor the Army's estimate of historical costs was accurate. In addition, the number of weapons recorded by location in the logistics systems, which in total are used to calculate costs, was also erroneous.

As of September 30, 1991, the AMDF reported a per unit price of $4.635 million for the UH-60A Black Hawk model and $4.855 million per unit price for the UH-60L Black Hawk model.[8] In contrast, the Army reported a per unit fiscal year 1991 acquisition cost of $6.376 million for Black Hawks in its December 1991 SAR. The Army's procurement records for the 1,058 Black Hawks on hand as of September 30, 1991, showed an average per unit cost for the Black Hawk program, from fiscal year 1977 through 1991, of $5.296 million. Army officials could not account for these differences or provide us with documentary support to establish what the correct Black Hawk costs were.

In June 1993, we also reported that the Army continues to have problems with latest acquisition prices in the AMDF. Specifically, we pointed out that for 39 of 45 items tested, latest acquisition prices were inaccurate and, as a result, the Army adjusted its equipment values for these 39 items by $118.9 million. When the Army attempted to determine the historical costs of the Black Hawk, it calculated a unit cost of $5.277 million based on total payments made to procure its fleet, divided by the total number of Black

[8]The AMDF has two different prices for the Black Hawk because there are two different Black Hawk models—one has a more powerful engine than the other.

Hawks procured. The Army multiplied this unit cost by the quantity of Black Hawks on hand, as recorded in CBSX, to arrive at a total historical cost of $5.6 billion.

We also counted the Black Hawks at three Army installations and found that the quantities of Black Hawks on hand at two of these three locations were different from the quantities recorded in the logistics systems. Table 2 compares our sample inventory with the Army's inventory records contained in CBSX.

Table 2: Comparison of Sample Count of Black Hawks at Selected Army Installations and Army Inventory Records

Location	Actual quantity on hand	Continuous Balance System quantity
Ft. Belvoir	5	0
Corpus Christi Army Depot	36	33
Ft. Eustis	26	26

These differences bring into question the accuracy of the recorded balances on the logistics systems. When the total quantities on the logistics systems are inaccurate, the reported costs on the financial statements are inaccurate because the Army annually determines the costs of weapon systems for financial statement purposes by multiplying the number of weapon systems on hand in the logistics systems by the AMDF acquisition price.

Our audit of the Army's fiscal year 1991 financial statements,[9] further discussed the accuracy of CBSX and recommended that the Army conduct physical inventories of equipment and adjust the recorded balances on CBSX accordingly. We have also performed work on this issue in our audit of the Army's fiscal year 1992 financial statements and this work showed that the accuracy of information in CBSX continues to be a major problem. In June 1993, we reported[10] that the Army's November 1992 comparison of information in CBSX with information in detailed unit records on weapons and equipment on hand identified more than 58,000 differences for individual items with an aggregate value of about $5.2 billion.

[9]Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82, August 7, 1992).

[10]Financial Audit: Examination of Army's Financial Statements for Fiscal Years 1992 and 1991 (GAO/AIMD-93-1, June 30, 1993).

The Army's adjusted value of $5.6 billion for its Black Hawk fleet, based on its calculation of historical costs, was at least $880.8 million less than total Black Hawk obligations through 1990 of $6.5 billion,[11] or $6.109 million per unit, as detailed in table 3.

Table 3: Historical Costs of Black Hawk Helicopters as of September 30, 1991

Dollars in millions	
Procurement and RDT&E obligations	$6,003.3
Modifications	248.1
Overhauls[a]	182.4
Government-furnished material[b]	30.4
Total historical costs of Black Hawk helicopters	**$6,464.2[c]**

[a]Overhaul data is for fiscal years 1986 through 1991 and excludes the cost of government-furnished materials provided to contractors.

[b]Costs of government-furnished material provided to contractors for overhaul and maintenance of Black Hawk helicopters is for fiscal years 1985 through 1991.

[c]This is $6.110 million for each of the 1,058 Black Hawk helicopters on hand as of September 30, 1991.

Reported Weapon System Costs Not Conducive to Efficient Independent Verification

Independently verifying cost information reported to the Congress and others establishes the validity and enhances the usefulness of such information. However, as stated earlier, the Army's reported costs of acquiring and using weapon systems are drawn from at least 18 disparate, nonintegrated[12] accounting and logistics systems. Further, our work showed that reported costs were incomplete and inconsistent among these systems. As a result, similar Black Hawk weapon system costs reported by the Army in its major external and internal reports on weapon system costs were inconsistent and included significant unsubstantiated adjustments. We were unable to reconcile the information in these reports because of the inconsistencies and adjustments. These conditions adversely affect the Army's and an independent auditor's ability to verify the accuracy of reported weapon system costs. As a result, the Congress

[11]We used obligations through fiscal year 1990 as an estimate of the costs of all Black Hawks delivered through fiscal year 1991; we did not try to determine what portion of 1990 and 1991 obligations pertained to Black Hawks delivered in fiscal 1991 as opposed to those delivered after fiscal 1991.

[12]Nonintegrated systems do not routinely exchange information automatically. Instead, information that is exchanged between related systems must be rekeyed and reentered into each system. This process increases the chance for data to be lost or for errors to be introduced. Integrated systems record data just once and exchange the data between systems automatically. This reduces to a minimum the chances for errors and lost data.

and other users of the reports cannot have full confidence that reported weapon system costs are reliable.

Disparate Systems Impede Verification

Independent verification of the Army's reported weapon system costs is difficult and inefficient because the Army does not record the full cost of weapon systems in a single system. Instead, the Army derives the different elements of the total weapon system costs from a number of disparate accounting and logistics systems that do not automatically share information. As a result of the lack of integration among these systems, data from one system must be rekeyed and reentered into another system. This process causes unresolvable data discrepancies among the reports flowing from these systems and impedes the process of verifying data.

The Congress is aware that the Army's reported weapon system costs may not be reliable. For example, we are currently in the process of issuing a report to the Chairmen of the Senate and House Armed Services Committees on the costs of specially modified Black Hawk and Chinook helicopters. In addition, the Congress periodically asks us to verify the costs and other aspects of weapon system programs submitted by Defense to support congressional oversight of these programs.

However, in preparing information to be verified, the Army faces a severe challenge in separating out the operating and support costs for each system used. For example, aircraft operations costs include petroleum, oil, lubricants, and spare or repair part costs. These costs are recorded and reported under one MDEP code called the Flying Hours Program and are not currently broken out by each type of aircraft.

The Army currently pulls together the various costs elements, such as those in the example above, from its accounting and logistics systems through its Operating and Support Management Information System (OSMIS). However, the information in OSMIS is not conducive to independent verification because (1) a reviewer/auditor would have to trace, test, and validate OSMIS data back through the tiers of feeder systems OSMIS drew the data from to the source documents and transactions and (2) OSMIS data by type of operating cost must be further analyzed to determine operating costs attributable to a particular weapon system.

Instead of requiring OSMIS to pull operating and support cost information from the various accounting and logistics systems, the Army could assign the four-digit MDEP code to individual weapon system operating and

support costs. This would allow the Army's accounting system to record, summarize, and report these costs based on obligations and disbursements, and reduce the risk of error caused by manually transferring data from one system to another.

SARs Did Not Include All Costs

Weapon system costs are also difficult to independently verify because of unexplained differences between the costs recorded in the SARs and the Standard Army Procurement Accounting System (SAPAS). Specifically, the obligations and disbursements for the Black Hawk program reported in the SARs did not match similar information recorded in the Army's RDT&E and procurement appropriations accounting systems. Army officials could not explain these differences.

The obligations and disbursements reported in the SAR are supposed to flow from SAPAS. SAPAS records both procurement and modification costs, but the SARs include only procurement costs. To reconcile and validate the obligations reported in the SARs with SAPAS for fiscal years 1985 through 1990, we had to first deduct obligations for modifications from total obligations in SAPAS to determine obligations for procurement of Black Hawks. Even after this adjustment, as shown in table 4, we found millions of dollars of differences between SARs-reported obligations and SAPAS-recorded obligations for procurement of Black Hawks for each fiscal year. Neither we nor Army officials could trace the obligations and disbursements reported in the SARs to the accounting systems.

Table 4: Comparison of Obligations Reported in the 1991 SAR With Obligations in SAPAS (Adjusted for Modifications)

Dollars in millions

Fiscal year	SAPAS	Modifications	Adjusted SAPAS	SAR	Difference between SARs over/(under)
1985	$499.0	$(15.5)	$483.5	$436.7	**$ 46.8**
1986	445.4	(21.9)	423.5	411.5	**12.0**
1987	387.7	(17.0)	370.7	380.8	**(10.1)**
1988	522.1	(40.7)	481.4	492.4	**(11.0)**
1989	457.7	(33.2)	424.5	473.1	**(48.6)**
1990	409.4	(50.3)	359.1	409.2	**(50.1)**

Further, Army officials responsible for both SAR and SAPAS data could not definitely explain why the net SAPAS did not match the SARs' reported costs. The inability to explain the differences between SAPAS- and SAR-reported information calls into question the reliability of the SARs provided to the Congress for decision-making purposes.

Unsubstantiated Adjustments in the SARs Further Hinder Verification

Adding further barriers to the efficient independent verification of Army reported weapon system cost information are the Army's many unsubstantiated changes to prior reported costs. Specifically, the Army made unsupported changes to prior year costs—obligation and disbursement information—on its December 1991 SAR for the Black Hawk. Army officials could not provide us with the rationale or support for these changes.

Table 5 presents the changes the Army made to previously reported obligations and disbursements in its December 1991 SAR for the Black Hawk program. Because the Army could not explain or support the changes, we could not assess whether they were appropriate.

Table 5: 1991 Changes Made to Obligations and Disbursements as Reported in the 1990 Black Hawk SARs

Dollars in millions

	Reported obligations			Reported disbursements		
Fiscal year	1990 SAR	1991 SAR	Amount increase (decrease)	1990 SAR	1991 SAR	Amount increase (decrease)
1977	$139.6	$140.6	$ 1.0	$139.5	$140.6	$ 1.1
1978	245.8	245.1	(0.7)	245.8	245.1	(0.7)
1979	392.8	392.8	0.0	387.8	392.8	5.0
1980	378.7	378.6	(0.1)	377.2	378.6	1.4
1981	473.5	478.0	4.5	458.6	478.0	19.4
1982	613.4	618.8	5.4	610.9	618.8	7.9
1983	540.6	540.6	0.0	525.6	540.6	15.0
1984	389.6	389.6	0.0	386.3	389.6	3.3
1985	436.7	436.7	0.0	434.4	436.7	2.3
1986	411.5	411.5	0.0	407.2	411.5	4.3

Conclusions

The administration and the Congress are challenged to make the budgetary tradeoffs and other decisions needed to reduce the federal budget deficit. To do this, they need reliable, complete cost and other financial information on federal program and administrative operations. In making decisions on weapon systems, both the administration and the Congress need to know the full cost of acquiring and using such weapon systems.

In managing its resources and formulating budget requests for weapon systems, the Army uses the full cost of acquiring and using these systems. Information on total costs, if it were complete, consistent, and reliable, would facilitate the Congress and other users of such information in making effective decisions on budget tradeoffs and other oversight matters as well as internal decisions on resource management.

However, the usefulness of the Army's reported weapon system cost information is lessened because it is not conducive to efficient and independent verification due to (1) the many disparate systems, their lack of integration, and the inconsistent nature of the cost elements and cost concepts which are captured by these systems, (2) information in the SARs that was incomplete and did not flow from the Army's accounting systems, and (3) the significant unsubstantiated adjustments to costs already reported.

Recommendations

To ensure that weapon system overhauls, modifications, and operating and support costs are readily identified and reported by weapon system, we recommend that the Secretary of the Army direct Army financial managers to assign appropriate weapon system MDEP codes in conjunction with available codes in STANFINS to record overhaul, modification, operating, and support costs by weapon system.

Further, to ensure that the Congress receives useful, accurate information on weapon system costs, we recommend that the Secretary of the Army direct Army financial managers to

- supplement the Army's Selected Acquisition Reports with information on all costs of weapon systems, including operating, support, and modification costs, which the Army uses in its own internal analyses and
- maintain documentation detailing the rationale for, and calculation of, any changes made in information reported in previously issued SARs.

Agency Comments and Our Evaluation

In commenting on a draft of this report, Defense partially concurred with our findings and recommendations. Defense agreed that weapon system cost information was inconsistent, inaccurate, and not conducive to efficient, independent verification. Defense stated that inconsistencies in reported weapon system costs impaired the usefulness of the various internal and external weapon system cost reports and noted that the Army (1) has completed a study, with the assistance of a consulting firm, to determine actions needed to more accurately report weapon system costs and (2) is working with the Office of Comptroller, Department of Defense, to determine appropriate policies for valuing military equipment.

Regarding our recommendations, Defense agreed to maintain documentation detailing the rationale for, and calculation of, any changes made in information reported in previously issued SARs. However, Defense did not concur with our recommendations to (1) use the MDEP structure to record actual operating and support cost by weapon system and (2) provide these costs as supplementary information to the SARs.

In its nonconcurrence with our recommendation to use MDEPs to record actual operating and support costs by weapon system, Defense stated that the Army wants to continue to track these costs by organizational component since this is how these costs are currently funded and managed. Further, Defense commented that the Army would lose its ability to track weapon system costs by organizational component if it used the MDEP structure to track these costs by weapon system. However, Defense did comment that as part of its Corporate Information Management effort, it is exploring the feasibility of reporting these costs by weapon system.

Defense also did not concur with our recommendation to supplement SARs with information on all costs of weapon systems, including operating, support, and modification costs, because the content of SARs is specified by law. Defense added that the Army will only change the content of SARs if directed to do so by the Congress.

Our report does not suggest that the Army move from an organizational component to a weapon system focus for tracking and managing weapon system operating and support costs. We believe these costs can be accumulated both ways. Defense stated that prior to fiscal year 1992, actual operating and support costs were accumulated for some weapon systems using MDEPs. Also, as we point out in the report, the Military

District of Washington currently accumulates operating and support costs both ways using existing Army coding structures.

Further, regarding the SARs, our report does not suggest that the Army no longer present SAR information as currently required by law. However, we believe that the Army can more fully report weapon system costs by supplementing the information already required for the SARs. The statutory definition of what SARs are to include does not prohibit the Army from submitting additional useful information.

More importantly, we believe that actual operating and support costs by weapon system are important data elements needed to support high-level decisions regarding the modification of existing or the acquisition of new weapon systems, which can involve hundreds of millions and possibly billions of dollars. In addition, capturing actual operating and support costs by system would enhance the Army's ability to manage operating and support costs at the unit level by allowing comparisons of actual and projected costs. Such performance data would help assess the reliability of the cost estimates produced by logistics systems and currently used by Army units to budget for and to manage weapon systems.

This report contains recommendations to the Acting Secretary of the Army. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations. You should send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of the report.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, the House Committee on Government Operations, the House and Senate Committees on Appropriations, and the House and Senate Committees on Armed Services; and the Director of the Office of Management and Budget.

Copies will be made available to others upon request. Please contact me at (202) 512-9095 if you or your staffs have any questions. Major contributors to this report are listed in appendix III.

David M. Connor
Director, Defense Financial Audits

Contents

Letter 1

Appendix I Systems Used to Record or Identify Weapon System Costs 24

Appendix II Comments From the Department of Defense 25

Appendix III Major Contributors to This Report 34

Tables

Table 1: Estimated Fiscal Year 1992 Black Hawk Helicopter Costs 6
Table 2: Comparison of Sample Count of Black Hawks at Selected Army Installations and Army Inventory Records 12
Table 3: Historical Costs of Black Hawk Helicopters as of September 30, 1991 13
Table 4: Comparison of Obligations Reported in the 1991 SAR with Obligations in SAPAS (Adjusted for Modifications) 15
Table 5: 1991 Changes Made to Obligations and Disbursements as Reported in the 1990 Black Hawk SARs 16

Abbreviations

AMDF	Army Master Data File
APC	Account Processing Code
CBSX	Continuous Balance System—Expanded
MDEP	Management Decision Package
OSMIS	Operating and Support Management Information System
PROBE	Program Optimization and Budget Execution system
RDT&E	Research, Development, Test, and Evaluation appropriation
SAPAS	Standard Army Procurement Accounting System
SAR	Selected Acquisition Report
STANFINS	Standard Financial Information System

Systems Used to Record or Identify Weapon System Costs

1. Standard Army Procurement Appropriation System (SAPAS)

2. Army Procurement Appropriation Management Accounting and Reporting System

3. Standard Operations Maintenance, Army Research and Development System

4. Research, Development, and Acquisition Information Systems Activity

5. Army Master Data File (AMDF)

6. Continuous Balance System—Expanded (CBSX)

7. Provisioning Master Record

8. Logistics Intelligence File

9. Central Demand Database

10. Aircraft Inventory Status and Flying Time

11. TAMMS-Equipment Database

12. Training Ammunition Management Information System

13. Ammunition Requirements Mobilization Database

14. Maintenance Information Management System

15. Work Order Logistics File

16. Master File Maintenance

17. Maintenance Data Management System

18. Worldwide Aircraft Logistics Conference

Comments From the Department of Defense

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

SEP 24 1993

(Management Systems)

Mr. Donald H. Chapin
Assistant Comptroller General
Accounting and Information
Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Chapin:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "FINANCIAL MANAGEMENT: Reliability of Weapon System Cost Reports is Highly Questionable," dated July 29, 1993 (GAO Code 917229), OSD Case 9276-G. The Department partially concurs with the report.

The Department continues to support the procedure whereby the Army reports operating and support costs by organizational units, since the Army manages those costs by organizational units. Additionally, the Selected Acquisition Report is a report whose content is specified by law (section 2432, title 10, United States Code). Any change in the content must be agreed to by the Congress. In accordance with the DoD understanding of congressional intent, operating and support costs (to include field modifications) are currently reported in the Selected Acquisition Report on an annual per unit basis in base-year dollars to permit comparisons with antecedent programs. There has been no indication from the Congress that the required display of operating and support costs should be changed. However, the Army would change the reporting structure if the Congress determines that the current reporting structure is inadequate. Additionally, as part of the DoD Corporate Information Management effort, the Department is exploring the feasibility of reporting costs by weapon systems.

The detailed DoD comments on the draft report are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

Alvin Tucker
Deputy Comptroller
(Management Systems)

Enclosure

GAO DRAFT REPORT - DATED JULY 29, 1993
(GAO CODE 917229) OSD CASE 9276-G

"FINANCIAL MANAGEMENT: RELIABILITY OF WEAPON SYSTEM COST REPORTS IS HIGHLY QUESTIONABLE"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- FINDING A: Weapon System Costs. The GAO explained that, in budgeting for and managing weapon systems, the Army considers all the major categories of costs--acquisition, operating, and support--and uses at least 18 logistics and accounting systems to keep track of cost and to report on costs. The GAO pointed out that (1) acquisition costs include the amounts spent on research and development, procurement, and major modifications of a weapon system; and (2) operating and support costs include the amounts spent on fuel, maintenance, repairs, and overhauls. The GAO explained that acquisition costs for weapon systems are funded by the research, development, test, and evaluation appropriation and one of several procurement appropriations for aircraft, missiles, weapons and tracked combat vehicles, and other procurement. The GAO further explained that operating and support costs are funded through the Army Operations and Maintenance appropriation.

  The GAO noted that the Army reports weapon systems costs to a wide range of external and internal users--i.e., to the Congress, to Defense officials, and to internal managers. The GAO observed that the Army key weapons systems reports contain different information (the GAO provided a description of the contents of the various reports).

  The GAO explained that accounting systems record and report the appropriated funds allocated to, as well as obligations and expenditures made for (1) the costs of acquiring each weapon system and (2) operating and support costs commingled for all weapon systems. The GAO explained that two accounting systems initially record the various types of budget formulation data for each type of weapon system--the Research, Development, and Acquisition Information Systems Activity System and the Budget Management Information System. The GAO noted that both of those systems provide summary information to the Program Optimization and Budget Execution system--the Army-wide budget formulation and execution system, which is to include cost data for 9 years--covering the budget execution information for the prior year(s) and the estimated costs for the current and future years. The GAO found that budget execution data are

Enclosure

recorded on the Standard Army Procurement Accounting System and the Standard Operations and Maintenance, Army, and Research and Development System. The GAO further found that the Army also records cost information in various logistics systems to help track the many costs of using weapons system--such as maintenance and training costs. (pp. 3-7/ GAO Draft Report)

Now on pp. 1-4.

DoD RESPONSE: Concur. Army operating and support costs are managed and reported by organization and through the capability of the Operating and Support Management Information System database. Cost factors on weapon system consumables and reparables are produced for over 347 materiel weapon systems deployed in tactical units worldwide. That capability provides meaningful data for decision making in the operations support resource environment (i.e., Forces Command, U.S. Army Europe, Eighth U.S. Army, etc.). The Army Operating and Support Management Information System database provides information to the Office of the Secretary of Defense Visibility and Management of Operating and Support Cost Program, as required by Cost Analysis Guidance and Procedures, DoD 5000.4-M, which accumulates operations and maintenance costs by weapon systems for all the Military Services. The Army Operating and Support Management Information System database also is used directly in the Army's unit training program and budget development process to resource all tactical units. The Army also maintains organizational Management Decision Packages to track costs. The Department supports that process as currently the most cost beneficial structure to consider weapon systems in isolation. From an operational perspective, the Department measures effectiveness based on units, since budgetary resources are allocated in that manner.

- **FINDING B: Weapon System Costs Reported to the Congress.** The GAO explained that the Selected Acquisition Reports present information to the Congress on how certain weapon systems costs compare to the baseline estimates of the costs. The GAO reported that most of the reports the Army presented included research, development, test and evaluation, and procurement costs--but did not clearly present total modification, support, and operating costs. The GAO pointed out that Defense guidance on preparing the Selected Acquisition Reports does not require the Army to estimate current modification, operating, and support costs--even though all of the costs must be funded by congressional appropriations. The GAO noted that the costs are reflected in base-year dollars and in terms of a unit of operation, such as one flying hour for an aircraft--as opposed to total costs. The GAO concluded that, to be useful for current

Enclosure

authorization and appropriation decisions, unit cost information must be multiplied by the expected rate of use of the weapon system and adjusted to reflect current, rather than base-year, dollar values.

The GAO referenced a recent report on modifications to certain BLACK HAWK and CHINOOK helicopters (OSD Case 9449), in which the GAO pointed out that at least $3.6 billion in life cycle support costs had not been reported to the Congress. In that prior report, the GAO had concluded that, without complete information about the estimated costs to develop, procure, support, and maintain a system, decision-makers--including the Congress--do not have all the information necessary to make fully informed program and funding decisions.

The GAO concluded that, although information on the costs is reflected in the President's budget submissions to the Congress, the costs are commingled with similar costs from different weapon systems; therefore, neither the Selected Acquisition Reports nor the budget submissions present the Congress with clear and complete information on the costs of a particular weapon system. The GAO noted that the Congress had recognized the need for more complete cost information and, in 1989, directed that Defense may not enter into a multiyear contract for certain acquisition programs unless the Secretary certified that the total operating and support costs for that program are included in the Future Year Defense Program. (pp. 10-13/GAO Draft Report)

Now on pp. 5-7.

DoD RESPONSE: Nonconcur. The Selected Acquisition Report is an acquisition report, not a budget exhibit. As the name implies, it deals with program acquisition costs, i.e., development, procurement, system-specific military construction, and acquisition-related operation and maintenance necessary to acquire a defense system. Subsequent to approval of the defense system, modification costs are considered operating and support costs and are reported as such in Section 18 of the Selected Acquisition Report. If a modification program is designated as a major defense acquisition program, those costs then are considered acquisition costs and reported in the appropriate sections of the Selected Acquisition Report for that modification program. Prior operating and support costs were added to the Selected Acquisition Report by the Congress in the FY 1986 Defense Authorization Act. The Armed Services Committees made it clear in 1989 their intent in requesting operating and support costs was to make comparisons of life cycle costs between new and antecedent programs. Therefore, those costs are reported in the Selected Acquisition Reports on an annual per unit basis (in base-year dollars) to permit such comparisons.

Enclosure

- **FINDING C: Internal Army Management Reports.** The GAO explained that reports drawn from Army weapon system Management Decision Package records included research, development, test and evaluation, and procurement costs, as well as major modification costs. The GAO found, however, that the weapon system Management Decision Package records did not include operating and support costs. According to the GAO, operating and support costs are recorded, reported, and managed by type of costs--fuel and maintenance, for example--rather than by weapon system; consequently, the reports on support costs by type of costs must be further analyzed to assemble and report all costs for a particular weapon system. The GAO concluded that, having to do so, requires extra processing steps and increases the chance for data errors, since information must (1) be extracted from a series of reports and (2) subsequently be recorded, summarized, and analyzed.

  According to the GAO, the Army Standard Financial Information System is capable of recording and reporting the cost of commodities purchased in bulk, such as aircraft fuels, by the type and model of aircraft. The GAO stated that the System is the standard Army accounting system for operation and maintenance appropriated funds and is used to pay weapon system operating and support costs. The GAO reported that the 96-character accounting classification code used by the System includes the Management Decision Package code and an additional four-character code (the Account Processing Code)--which, together, allow the Army command to record and report the use of operation and maintenance funds at various levels of detail.

  The GAO further concluded that the Army weapon system Management Decision Package coding structure could routinely record and report the full support costs of a given weapon system. The GAO further concluded that, by assigning a four-digit Management Decision Package code for support costs for each weapon system, the Army could routinely identify obligations and expenditures for support costs for each weapon system as the transactions are authorized, executed, and recorded. In summary, the GAO concluded that the Army accounting systems could routinely summarize and report all actual support costs by weapon system, which would avoid the risk for error inherent in the current practice of having to determine full weapon system costs by ad hoc analyses of information coming from various logistics systems for operating and support costs. (pp. 14-17/GAO Draft Report)

Now on pp. 7-9.

  DoD RESPONSE: Nonconcur. The Army currently tracks operating and support costs of weapon systems by an organizational activity, e.g., Corps or Divisions, not by weapon system. If the coding of Management Decision Packages were revised to track by weapon systems, the Army would lose its

Enclosure

ability to track current programming and budgeting execution by units. The Army already has a capability of tracking costs by selected major weapon systems through its Operating and Support Management Information System. The majority of users of the data, however, including the Congress, require that data be tracked by programming and budgeting execution by units, not by weapon system.

- **FINDING D:** Army Budget Formulation Documents. The GAO found that the costs captured to support budget formulation purposes give a more complete picture of the cost of procuring, supporting, and operating a weapon system. The GAO concluded that such information is more useful to all resource decision-makers, as well as those with oversight responsibilities. The GAO pointed out that the support costs included in budget formulation documents are developed for each weapon system by special analyses of information recorded in various accounting and logistics systems. (p. 17/GAO Draft Report)

Now on p. 9.

DoD RESPONSE: Concur.

- **FINDING E:** Data Consistency Among Reports. The GAO reported that a review of the supporting documentation for the Army budget request for the BLACK HAWK helicopter program showed that the reported costs ranged between $405.3 million and $507.5 million for FY 1992. According to the GAO, Army officials could not explain the reason for the wide range in the cost figures or why the higher end of the range was reported. The GAO concluded that such differences call into question the reliability and usefulness of the various internal and external weapon system cost reports. (p. 18/GAO Draft Report)

Now on p. 9.

DoD RESPONSE: Concur.

- **FINDING F:** Reported Weapon System Costs Not Accurate. The GAO found that weapon system costs reported in Army financial statements did not flow from historical cost data recorded in the Army accounting systems. The GAO pointed out that, instead, the Army used the latest acquisition cost and quantity data from logistics systems to develop overall values for weapon systems. The GAO concluded that, though the procedure conflicts with the current Defense and Army criteria, it may actually provide more meaningful management information. The GAO reported that the data in the logistics systems used by the Army to value the fleet of BLACK HAWK helicopters was not accurate. The GAO also reported that the Army attempted to determine historical costs for the BLACK HAWK and three other major weapon systems. The GAO determined that, as a result, the Army adjusted the

Enclosure

value of the BLACK HAWK helicopters in the Statement of Financial Position for FY 1991 upward by $4.9 billion, for a total value of about $5.6 billion; however, the total historical cost recorded in several Army accounting and logistics systems was at least $880 million more than the Army revised $5.6 billion FY 1991 value for the BLACK HAWK fleet. The GAO referenced a June 1993 report (OSD Case 9449) in which it concluded that the Army continued to have problems with standard prices in the Army Master Data File. In that report the GAO had pointed out that, for 39 of 45 items tested, standard prices were inaccurate--and, as a result, the Army adjusted the equipment values for the 39 items by $118.9 million. The GAO explained that, when the Army attempted to determine the historical costs of the BLACK HAWK, a unit cost of $5.277 million was calculated--based on total payments made to procure the fleet, divided by the total number of BLACK HAWKs procured. The GAO further stated that the Army multiplied the unit cost of the quantity of BLACK HAWKs on hand, as recorded in the Continuous Balance System-Expanded, to arrive at a total historical cost of $5.6 billion. The GAO referenced its audits of the Army FY 1992 and FY 1991 financial statements (OSD Cases 9276-E and 8674-L), in which the accuracy of the Continuous Balance System-Expanded system was further discussed. (pp. 19-26/GAO Draft Report)

Now on pp. 9-13.

DoD RESPONSE: Concur. The Army currently values its weapon systems at latest acquisition cost as recorded in the Army Master Data File. The Army recognizes the deficiencies in the computations made for items in that data file. On June 15, 1993, the Army completed a study with the assistance of Coopers and Lybrand and determined the actions needed to portray costs more accurately in the Army Master Data File. On August 11, 1993, the Army requested a waiver from the DoD Comptroller policy for valuing military equipment (including weapons systems) at historical cost. That request currently is under evaluation.

- **FINDING G**: **Reported Weapon System Costs Not Conducive to Efficient Independent Verification**. The GAO asserted that independently verifying cost information reported to the Congress and others establishes the validity and enhances the usefulness of cost information. The GAO pointed out, however, that the Army reported costs of acquiring and using weapons systems--drawn from at least 18 disparate, nonintegrated accounting and logistics systems--were incomplete and inconsistent. The GAO found that similar BLACK HAWK weapon system costs reported by the Army in major external and internal reports on weapon systems costs were inconsistent and included significant unsubstantiated adjustments. The

Enclosure

Now on pp. 13-16.

GAO indicated that it was unable to reconcile the information in the reports because of the inconsistencies and adjustments. The GAO concluded that, as a result, the Congress and other users of the reports cannot have full confidence that reported weapon system costs are reliable. (pp. 27-34/GAO Draft Report)

DoD RESPONSE: Concur. The Army realizes that it does not have the automated systems necessary to capture all actual costs of a weapon system under one integrated automated process. The Army proposes to use the latest acquisition cost to value military equipment. In this regard, on August 11, 1993, the Army requested a waiver from the DoD requirement to use historical costs for valuing military equipment. That request currently is under evaluation.

* * * * *

RECOMMENDATIONS

Now on p. 17.

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of the Army direct Army financial managers to assign appropriate weapon system Management Decision Package codes, in conjunction with available codes in the Standard Financial Information System, to record overhaul, modification, operating, and support costs by weapon system. (p. 36/GAO Draft Report)

DoD RESPONSE: Nonconcur. The Army financial structure currently is not aligned to report costs by weapon systems as recommended by the GAO. The Army manages by missions and programs, not by weapon systems. Prior to FY 1992, operating and support costs had been collected and reported through its Operating and Support Management Information System on some weapon systems using Management Decision Packages. However, since many of the actual field operating costs were identified under the Army Training Resource Model, the decision was made to discontinue collecting those costs by weapon systems. When that occurred, some actual costs, such as depot maintenance, were no longer identified or shown against specific weapon systems. The Army reports those operating and support costs by organizational Management Decision Packages, not by weapon system, because such costs are managed by organizational units. The Army is planning to continue to report operating and support costs by organizational Management Decision Packages, because the Army needs to be funded in the same manner in which it is structured. Nevertheless, capturing costs by weapon systems is an issue being addressed as part of the DoD Corporate Information Management effort.

Enclosure

Now on p. 17.

- **RECOMMENDATION 2**: The GAO recommended that the Secretary of the Army direct Army financial managers to supplement the Army Selected Acquisition Reports with information on all costs of weapons systems--including operating, support, and modification costs--which the Army uses in internal analyses. (pp. 36/GAO Draft Report)

  DoD RESPONSE: Nonconcur. The Selected Acquisition Report is a DoD weapon systems report to the Congress whose content is specified by law (section 2432, title 10, United States Code). Any change in content must be coordinated between the DoD and the Congress. Operating and support costs (to include field modifications) are currently reported on an annual per unit basis in base-year dollars to permit comparisons with antecedent programs in accordance with the DoD understanding of congressional intent. There has been no indication from the Congress that the required display of operating and support costs should be changed. The Army continues to support the costing of weapon systems by Management Decision Packages for organizational units instead of total costing of weapon systems. The Army would change the reporting structure to report total costs by weapon systems if the Congress determines that the current reporting structure is inadequate.

Now on p. 17.

- **RECOMMENDATION 3**: The GAO recommended that the Secretary of the Army direct Army financial managers to maintain documentation detailing the rationale for, and calculation of, any changes made in information reported in previously issued Selected Acquisition Reports. (pp. 36/GAO Draft Report)

  DoD RESPONSE: Concur. A portion of each Selected Acquisition Report cost variance analysis is dedicated to cataloging and explaining the rationale for any changes made in information reported in previous reports. The Selected Acquisition Reports display the current estimate and compares it with the original estimate. Previously reported changes, and the reasons for the changes, already are recorded in Selected Acquisition Reports. The Army Acquisition Executive will direct the relevant Army program offices to reemphasize the importance of maintaining documentation that details the rationale for, and calculation of, any changes made in information reported in previously issued Selected Acquisition Reports. That action will be completed within the next 60 days.

Enclosure

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However, the data in the logistics systems which the Army used to value its fleet of Black Hawk helicopters were not accurate. In addition, for the Black Hawk and three other major weapon systems, the Army attempted to determine historical costs. In the case of the Blackhawk helicopters, this resulted in an upward adjustment of $4.9 billion, for a total value of about $5.6 billion in its Statement of Financial Position for fiscal year 1991. However, we found that the total historical cost as recorded in several Army accounting and logistics systems was at least $880 million more than the Army's revised fiscal year 1991 $5.6 billion value for the Black Hawk fleet.

Reported Black Hawk Costs Determined in Conflict With Current Criteria

The Army's Statements of Financial Position for fiscal years 1991 and 1992 carried values for most weapon systems that were estimates of the latest acquisition costs. Those estimates were based on the number of each weapon on hand and the latest acquisition costs. However, the Army valued four of its weapon systems, including the Black Hawk helicopter, based on the costs paid to acquire these systems. Both of these valuation methods conflicted with current Defense and Army policy, which provide that weapon systems must be recorded and reported at actual historical costs incurred to maintain the weapons in combat-ready condition.

Over time, the Army (1) performs overhauls to extend a weapon system's service life and (2) modifies the weapon to improve its capabilities. Both Defense and Army accounting regulations[7] state that the cost of any asset—such as weapon systems—is to include the actual acquisition cost plus the costs of any additions, improvements, alterations, rehabilitations, or replacements that extend the useful life of an asset.

The values for most weapon systems carried in the Army's fiscal year 1991 and 1992 Statements of Financial Position were estimates which attempted to approximate latest acquisition costs for the weapon systems, rather than historical costs required by Defense and Army guidance. While in conflict with the guidance, there is an opposing view that latest acquisition costs for weapon systems are a more appropriate value for financial statement purposes. The reported weapon system values were based on (1) the number of items on hand for each weapon system as recorded in the Army's logistics system called the Continuous Balance System—Expanded (CBSX) and (2) the latest acquisition price (sometimes

[7]Army Regulation 37-1, section 18-4, Army Accounting and Fund Controls, and Department of Defense Guidance on Form and Content of Financial Statements in Fiscal Year 1991 Financial Activity (Chapter 7, November 1991).