

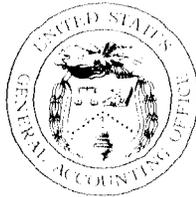
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Report to the Chairmen, Subcommittees
on Defense, Senate and House
Committees on Appropriations

November 1989

ARMY BUDGET

Potential Reductions to
Tracked and Wheeled
Vehicles Budgets



**National Security and
International Affairs Division**

B-222085

November 27, 1989

The Honorable Daniel K. Inouye
Chairman, Subcommittee on Defense
Committee on Appropriations
United States Senate

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

This report responds to your requests that we review the Army's justification for its fiscal year 1990 budget estimates for selected line items in its budget for the Procurement of Weapons and Tracked Combat Vehicles and Other Procurement, Army. Also, we reviewed the execution of the budgets for fiscal years 1988 and 1989 for these same items to identify potential reductions.

We identified potential reductions of \$265.0 million in the amounts requested or appropriated for Weapons and Tracked Combat Vehicles—\$49.1 million in fiscal year 1988, \$146.0 million in fiscal year 1989, and \$69.9 million in fiscal year 1990. Also, we identified potential reductions of \$57.2 million in the amounts requested or appropriated for Other Procurement, Army—\$4.8 million in fiscal year 1987, \$6.9 million in fiscal year 1988, \$16.6 million in fiscal year 1989, and \$28.9 million in fiscal year 1990. We arrived at these amounts primarily by updating the Army's estimates using more current information. See appendixes I and II for a discussion of these potential budget or appropriation reductions.

As requested, we did not obtain agency comments on this report. However, we discussed its contents with officials from the Office of the Secretary of Defense and the Army and have incorporated their comments where appropriate. Our objectives, scope, and methodology are described in appendix III.

As arranged with your offices, we are sending copies of this report to various congressional committees, the Secretaries of Defense and the Army, and the Director of the Office of Management and Budget. Copies will be made available to others upon request.

This report was prepared under the direction of Richard Davis, Director, Army Issues, who may be reached on (202) 275- 4141 if you or your staff have any questions. Other GAO staff members who made major contributions to this report are listed in appendix IV.



Frank C. Conahan
Assistant Comptroller General

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Potential Reductions to the Army's Procurement of Weapons and Tracked Combat Vehicles Budget

In its fiscal year 1990 budget, the Army requested \$1,033.7 million for 448 M1A1 tanks, \$576.41 million for 600 Bradley Fighting Vehicles, and \$325.0 million for spares and repair parts for tracked and combat vehicles. We reviewed the major cost elements for these three budget line items, which accounted for about 71 percent of the \$2,745.0 million Weapons and Tracked Combat Vehicles procurement budget. Also, we reviewed the budget execution for fiscal years 1988 and 1989 for these line items. Our review of prior year funds included \$124.8 million previously allocated to the M88 Series Recovery Vehicle program, which was terminated in early 1989.

As shown in table I.1, we identified potential budget request reductions of \$69.9 million in fiscal year 1990 and potential unneeded appropriations of \$146.0 million from fiscal year 1989 and \$49.1 million from fiscal year 1988. Generally, our calculations of potential amounts were based on events that occurred and information that became available after the Army had prepared its budget estimates.

Table I.1: Potential Reductions to Selected Line Items in the Army's Weapons and Tracked Combat Vehicles Procurement Budget and Appropriations

Dollars in millions				
Budget line item	Fiscal year			Total
	1988	1989	1990	
Bradley				
Fire control	\$0.0	\$0.7	\$0.7	\$1.4
Turret drive	0.0	5.1	0.5	5.6
Total	0.0	5.8	1.2	7.0
M88 series recovery vehicle	24.1	100.7	0.0	124.8
M1A1 tank				
Basic vehicle	23.0	23.4	17.6	64.0
Transmission	1.8	14.9	12.8	29.5
Track	0.2	0.4	0.6	1.2
Fire control	0.0	0.8	0.3	1.1
Total	25.0	39.5	31.3	95.8
Spares and repair parts	0.0	0.0	37.4	37.4
Total potential reductions	\$49.1	\$146.0	\$69.9	\$265.0

The potential reductions are explained in greater detail below by budget line category and fiscal year.

Bradley Fire Control

The Bradley fire control system is made up of components procured from three different contractors. The Army based its fiscal year 1990

budget estimate of \$101.5 million for the fire control system on a fiscal year 1988 contract price for a component (the Tube-launched, Optically-tracked, Wire-guided missile launcher) to be procured from one contractor and on baseline cost estimates for components to be procured from two other contractors. These were the most current prices available when the budget request was prepared. The fiscal year 1989 contract has now been awarded for the missile launcher. We recomputed the estimate using the fiscal year 1989 contract price for the launcher and identified a potential reduction of \$690,000 to the fiscal year 1990 budget estimate and \$654,000 from the fiscal year 1989 appropriation. Program officials agreed with our calculations.

Bradley Turret Drive

The Army's fiscal year 1990 budget estimate for the Bradley Turret Drive System of \$43.7 million was based on a unit price quoted in the letter contract for a fiscal year 1988 to 1991 multiyear procurement. A program official said that the unit price has recently been negotiated downward. We obtained the new contract, and using the new unit price, we estimate that the fiscal year 1990 budget estimate could be reduced by \$504,000. Program officials agreed with our calculations but believe that the funds should remain available for other Bradley requirements.

Because of the lower price, the Bradley turret drive budget line no longer requires \$5.1 million from the fiscal year 1989 appropriation and \$4.4 million from the fiscal year 1988 appropriation. However, program officials have reprogrammed the \$4.4 million from fiscal year 1988 to the Bradley modification budget line, and therefore, the \$4.4 million is not available for reduction. Program officials agreed with our calculations but said that they plan to use the \$5.1 million from the fiscal year 1989 budget to purchase additional Bradleys.

M88 Series Recovery Vehicle

The Congress appropriated \$24.1 million in fiscal year 1988 for advanced procurement of long-lead items for the M88 series recovery vehicle. In fiscal year 1989, the Congress appropriated \$22.3 million for the advanced procurement of long-lead items and \$78.4 million for the procurement of 61 vehicles. The Army did not request funding for the program in the fiscal year 1990 budget request pending the outcome of congressionally directed side-by-side comparative tests of two candidate vehicles.

The Secretary of Defense decided to terminate the M88 program because of budget considerations and because vehicle performance requirements

could not be fully achieved. On April 28, 1989, the Army terminated its M88 contract, leaving the \$124.8 million appropriated for the program in fiscal years 1988 and 1989 unspent. Since the program has been terminated, we believe that the \$124.8 million could be reduced from the fiscal years 1988 and 1989 appropriations. Army officials did not comment on these potential reductions other than to agree that the M88 program has been terminated.

M1A1 Tank Basic Vehicle

The Army requested \$656.5 million in fiscal year 1990 for the M1A1 Tank Basic Vehicle. Included in this request was \$17.6 million for five itemized contingencies, such as a reserve for foreign currency fluctuation, that represent the Army's maximum potential liability. Program officials were not able to provide us with cost data to support funding these contingencies at this level. Therefore, we believe that the \$17.6 million could be considered for reduction. We believe that the Army should request the actual costs once these contingencies materialize.

In addition, we identified \$23.4 million from the fiscal year 1989 appropriation and \$23.0 million from the fiscal year 1988 appropriation that are being held as reserves for contingencies. Again, program officials were not able to provide us with cost data to support funding these contingencies at this level. We believe that these reserves also should be considered for potential reduction and that the Army should request the actual costs of the contingencies once those costs are determined.

Although program officials agreed that there may be a potential for excess contingency funds, they believe that the full reserves are needed until these contingencies are resolved.

M1A1 Tank Transmission

The Army requested \$79.6 million in fiscal year 1990 for the M1A1 tank's transmission. A program official said that the request was based on a fiscal year 1989 contract price proposal, which was the most current price available when the budget estimate was prepared. However, after the budget was prepared, a lower contract price was negotiated. We obtained the contract, recomputed the budget estimates based on the lower contract costs, and identified a potential reduction of \$29.5 million—\$12.8 million from the fiscal year 1990 budget request, \$14.9 from the fiscal year 1989 appropriation, and \$1.8 million from the fiscal year 1988 appropriation. Program officials agreed with our computations.

M1A1 Tank Track

The Army requested \$13.3 million in fiscal year 1990 for new M1A1 tank tracks. The amount requested was based on the most current multi-year contract prices for the tracks and included a \$0.6 million contingency to allow for performance incentives in the contract. The contract price will be adjusted upward if the track and track pads exceed a specified performance level. Testing to determine the contractor's performance level will be substantially completed in December 1989. Program officials were not able to provide us with detailed cost data to support funding the contingency at this amount. Therefore, we believe that the \$0.6 million should be considered for reduction and that the Army should request the actual cost of the contract incentive when that cost is determined.

In addition, we identified similar contingencies of \$0.4 million from the fiscal year 1989 appropriation and \$0.2 million from the fiscal year 1988 appropriation. We believe that these amounts also should be considered for reduction for the same reasons stated above. Program officials agreed that these expenditures may not materialize.

M1A1 Tank Fire Control System

In fiscal year 1990, the Army requested \$78.9 million for the M1A1 tank's fire control system. The appropriation for fiscal year 1989 for this purpose was \$90.6 million. The fire control system is made up of components from four different contractors. These components are procured under three single year and one multiyear contract. Generally, for budget purposes, the Army escalates the prior year's contract prices to estimate the present and future years' contract prices.

Recently, the Army negotiated a new unit price for its multiyear contract. The result was a lower unit cost than was used in preparing the Army's budget requests for fiscal years 1989 and 1990. We recomputed the estimated costs of the fire control system for the 2 fiscal years using the lower unit cost and identified potential reductions of \$0.8 million from the fiscal year 1989 appropriation and \$0.3 million from the fiscal year 1990 budget request.

While program officials agreed with our calculations, they believe that the funds are needed to compensate for higher-than-anticipated costs for optical improvements. This cost had not been previously included under the fire control cost line of the M1A1 budget.

Spares and Repair Parts

In its fiscal year 1990 budget request, the Army requested \$176.8 million for spares and repair parts to be purchased by the Tank-Automotive Command for tracked combat vehicles. Revised estimates indicate a potential reduction of \$37.4 million from the fiscal year 1990 budget request. This reduction is based on the Tank-Automotive Command's January 1989 forecast that \$98.4 million will be needed for replenishment and initial spares, as compared to \$135.8, which was requested in the budget and which was based on an earlier forecast. Command officials agreed that requirements had decreased but projected that these funds may be needed to cover a one-time increase to fill pipeline requirements that could result if a proposal is approved for the Command to assume wholesale management responsibility of Europe's reparable parts management program.

In June 1989, the Army took for reprogramming an additional \$74.7 million from the spares and repair parts fiscal year 1989 appropriation because the Tank-Automotive Command could not obligate the funds programmed for war reserves during fiscal year 1989. The Army plans to reprogram these funds to (1) cover authorized pay increases in the operations and maintenance appropriation, (2) fund Army environmental and safety requirements, and (3) reimburse the Chemical Demilitarization program. As these funds are being reprogrammed, they should not be considered available for reduction.

Potential Reductions to the Army's Other Procurement Budget and Appropriations

In its \$4.2 billion fiscal year 1990 budget request for Other Procurement Budget and Appropriations, the Army requested \$222.5 million for 8,517 High Mobility Multi-Purpose Wheeled Vehicles, \$46.6 million for the Heavy Equipment Transporter, \$28.4 million for 192 Small Unit Support Vehicles, and \$61.8 million for 132 Armored Combat Earthmovers. We reviewed the fiscal year 1990 cost estimates for these budget lines and also the Army's budget execution for fiscal years 1987 through 1989 to identify unused funds that could represent potential reductions. Our review of prior year funds also included \$15.4 million previously allocated to the military motorcycle program, which was terminated in late 1988.

As shown in table II.1, we identified potential reductions of \$4.8 million for fiscal year 1987, \$6.9 million for fiscal year 1988, \$16.6 million for fiscal year 1989, and \$28.9 million for fiscal year 1990. Generally, our calculations were based on events that occurred and information that became available after the Army had prepared its budget.

Table II.1: Potential Reductions to Selected Line Items in the Army's Other Procurement Budget and Appropriations

Budget line items	Fiscal year				Total
	1987	1988	1989	1990	
Dollars in millions					
High Mobility Multi-Purpose Wheeled Vehicle	\$4.8	\$1.0	\$12.5	\$0.0	\$18.3
Heavy Equipment Transporter					
Tractors	0.0	0.0	0.0	11.6	11.6
Trailers	0.0	0.0	0.0	9.4	9.4
Small Unit Support Vehicle	0.0	1.7	0.0	4.4	6.1
Armored Combat Earthmover	0.0	4.2	4.1	3.5	11.8
Military Motorcycle	0.0	0.0	0.0	0.0	0.0
Total potential reductions	\$4.8	\$6.9	\$16.6	\$28.9	\$57.2

These potential reductions are explained below in greater detail by budget line category and fiscal year.

High Mobility Multi-Purpose Wheeled Vehicle

In its fiscal year 1990 budget, the Army requested \$222.5 million for the procurement of 8,517 high mobility multi-purpose wheeled vehicles over the next 5 years. We are not reporting any potential budget reductions from the fiscal year 1990 budget request because, on the basis of the proposed prices for the second multiyear contract, program officials anticipate that the prices will be significantly higher than in the past. These officials said that the primary reason for the increased prices was

that quantities for the second multiyear contract are significantly lower than under the first multiyear contract. The production rates under the second contract will be 40 to 45 vehicles a day as opposed to 70 or more a day during the prior contract.

We identified potential reductions of \$12.5 million from the fiscal year 1989 appropriation, \$1.0 million from the fiscal year 1988 appropriation, and \$4.8 million from the fiscal year 1987 appropriation. Our calculations of the reductions were based on actual contract costs, which were less than expected. Program officials agreed with our calculations. However, they stated that the funds for fiscal years 1989 and 1988 will be needed for the second multiyear contract.

Heavy Equipment Transporter

In its fiscal year 1990 budget request, the Army requested \$46.6 million for the heavy equipment transporter—\$11.6 million for tractors and \$35.0 million for trailers. The tractors are not scheduled to be bought until fiscal year 1991. Because the contract will not be awarded until fiscal year 1991, we believe that the \$11.6 million could be reduced from the fiscal year 1990 budget request. Program officials agreed that the \$11.6 million budgeted for tractors in fiscal year 1990 would not be obligated until 1991. However, they said that they needed the money in the fiscal year 1990 budget because the funds were not included in their fiscal year 1991 budget request.

Further, a multiyear contract for trailers was awarded in April 1989 at a lower price than anticipated when the fiscal year 1990 budget request was prepared. As a result, \$9.4 million could be reduced from the fiscal year 1990 request. Program officials agreed that the fiscal year 1989 contract costs are less than the estimated prices used for the fiscal year 1990 budget request. However, they said that the savings from the trailer contract are needed to fund fiscal year 1991 tractor requirements.

Small Unit Support Vehicle

In its fiscal year 1990 budget request, the Army requested \$26.7 million to procure 192 small unit support vehicles. The Army, in preparing the request, used 1988 cost data, the most current data available at the time. A more favorable exchange rate between the U.S. dollar and the Swedish kroner allowed the Army to obtain lower unit prices for the second year of the multiyear contract. As a result, we estimate that the fiscal year 1990 budget request for this vehicle could be reduced by \$4.4 million. In addition, we estimate that \$1.7 million could be reduced from

the vehicle's fiscal year 1988 appropriation because the actual contract costs were less than the amount appropriated. While program officials agreed that using the current contract costs would result in lower fiscal year 1990 requirements, they said that prices for the fiscal year 1990 procurement of vehicles depend on the U.S./Swedish currency exchange rates and that an unfavorable exchange rate could result in higher prices.

Armored Combat Earthmover

The Army requested \$61.8 million to procure 132 Armored Combat Earthmovers in its fiscal year 1990 budget request. Included in the request is \$51.6 million for vehicles, government-furnished equipment, and engineering changes; \$3.1 million for economic price adjustments; and \$0.1 million for a computerized information system. As a result of our review of these three budget elements, we identified potential reductions of \$3.5 million in these funds. In addition we identified potential reductions of \$4.2 million in the fiscal year 1988 appropriation and \$4.1 million in the fiscal year 1989 appropriation.

The Armored Combat Earthmover program currently has a \$7.3 million reserve for engineering changes. This reserve consists of (1) funds appropriated during fiscal years 1987 through 1989, (2) funds requested in fiscal year 1990, and (3) monies saved as a result of downward contract price adjustments resulting from breakout, deviations, waivers, and value engineering changes. Program officials estimate that \$4.0 million will be needed for proposed engineering changes to correct deficiencies identified during initial production tests. We believe that the remaining \$3.3 million—\$1.5 million from fiscal year 1988, \$1.3 million from fiscal year 1989, and \$0.5 million from fiscal year 1990—could be reduced because it is not supported by cost estimates for engineering changes. Program officials said that, although they do not have firm engineering change proposals to support \$3.3 million of the reserve, they anticipate that there may be a need for future engineering changes to correct deficiencies that could surface after the vehicles are fielded.

The Army based its budget estimates for the cost of economic price adjustments on ceiling amounts contained in the contract. We recalculated this cost using economic cost statistics for March 1989. As a result, we estimate that the fiscal year 1988 appropriation could be reduced by \$2.6 million; the fiscal year 1989 appropriation could be reduced by \$2.7 million; and the fiscal year 1990 budget request could be reduced by \$2.9 million. Program officials agreed that our estimate correctly projected a potential excess in the economic price adjustment funds as of

March 1989. However, they believed that the amounts should be retained because they could be contractually obligated for amounts up to the contractual ceilings.

On the basis of our review of budgets for a proposed computerized information system, we identified a potential \$0.3 million reduction—\$0.1 million from each of fiscal years 1988, 1989, and 1990. The \$0.3 million could be reduced because there are no current plans to obligate funds for the system. Program officials agreed with our analysis.

Military Motorcycle

The Army received a total of \$15.4 million through fiscal year 1988 for the military motorcycle program. The program was terminated in fiscal year 1988 with \$6.9 million remaining from the fiscal year 1988 appropriation. However, the \$6.9 million is no longer available for reduction because the Army reprogrammed it after we had completed our analysis—\$5.0 million was reprogrammed to the High Mobility Multi-Purpose Wheeled Vehicle program, and \$1.9 million was reprogrammed to the Commercial Utility Cargo Vehicle program.

Objectives, Scope, and Methodology

Our objectives were to evaluate and identify potential adjustments to the Army's fiscal year 1990 budget requests for the Procurement of Weapons and Tracked Combat Vehicles and the Other Procurement appropriations. We also reviewed these appropriations in fiscal years 1987 through 1989 to identify funding not yet used that could be reduced. We determined the basis for the Army's estimates of its funding requirements and identified changes that had occurred after the estimates were made. We then used the more current information to update the Army's budget estimates.

We focused our review on the procurement budget lines for items managed at the Tank-Automotive Command. These budget line items account for about 71 percent of the Army's fiscal year 1990 budget request for the Weapons and Tracked Combat Vehicles and about 10.5 percent of the budget request for the Other Procurement, Army, Budget.

We conducted our review at Headquarters, Department of the Army, Washington, D.C., and the Tank-Automotive Command, Warren, Michigan. We interviewed Army officials and reviewed and analyzed various budget documents, contract information, cost estimates, and other documents relevant to the Army's budget request.

We performed our review from January to June 1989 in accordance with generally accepted government auditing standards.

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