INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

REPORT
NO. 92-026

December 19, 1991

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Quick-Reaction Report on Non-DoD Agencies' Use of Into-Plane Refueling Contracts at Commercial Airports (Project No. 1LC-0030.01)

Introduction

We are issuing this final quick-reaction report as part of the Audit of Into-Plane Refueling (Project No. 1LC-0030). The complete objectives of the audit are to determine if the Services are collecting and submitting appropriate fuel consumption data to the Defense Fuel Supply Center (DFSC) to support the establishment of into-plane contracts at commercial airports, if existing into-plane contracts are being used by DoD pilots when fuel is purchased at commercial airports, if DoD aircraft can make greater use of military installations to refuel rather than using commercial airports, and if non-DoD agencies that obtain fuel under DoD into-plane contracts should reimburse DoD at the contract cost rather than at the lower stock fund price. This report addresses the last audit objective.

DFSC was undercharging non-DoD agencies for fuel purchased under DoD into-plane refueling contracts at commercial airports. Because DFSC was not recovering its full cost, DoD appropriated funds were being used to subsidize fuel costs of non-DoD agencies. This was contrary to the provisions of United States Code (U.S.C.), title 31, section 1301 and U.S.C., title 31, section 628 (revised statute 3678). For FY 1990, DFSC did not negotiate memorandums of agreement with non-DoD agencies to establish billing rates to fully recover DoD's cost. The non-DoD agencies' fuel purchases under DoD's Into-Plane Refueling Program (using the existing reimbursement basis with the same quantity of fuel purchases) could cost DoD about $28.4 million during the Future Years Defense Program, which covers the 6-year period October 1991 through September 1997.

Background

DFSC, a field level component of the Defense Logistics Agency (DLA), is responsible for awarding and administering into-plane contracts (agreements between DFSC and contractors) at commercial airports. An into-plane contract contains provisions for providing fuel and related services to Government aircraft. Into-plane contracts are established to obtain volume discounts

and to ensure that fuel purchased meets military specifications. In FY 1990, there were about 370 into-plane contracts at commercial airports worldwide (280 domestic and 90 overseas). During FY 1990, DFSC paid contractors $127.8 million for fuel purchased by DoD and non-DoD agencies under into-plane contracts. Of the $127.8 million, non-DoD agencies accounted for $11.7 million (9 percent).

DoD Regulation 7220.9-M, "DoD Accounting Manual," October 1983, requires DFSC, as a DoD component, to establish memorandums of agreement with all non-DoD agencies to formulate the basis for billing non-DoD agencies for actual costs incurred by DoD. Furthermore, DoD Regulation 7420.13-R, "Stock Fund Operations," June 1986, provides that DoD and the Coast Guard will be billed for fuel at the standard price while all other Government agencies are to reimburse DFSC for any additional cost incurred.

Discussion

DFSC was billing and receiving reimbursement from non-DoD agencies at the standard price (stock fund price) for fuel purchased under into-plane contracts at commercial airports. By reimbursing DFSC at the standard price, non-DoD agencies were not paying DoD the actual cost incurred to provide refueling and related service. We determined that non-DoD agencies reimbursed DFSC a total of $7.0 million in FY 1990 or $4.7 million less than what DoD paid contractors for refueling service (Enclosure 1).

Billing procedures. By charging non-DoD agencies the DLA standard price, the Defense Stock Fund was not being fully reimbursed for payments made to into-plane contractors. This resulted in charging DoD activities a higher price to absorb the subsidy being provided to non-DoD agencies. Non-DoD agencies were not billed the actual cost of their fuel purchases because DFSC did not have any interagency memorandums of agreement to specify the billing rates for non-DoD agencies that obtained fuel under into-plane contracts awarded by DFSC.

Standard rate. The standard price per gallon of fuel in FY 1990 was $0.55, while the average actual cost that DoD reimbursed into-plane contractors was about $0.96 per gallon. DFSC purchased large quantities of bulk fuel outside of the into-plane program at prices well below the cost of into-plane purchases. These bulk fuel purchases resulted in the standard price being much lower than the into-plane price. Bulk fuel is the primary source of fuel for DoD military aircraft at military installations. However, non-DoD agencies fuel purchases are exclusively from into-plane contracts at commercial airports. Therefore, non-DoD agencies should not be given the benefit of

the reduced bulk fuel prices included in the computation of the standard price. By billing non-DoD agencies the standard price, DoD did not recover all the costs related to the Into-Plane Refueling Program.

Separate accounting. DFSC maintained records showing the cost to manage each type of fuel product, including a separate category for into-plane fuel. DFSC had the capability to account for the into-plane program separately. The cost data already maintained allow DFSC to establish separate billing prices for non-DoD agencies.

Legal compliance. According to U.S.C., title 31, section 1301, augmentation (increase) of appropriations is not permitted. Also, U.S.C., title 31, section 628 (revised statute 3678), states that except as otherwise provided by law, sums appropriated for the various branches of expenditure in the public service shall be applied solely to the objects for which they are respectively made, and for no others. Non-DoD agencies' appropriations were indirectly increased because the agencies did not reimburse DoD for the actual cost incurred for fuel purchased under into-plane contracts. DoD should not have been using its appropriated funds to subsidize fuel cost of non-DoD agencies.

Recommendations

We recommend that the Commander, Defense Fuel Supply Center:

1. Promptly notify non-DoD agencies that actual costs incurred will be billed for fuel purchases under DoD into-plane contracts.

2. Establish memorandums of agreement, by March 1992, with non-DoD agencies to formulate billing rates for recovering actual costs incurred to purchase fuel at commercial airports under DoD into-plane refueling contracts, and bill for the costs in the subsequent billing cycle.

Management Comments

The Deputy Comptroller, Defense Logistics Agency (DLA), concurred with Recommendation 1. and has requested authority from the Comptroller, DoD, to revise the selling price to civilian agencies for into-plane fuel for the second half of FY 1992. DLA is awaiting a decision from the Comptroller, DoD. DLA also stated that it has been advised that authority will be granted to charge a separate standard price to DoD and non-DoD into-plane customers beginning in FY 1993. The price will reflect the actual cost of the fuel. Customers have been so notified.

DLA nonconcurred with Recommendation 2. because there was no precedent for establishing memorandums of agreement to charge other than the authorized standard price.

DLA agreed that non-DoD agencies were undercharged by $4.7 million in FY 1990. However, DLA did not agree that estimated monetary benefits of $28.4 million would be realized over the 6-year Future Years Defense Program if non-DoD agencies were charged actual costs for into-plane fuel. DLA maintained that the exact monetary benefits cannot be determined with a reasonable degree of accuracy because of the volatility of fuel prices.

Audit Response to Management Comments

DLA's comments meet the intent of Recommendation 1. We request that DLA provide additional comments to the final report by January 3, 1992, regarding the DoD Comptroller's final decision on raising the into-plane selling price for the second half of FY 1992.

DLA's comments to Recommendation 2. are nonresponsive. DLA is not in compliance with DoD Directive 7220.9M, chapter 26, which requires that memorandums of agreement be executed to specify the terms of reimbursements when DoD performs services for non-DoD agencies. Due to DLA's nonconcurrence, the recommended completion date was changed in Recommendation 2. from December 1991 to March 1992. We request that DLA reconsider its position and provide additional comments to the final report by January 3, 1992.

We believe our estimate of $28.4 million is a reasonable approximation of the monetary benefits. However, DLA can track the exact amount of monetary benefits as the benefits occur during the 6-year Future Years Defense Program. DLA has the accounting and billing system available to compute the difference between the actual costs of into-plane fuel and the standard price. If DLA does not accept the audit estimate, we request that DLA track the actual benefits and report them as they occur, through the audit followup process. We request that DLA provide its response to the final report by January 3, 1992.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. John S. Gebka at (703) 614-6206 (DSN 224-6206) or Mr. Billy T. Johnson at (703) 693-0630 (DSN 223-0630). The list of audit team members is in Enclosure 5. The distribution of this report is listed in Enclosure 6.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc:
Assistant Secretary of Defense (Production and Logistics)
Comptroller of the Department of Defense

SCHEDULE OF NON-DOD AGENCIES' PURCHASES OF INTO-PLANE FUEL, FY 1990

Agency	Gallons Purchased	Actual [1] Expenditures by DFSC	Reimbursements [2] to DoD	Difference [3]
National Aeronautics Space Administration	4,623,915	$ 4,235,104	$2,577,002	$1,658,102
Department of Transportation	2,557,262	2,508,444	1,429,408	1,079,036
Department of Justice	2,630,771	2,503,212	1,521,742	981,470
Department of Treasury	1,250,989	1,230,023	730,468	499,555
Department of Energy	500,431	508,088	278,113	229,975
Department of Agriculture	159,567	181,817	130,384	51,433
National Science Foundation	153,139	171,676	84,226	87,450
Department of Commerce	164,349	155,594	97,317	58,277
Department of the Interior	125,573	142,936	88,726	54,210
Corps of Engineers, Civil	54,283	62,650	30,855	31,795
Tennessee Valley Authority	17,630	19,372	11,166	8,206
Total	12,237,909	$11,718,916	$6,979,407	$4,739,509
Future Years Defense Plan				X 6
Estimated Future Years Defense Plan Benefit				$28,437,054

1/ Actual expenditures represent prices that DFSC paid to individual contractors.

2/ Reimbursements represent the amount that DFSC received from the customer by billing at the standard price. During FY 1990 the DLA standard price was $0.55 per gallon.

3/ Amount of unrecovered cost incurred by DoD during FY 1990.

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1. and 2.	Economy and Efficiency By billing non-DoD agencies for the full cost of fuel provided under into-plane contracts, DFSC will discontinue subsidizing non-DoD agencies fuel costs with funds appropriated for DoD's use.	Funds Put to Better Use. DFSC can increase collections by $28.4 million during FY's 1992 through 1997 for appropriation 97X4961.5106 01 S44203.

ACTIVITIES VISITED OR CONTACTED

Comptroller of the Department of Defense, Washington, DC
Director, Defense Logistics Agency, Cameron Station, Alexandria, Virginia
Headquarters, Defense Fuel Supply Center, Alexandria, VA

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DLA-CI

19 NOV 1991

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Quick-Reaction Report on Non-DoD Agencies' Use of Into-Plane Refueling Contracts at Commercial Airports (Project No. 1LC-0030.01)

This is in response to your 15 Oct 91 memorandum requesting our comments pertaining to the subject draft quick-reaction report. The attached positions have been approved by Ms. Helen T. McCoy, Deputy Comptroller, Defense Logistics Agency.

Encl

Jacqueline G. Bryant
JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of Comptroller

AUDIT TITLE AND NO.: Draft Quick-Reaction Report on Non-DoD Agencies' Use of Into-Plane Refueling Contracts at Commercial Airports (Project No. 1LC-0030.01)

FINDING: The audit determined that the Defense Fuel Supply Center did not bill non-DoD agencies for the actual fuel cost incurred by DoD. As a result, DoD incurred unnecessary costs of about $4.7 million during FY 1990.

DLA COMMENTS: Concur. DLA concurs that the cost of the into-plane program in FY 90 was considerably higher than the standard price reimbursed by all customers, both DoD and civilian agencies; and with the IG's estimate of a $4.7 million loss to DoD from reimbursements by non-DoD agencies.

RECOMMENDATION 1: We recommend that the Commander, Defense Fuel Supply Center, promptly notify non-DoD agencies that actual costs incurred will be billed for fuel purchases under DoD into-plane contracts.

DLA COMMENTS: Concur. At the DoD budget hearing on 23 October 1991, DLA requested the Department's permission to raise the into-plane selling price for our civilian agency customers for the second half of FY 92. The DoD Comptroller will advise us of this decision. In addition, we have sought, through the budget process, the authority to charge a separate into-plane standard price which would eliminate the effect of bulk purchases. We have been advised this authority will be granted in FY 93 and our customers have been notified.

RECOMMENDATION 2: We recommend that the Commander, Defense Fuel Supply Center, establish memorandums of agreement, by December 1991, with non-DoD agencies to formulate billing rates for recovering actual costs incurred to purchase fuel at commercial airports under DoD into-plane refueling contracts, and bill for the costs in the subsequent billing cycle.

DLA COMMENTS: Nonconcur. There is no precedent for a memorandum of agreement to charge other than the authorized standard price for the product in any fuel program. We agree that it seems appropriate to charge all into-plane customers, especially non-DoD agencies, an amount representative of the cost. At our DoD budget hearing on 23 October 1991, we requested the Department's permission to raise the into-plane selling price for our civil agency customers for the second half of FY 92. The DoD Comptroller will advise us of the decision. In any event, this problem should go away in FY 1993 since DoD Comptroller has already informally approved a separate standard price for all into-plane customers which does reflect the actual cost.

MONETARY BENEFITS: $28.4 million
DLA COMMENTS: Nonconcur. We agree that had the recommended policy been in place during FY 90, DLA would have received $4.74 million additional reimbursements from non-DoD Inter-plane customers. We disagree with a six year projected benefit. Projecting $28.4 million with a straight-line approach ($4.74 million X 6 years) produces questionable results. Also, the volatile fuel market precludes projecting future costs with a reasonable degree of accuracy.
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE BENEFITS REALIZED: N/A

LIST OF AUDIT TEAM MEMBERS

Shelton R. Young, Director, Logistics Support Directorate
Gordon P. Nielsen, Deputy Director
John S. Gebka, Program Director
Billy T. Johnson, Project Manager
Ellen Hamm, Auditor
Harriet Lambert, Editor
Latonya D. Brooks, Secretary

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Director, Defense Logistics Agency
Director, Defense Contract Audit Agency
Director, Defense Logistics Studies Information Exchange
Commander, Defense Fuel Supply Center

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
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