Audit Report

OFFICE OF THE INSPECTOR GENERAL

CIVIL RESERVE AIR FLEET

Report Number 92-068

April 3, 1992

Department of Defense

The following acronyms are used in this report.

AFB	Air Force Base
ARINC	Aeronautical Radio, Incorporated
ASIF	Airlift Services Industrial Fund
CEP	CRAF Enhancement Program
CINCMAC	Commander in Chief, Military Airlift Command
CONUS	Continental United States
CRAF	Civil Reserve Air Fleet
DOT	Department of Transportation
Eurocharge	Eurocontrol Charge
FAA	Federal Aviation Administration
GDSS	Global Decision Support System
GSA	General Services Administration
LRI	Long-range International
MAC	Military Airlift Command
MACR	Military Airlift Command Regulation
PAN AM	Pan American World Airways, Inc.
SRI	Short-range International
TWA	Trans World Airlines, Inc.

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April 3, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on the Civil Reserve Air Fleet (Report No. 92-068)

This is the final report on our audit of the Civil Reserve Air Fleet (CRAF). The report addresses matters concerning operation of the CRAF during Operation Desert Shield/Storm, the cost-effectiveness of the CRAF Enhancement Program (CEP), and internal controls over payment of carrier invoices.

The comments provided by the Air Force on January 9, 1992, in response to a draft of this report, dated November 8, 1991, concurred with the findings and all of the recommendations except for A.1.c. and B. The comments on the resolved recommendations conformed to the requirements of DoD Directive 7650.3, and additional comments on them are not required in response to this final report. Reconsideration of the Air Force position and additional comments in response to this final report are requested on the two unresolved recommendations discussed below and in the Audit Response sections at the end of the findings in Part II of this report.

The Air Force nonconcurred with Recommendation A.1.c. to exempt CRAF designated aircraft from fees and taxes that are not imposed on military aircraft. The basis for the nonconcurrence was that the civilian organizations funded by these "user fees" are required to surge and extend work periods during contingencies, and that they should not be cause for exemption from payment. While we do not dispute that the civilian organizations may be required to surge during contingencies, the fact remains that military aircraft do not pay the "user fees" in question. Therefore, we continue to believe that the Air Force should not incur these costs for military airlift.

The Air Force further contended that exemption from "user fees" would be tantamount to declaring CRAF assets as "state aircraft" thereby removing them from Federal Aviation Administration (FAA) oversight and transferring that responsibility to the Air Force, which is not staffed or trained for such surveillance. In our opinion, this contention is somewhat illusory. The FAA is staffed and trained for this responsibility when the aircraft involved are being used in their normal civilian aviation role. Therefore, continued FAA

surveillance while CRAF aircraft are temporarily designated "state aircraft" could be provided through appropriate agreements between the Air Force, FAA, and the participating air carriers.

The Air Force also nonconcurred with Recommendation B. to suspend the CRAF Enhancement Program (CEP), stating that the investment provides incentive for air carriers to make long-term commitments of aircraft to the CRAF. In our view, because of the uncertainty created by the changing threat environment and the resultant revisions to contingency scenarios being developed, total airlift requirements are unpredictable at this time. Until specific scenario based airlift requirements are solidified and compared to existent and planned organic capabilities, expenditures for supplemental airlift through the CEP may not be in the best interest of the Air Force. Furthermore, as pointed out in the finding and acknowledged in the Air Force reply, air carrier commitments of aircraft did not always materialize into available airlift capacity, despite significant Government investment in the CEP.

DoD Directive 7650.3 requires that audit recommendations be resolved promptly. Recommendations are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. Your comments on the two unresolved recommendations in this final report should be provided by June 3, 1992.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Ms. Mary Lu Ugone at (703) 693-0317 (DSN 223-0317) or Mr. Harrell Spoons at (703) 693-0101 (DSN 223-0101). This report is being distributed to the activities listed in Appendix C.

Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:
Secretary of the Air Force
Commander in Chief, U.S. Transportation Command
Assistant Secretary of Defense (Production and Logistics)
Director, Joint Staff

Office of the Inspector General

REPORT NO. 92-068 April 3, **1992**
(Project No. 1RB-0010)

CIVIL RESERVE AIR FLEET

EXECUTIVE SUMMARY

Introduction. This report addresses the operation of the Civil Reserve Air Fleet (CRAF) during Operation Desert Shield/Storm. Although the CRAF was established in 1952 to augment military airlift during contingencies, it was first activated on August 17, 1990. In more than 5,300 flights between August 1990 and May 1991, the CRAF transported about 67 percent of the passengers and 22 percent of the cargo that was airlifted to the Persian Gulf area. That contribution was critical to the success of Operation Desert Shield/Storm.

Objectives. The overall objective of the audit was to determine whether CRAF airlift requirements were satisfied economically and efficiently. Specifically, we evaluated:

- CRAF support of Operation Desert Shield/Storm airlift requirements,
- the benefits gained from the CRAF Enhancement Program, and
- controls over procurement of and payment for CRAF airlift support.

Audit results. The audit showed that the CRAF program was a success. However, unforeseen requirements arose during the execution of the first CRAF airlift operation. The Military Airlift Command (MAC), supported by the participating air carriers, the Department of Transportation, and the Federal Aviation Administration, devised and implemented practicable solutions to resolve the problems encountered. Skillful, innovative management and cooperation among the participants made the CRAF program work. Although the CRAF program proved to be successful, the audit showed that opportunities existed to enhance the CRAF's effectiveness.

- The CRAF program was designed primarily to support reinforcement of Europe; therefore, the program was not ideally suited to deal with airlift requirements during Operation Desert Shield/Storm. Procedures were not in place to provide preplanned support for airlift in emergencies less than full mobilization or to maximize aircraft utilization in satisfying high-priority

airlift requirements. As a result, needed support had to be provided on an ad hoc basis, aircraft were not efficiently used, and unnecessary costs were incurred for CRAF airlift (Finding A).

- Air carriers participating in the CRAF program were not required to make aircraft, modified in accordance with the CRAF Enhancement Program, available for use except for a national emergency. Modified aircraft are not certain to remain committed to the CRAF program. These conditions place the cost-effectiveness of the $582 million investment to modify civil aircraft at appreciable risk. Furthermore, documented requirements for augmenting airlift capacity do not warrant future investment to modify additional civil aircraft (Finding B).

- Controls were not adequate to ensure that only valid air carrier invoices were paid, and the contracting staff had not been augmented to cope with the increased work load. Air carriers were paid for flights that did not occur, and incomplete or delayed contract documentation may have permitted other erroneous payments for CRAF airlift services (Finding C).

Internal controls. We examined controls over procuring CRAF airlift services, verifying the receipt of those services, and paying the air carriers for services received. Details on the internal control weaknesses are in Finding C in Part II of the report.

Potential benefits of audit. The effectiveness of the CRAF program should be enhanced by greater flexibility in the numbers and types of civil aircraft available to support future contingencies and timely implementation of preplanned support. Potential monetary benefits should be realized from reducing expenditures to modify civil aircraft and by strengthening procedures to validate carrier invoices prior to payment. About $303,000 in payments to air carriers should be recouped (Appendix A).

Summary of recommendations. We recommended changes to the structure of the CRAF program and procedures to reduce avoidable costs. We also recommended reducing future expenditures to modify civil aircraft and strengthening controls over the procurement of and payment for airlift services.

Management comments. The Air Force concurred in principle with the findings and concurred with all but two recommendations. The Air Force did not agree to seek to exempt CRAF aircraft, during contingencies, from fees and taxes that are not imposed on military and state aircraft (Recommendation A.1.c.) or to terminate funding the modification of civil aircraft under the CRAF Enhancement Program (Recommendation B.). The Air Force has

recouped $302,054.66 in questioned costs from air carriers. A synopsis of management's comments and our audit response follows the discussion of each finding in Part II of the report. The complete text of the Air Force's comments is in Part IV of the report.

Audit response. We request that the Air Force reconsider its position and provide comments on Recommendation A.1.c. and Recommendation B. by June 3, 1992.

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This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical support Directorate (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

The Civil Reserve Air Fleet (CRAF) was established in 1952 by Presidential direction to help meet DoD emergency airlift requirements. The CRAF fleet is comprised of U.S.-registered civil transport aircraft that possess the range, payload, speed, and configuration to perform DoD missions. The aircraft are allocated to DoD by the U.S. Department of Transportation (DOT) in accordance with a Memorandum of Understanding. Aircraft commitment and use are based on contracts between the Military Airlift Command (MAC) and participating commercial air carriers. CRAF aircraft are grouped into five segments based on aircraft capabilities and DoD contingency requirements. Long-range International (LRI) supports MAC's global operations. Short-range International (SRI) supports operations from the continental United States (CONUS) to near, offshore locations. The domestic segment of CRAF supports Air Force and Navy CONUS supply distribution systems, and the Alaskan segment provides support between CONUS and Alaska. The aeromedical segment provides long-range and short-range aeromedical evacuation, should mass casualties occur.

CRAF may be activated incrementally in three stages. Stage I is LRI only. Stage I may be activated by the Commander in Chief, Military Airlift Command (CINCMAC), and as of the time of the audit, would provide for 18 LRI passenger and 23 LRI cargo aircraft. Stage II includes all segments for an airlift emergency short of mobilization. Stage II may be activated by the Secretary of Defense and would provide 77 LRI passenger, 40 LRI cargo, 23 SRI passenger, 37 domestic cargo, and 4 Alaskan cargo aircraft. Stage III may be activated by the Secretary of Defense to support a national emergency and would provide 250 LRI passenger, 150 LRI cargo, 34 SRI passenger, 6 SRI cargo, 37 domestic cargo, 4 Alaskan cargo, and 35 aeromedical aircraft.

CRAF is a voluntary, contractual program. Award of peacetime airlift contracts to only CRAF volunteers encourages participation by commercial air carriers. A participating carrier's share of annual DoD airlift business is based on the number and capability of its aircraft offered to support Stages I, II, and III. More than 95 percent of DoD's normal passenger air transportation requirements are flown by CRAF air carriers.

CRAF was implemented for the first time on August 17, 1990, when CINCMAC directed activation of Stage I to support airlift requirements for Operation Desert Shield. CRAF Stage II was

activated on January 17, 1991, to meet a need for additional LRI cargo aircraft to support Operation Desert Storm. The CRAF program was deactivated on May 24, 1991.

The CRAF program was a success. Although it was developed in contemplation of reinforcing U.S. forces in Europe, the basic concept was sound, and innovative MAC management employed workable solutions for the problems that arose when air route distances were doubled to the Persian Gulf area. During the period August 17, 1990, through May 21, 1991, CRAF airlift transported more than 495,000 passengers and 104,000 tons of cargo. CRAF aircraft successfully completed more than 96 percent of the 5,311 missions assigned at a cost of more than $1.1 billion. The CRAF provided the needed augmenting airlift when called on. The findings and recommendations in this report are intended to help make a good program even more effective.

Objectives

The overall audit objective was to evaluate whether CRAF airlift requirements were satisfied economically and efficiently. Specifically, we evaluated CRAF support of airlift requirements for Operation Desert Shield/Storm, provisions for the support of CRAF aircraft, the benefits realized from the CRAF enhancement program (CEP), and pertinent internal controls.

Scope

The audit included a general review of the CRAF missions flown from August 1990 through April 1991. We also reviewed 100 of the 187 missions that were canceled during that period. The audit examined the costs of the CRAF program, air carrier performance, aircraft utilization, airlift procurement procedures, and lessons learned from Operation Desert Shield/Storm. We also evaluated the use of the CEP-modified aircraft in support of Operation Desert Shield/Storm, the documentation of total airlift requirements, and future plans for the CEP. The audit also examined the controls over payments to air carriers for CRAF missions.

The audit also included an evaluation of the reasonableness of the MAC uniform rates paid for CRAF LRI airlift charters. The MAC rate was compared with rates charged in the public sector for similar service and with rates negotiated by the General Services Administration (GSA) for Government use. Comparisons were also made with industry and Federal Aviation Administration (FAA) rate histories. The analysis showed that the MAC rate was the most favorable to the U.S. Government.

Because of restrictions imposed on travel by noncombatants to the U.S. Central Command and U.S. European Command theaters of operations during the crisis, on-site evaluation of operations at enroute airfields and destination airfields was not possible. Accordingly, the audit results are based on operational data and reports available at CONUS locations. The audit was made from November 1990 through June 1991. The activities visited or contacted are listed in Appendix B. This economy and efficiency audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary.

Internal Controls

We examined controls over procuring CRAF airlift services and paying air carriers for services rendered. Although the audit disclosed internal control weaknesses that could lead to erroneous payments, the weaknesses were not considered material. Details on the internal controls we reviewed and the weaknesses we found are described in Finding C. A copy of this report will be provided to the senior official responsible for internal controls within the Department of the Air Force.

Prior Audits and Other Reviews

No audits of the CRAF program or the CEP that addressed the issues covered in this report were done within the past 5 years.

Other Matters of Interest

Prompt Payment

The Airlift Services Industrial Fund (ASIF) is responsible for paying air carriers for CRAF service. As a revolving fund, the ASIF bills the user (the Military Departments) at a tariff rate intended to pay the fund's operating expenses and to maintain the corpus of the fund. In February 1991, the ASIF had a cash deficit of $88 million. The deficit was a result of the ASIF making prompt payment to commercial air carriers while the Military Departments were slow in reimbursing the ASIF. In February 1991, the ASIF had accounts receivable of more than $386 million. Over $137 million of the accounts receivable had been outstanding more than 30 days.

Exercise Battle Griffin 91

During February and March 1991, when backlogs of material awaiting priority air shipment to the Persian Gulf were at their highest levels, CRAF cargo aircraft were diverted to fly 18 cargo

missions to support the U.S. Marine Corps' participation in an annual North Atlantic Treaty Organization exercise (Exercise Battle Griffin 91) in Norway. Because cargo airlift demand exceeded capacity during that period, MAC was required to take extraordinary measures to support the war effort. For example, flight training school aircraft were pressed into airlift service, and cargo aircraft flying scheduled missions in the Pacific theater were diverted to fly Persian Gulf missions. The latter aircraft were replaced by civil passenger aircraft from which the seats were removed and sheets of plywood were placed on the cabin floor to serve as cargo load spreaders.

Sealift

From November 1990 throughout Operation Desert Storm, available sealift capacity was not fully utilized. Although unused sealift was available, movement priorities continued to require airlift, even though demand exceeded capacity. As a result, higher cost airlift was used to fulfill movement requirements, while available sealift was idle. Sealift performance during Operation Desert Shield/Storm is the focus of our ongoing audit of DoD Sealift Operations (Project No. 1LC-5001).

PART II - FINDINGS AND RECOMMENDATIONS

A. CIVIL RESERVE AIR FLEET OPERATIONS

The CRAF program was designed primarily to support reinforcement of Europe; therefore, the program was not ideally suited to deal with airlift requirements during Operation Desert Shield/Storm. Procedures were not in place to provide preplanned support for airlift in emergencies less than full mobilization or to maximize aircraft utilization in satisfying high-priority airlift requirements. As a result, needed support had to be provided on an ad hoc basis, aircraft were not efficiently used, and unnecessary costs were incurred for CRAF airlift.

DISCUSSION OF DETAILS

Background

The inducement for air carrier participation in CRAF is access to MAC's peacetime airlift business in proportion to the numbers and types of aircraft the carrier commits to the CRAF. From January through September 1990, participating carriers earned more than $800 million in revenue from MAC. MAC Regulation 55-8, "Operations - Civil Reserve Air Fleet," June 28, 1988, governs the CRAF program. Portions of the Regulation are included verbatim in the peacetime airlift contracts with participating air carriers. To participate in the CRAF, the air carrier must agree to provide aircraft, aircrews, management personnel, and all maintenance and support services needed to sustain operations for the duration of the emergency.

CRAF air carriers are paid the MAC uniform rate for both peacetime missions and missions flown after CRAF activation. In effect, CRAF missions are charters for which MAC purchases transportation by planeload lots (Category B). For passenger flights, the charter rate is based on the number of seats available and the miles flown. For cargo flights, the charter rate is based on aircraft cargo capacity in tons and the miles flown. MAC pays for the use of the entire aircraft, regardless of the actual number of passengers or amount of cargo transported. The MAC uniform rate is negotiated annually, and the rate is paid to all participating carriers.

Allocation of Aircraft

The CRAF program was planned for activation in three stages. Stage I was sized to permit the Government to substantially expand peacetime military airlift capabilities in a contingency that did not constitute an airlift emergency. Stage II was planned to provide additional airlift for an emergency not warranting full mobilization. Stage III should provide the full complement of civil aircraft allocated to DoD to support airlift requirements during a national emergency involving U.S. forces. Any adverse effects on commercial air commerce resulting from CRAF activation were expected to range from negligible at Stage I to significant at Stage III.

Stage I of the CRAF program was activated for the first time on August 17, 1990. The air carriers committed 38 LRI aircraft (17 passenger and 21 cargo) to CRAF Stage I. All 38 aircraft were made available by the carriers within 24 hours of the activation order. The number of aircraft provided by Stage I was supplemented by volunteer aircraft. In fact, volunteer aircraft flew missions to the Persian Gulf even before CRAF Stage I was activated. By January 1991, 94 civil aircraft (56 volunteered by air carriers and 38 committed CRAF Stage I) were supporting Operation Desert Shield. Many of the aircraft volunteered by the air carriers had been committed to CRAF Stage II. As a result, when CRAF Stage II was formally activated for LRI cargo aircraft, only 10 additional aircraft were gained.

Fortuitous circumstances made the volunteer aircraft available. The Persian Gulf crisis caused a downturn in commercial air traffic for U.S. carriers. MAC's need for augmenting airlift coincided with the carriers' need for revenue-producing business. However, there is no guarantee that commercial air commerce would be disrupted in a future contingency. MAC cannot rely on voluntary support during future contingencies; therefore, the numbers and types of aircraft available in the CRAF program must be adequate to meet anticipated requirements. Because the precise numbers and types of civil aircraft needed to meet future airlift emergencies are scenario dependent and cannot be predicted with certainty, the CRAF program should give MAC the authority to selectively activate aircraft that have been committed to the CRAF.

Once a decision to activate the CRAF has been made, MAC should have full authority to use aircraft committed to the CRAF as needed to fulfill air movements required by the approved Time Phased Force and Deployment Data.

Plywood Conversions of CRAF Aircraft

Backlogs of cargo awaiting air shipment to the Persian Gulf area exceeded 12,000 tons in January 1991. CRAF Stage II was activated for LRI cargo aircraft only, but still more cargo airlift capacity was needed to eliminate the cargo backlog within an acceptable time period. CRAF Stage III was not activated; therefore, MAC could not require carriers to provide the cargo aircraft that were committed to that stage only. To meet the need for additional cargo airlift, MAC authorized plywood conversions of B-747 aircraft from passenger to cargo configuration. The CRAF aircraft were modified by removing the seats from the main deck and by installing plywood flooring. Overhead storage compartments, galleys, and bulkheads remained in place, so available cargo volume was less than for other cargo aircraft. The major disadvantage of plywood-converted CRAF aircraft is that all cargo must be hand loaded through the passenger doors. That restriction significantly reduced the utility of the aircraft because the size of cargo items was limited, and loading/unloading times were excessive.

Aircraft converted with plywood were inefficient. For example, MAC contracted with TWA in January 1991 to convert four B-747 passenger aircraft to cargo aircraft using plywood flooring. MAC paid conversion costs of $287,000 for the four aircraft. MAC also guaranteed TWA a minimum of 32 missions for February. TWA was paid the MAC uniform rate for cargo aircraft based on a 90-ton capacity for each mission. The MAC contracting office considered that rate to be "fair and reasonable" for a B-747 cargo aircraft.

TWA flew 33 CRAF missions on the converted aircraft. MAC paid for moving 5,760 tons of cargo, but those aircraft transported only 536.86 tons. The efficiency of the aircraft was 12.7 percent of the payload capacity. The average load carried on each mission was 11.42 tons of cargo, yet MAC paid TWA based on a 90-ton capacity. One-third of the missions carried a payload of 4.5 tons or fewer. Desperate solutions could be avoided if the CRAF program permitted activation of individual aircraft upon need without declaring activation of Stage III.

Enroute Support

The CRAF program provides that participating air carriers will, to the greatest degree possible, be self-supporting. The air carriers agree to provide aircraft, flight crews, ground support, management support, maintenance, and supplies to sustain the operation of each aircraft for 10 hours per day for the duration

of the emergency. The CRAF contract also provides that when needed support is not available through normal commercial means, or when special requirements exist that exceed normal commercial requirements, support will be furnished by a carrier that has been designated as Senior Lodger at the airfield where service is needed. However, the CRAF program makes no provisions for Senior Lodger support services until Stage III is activated.

During Operation Desert Shield/Storm, the requirement for Senior Lodger support became evident both at enroute European airfields and at destination airfields. Because Senior Lodger support was restricted to Stage III, there was no preplanned method of providing needed support during Stages I and II. To meet the need, MAC arranged with Evergreen International Airlines (Evergreen) and Trans World Airlines, Inc. (TWA), to provide Senior Lodger support at Brussels, Belgium; and Rome, Italy, respectively. MAC also contracted with Federal Express for the installation and operation of a communications terminal for use by commercial carriers in Saudi Arabia. Activation of Senior Lodger support arrangements concurrent with Stage I activation would have provided more immediate and effective support.

During Operation Desert Shield/Storm, MAC determined that military personnel were required at enroute commercial airfields to provide aircrews with current intelligence about their flight routes and conditions in the destination area. Also, when conditions warrant, military personnel are needed to issue protective clothing and equipment to civilian aircrews and to provide instruction in its use. Plans for Senior Lodger support at commercial airfields should include needed military personnel.

Miscellaneous Charges

Eurocontrol Charges (Eurocharges) and international departure head taxes were included in the rates MAC reimbursed to CRAF air carriers that supported Operation Desert Shield/Storm. Missions flown by military aircraft were exempt from those charges because of their status as state aircraft. We estimated that as much as $29.2 million was paid for Eurocharges and head taxes on CRAF missions.

Eurocharges are fees imposed for air traffic control services when flying through the airspace of 11 European nations (Belgium, Luxembourg, Ireland, Switzerland, Portugal, Austria, Spain, Germany, France, United Kingdom, and the Netherlands). MAC began paying Eurocharges in FY 1990 because of air carrier complaints about the high tariff for operating on European routes. Eurocharges are assessed as a percentage of the gross revenue of

the mission (2.0 percent for passenger flights and 2.7 percent for cargo flights). The charges are collected by the European Organization for Safety of Navigation in Brussels, Belgium, and are distributed to the participating nations according to their individual tariff rates. We estimated that $27.4 million was paid for Eurocharges on CRAF missions during Operation Desert Shield/Storm.

MAC paid head taxes of $6.00 per person for each passenger departing CONUS on CRAF aircraft. We estimated that MAC paid about $1.8 million in head taxes to the U.S. Treasury for CRAF passenger missions during Operation Desert Shield/Storm.

To avoid Eurocharges and head taxes, CRAF aircraft flying missions in support of Operation Desert Shield/Storm could have been designated as state aircraft. MAC Regulation (MACR) 76-8, "Commercial Airlift Management - Civil Air Carriers," November 3, 1989, states:

> As a matter of policy, it is the practice of the USG [United States Government] not to formally designate [CRAF] aircraft as state aircraft. Civil aircraft operating MAC contract airlift missions are, in fact, unscheduled civil aircraft. Such DoD contract aircraft, the entire capacity of which has been reserved for the exclusive use of US military authorities and is being "used in military . . . services" within the meaning of Article 3 of the 1944 Convention of International Civil Aviation . . . are eligible for designation as state aircraft under the convention.

A major reason for the U.S. policy of not formally designating aircraft as state aircraft is the lack of statutory authority for assumption of liability by the U.S. Government on a routine basis for tort[1/] claims arising from the activities of contract aircraft. CRAF aircraft supporting Operation Desert Shield/Storm were not able to obtain commercial insurance at reasonable rates for flights outside the United States and were indemnified under Title XIII of the Federal Aviation Act of 1958 (P.L. 85-726). We

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1/ A wrongful act, damage, or injury done willfully, negligently, or in circumstances involving strict liability, but not involving breach of contract, for which a civil suit can be brought.

believe the indemnification operated as de facto assumption of liability by the U.S. Government; therefore, the issue of liability should not have been a bar to designating CRAF aircraft as state aircraft during the military missions.

When the CRAF program was activated to fly missions to the Persian Gulf area, CRAF aircraft performed the functions of state aircraft. Under the circumstances, the U.S. Government should not have incurred costs for Eurocharges and head taxes. In accordance with MACR 76-8, when the CRAF program is activated, CRAF aircraft could be designated state aircraft when they perform military missions.

Even if CRAF aircraft were not designated as state aircraft, MAC should have pursued the freedom from taxes, fees, and similar charges which status of forces agreements and other agreements, to which the United States and its European allies are parties, appear to have granted to DoD contract aircraft as well as U.S. military aircraft. Further, if MAC does not pay head taxes for its passengers departing CONUS on military aircraft, it should also pursue whether it may also be exempt from paying departure taxes on passengers departing the CONUS on DoD contract aircraft.

Cancellation Costs

The air carriers that have contracted with MAC to provide airlift as part of the CRAF program agree to perform within certain parameters, e.g., departure times, numbers of passengers, etc. When a carrier is unable to perform a scheduled mission, MAC may be entitled to consideration from the carrier. Similarly, the contracts with the air carriers expose MAC to performance penalties. If MAC cancels a mission within 7 days of the date the mission was scheduled to be flown, a penalty is incurred. The amount of the penalty is a percentage (35.15 percent for cargo missions, 36.28 percent for passenger missions) of the total cost of the scheduled mission, had it been flown. The penalty is not related to the carrier's actual incurred costs, but to a rate based on historical operational costs. The penalty rate was established when mission cost was predicated on flights of about 3,500 miles to reinforce Europe. During Operation Desert Shield/Storm, penalties based on mission costs were greater because the flight distance was about 7,000 miles.

As of April 30, 1991, 187 missions were canceled. We selected 100 of the canceled missions for review to determine if there was an underlying systemic reason for the cancellations. We found that records for only 85 of the selected missions were complete. The review showed that although there was no systemic

reason for the cancellations, other than changing requirements coming from the theater of operations, MAC incurred excessive penalties for missions canceled within 7 days prior to scheduled departures. MAC paid more than $6.2 million in cancellation fees to CRAF air carriers. We found one mission that was ordered and canceled on the same day, and MAC incurred a penalty of $148,429.47, even though no costs may have been incurred.

The penalty clause should encourage DoD airlift customers to manage the use of airlift efficiently because the penalty is passed on to the user. However, there is no ceiling on the penalty amount, and the penalty bears no relation to the carrier's incurred cost. Although carriers should not suffer monetary loss because of changes in military airlift requirements, neither should carriers profit from changes in wartime needs. MAC should place a cap on the amount of penalty fees based on the amount of the carriers' incurred costs.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Commander in Chief, Military Airlift Command:

1. Revise Military Airlift Command Regulation 55-8 to:

a. Amend the Civil Reserve Air Fleet activation stages and the numbers of aircraft allocated to each stage to provide maximum flexibility in the use of and access to aircraft in emergencies less than full mobilization.

b. Implement Senior Lodger support provisions upon activation of CRAF Stage I, and provide military liaison personnel at civilian airfields served by Senior Lodgers.

c. Establish procedures to exempt CRAF aircraft that perform military missions from fees and taxes that are not imposed on military aircraft.

2. Establish a ceiling on the maximum penalty the Military Airlift Command will pay for a canceled mission, and limit penalties within that ceiling to the carrier's actual costs.

3. Eliminate the use of plywood CRAF conversions.

Management comments. The Department of the Air Force concurred in part with the finding and concurred with Recommendations A.1.a., A.1.b., A.2. and A.3. The Air Force nonconcurred with Recommendation A.1.c., stating that the fees and taxes provide revenues that support research and development, capital investment, and operation of air traffic control

services. Contingency operations should not be cause for exemption from payment. Furthermore, the Air Force stated that designating CRAF aircraft as state aircraft would cause the aircraft to be removed from safety and regulatory compliance oversight by the FAA, and the U.S. Government would ultimately bear the cost of recertification. The complete text of the Air Force's comments is in Part IV of this report.

Audit response. We maintain that Recommendation A.1.c. is still valid. CRAF aircraft augment military airlift by transporting military personnel and cargo during airlift emergencies and contingencies when military airlift is insufficient. The Air Force should not incur costs normally charged to civil registered aircraft when the airlift is a military mission. In regard to incurring the cost of subsequent FAA recertification, MACR 55-8 requires CRAF aircraft to comply with all applicable FAA regulations. Also, the standard contract made by MAC with participating air carriers provides that "CRAF aircraft supporting DoD airlift requirements during a CRAF activation will be operated in accordance with appropriate Federal Aviation Regulations (FARs) and such waivers as are applicable." Accordingly, CRAF air carriers are contractually bound to adhere to FAA regulations. Therefore, if FAA regulations govern the aircraft's operation and maintenance, there should be no need to recertify a CRAF aircraft after it is designated as a state aircraft for a military mission or missions. We request that the Air Force reconsider its position on Recommendation A.1.c. in response to the final report.

B. CRAF ENHANCEMENT PROGRAM

The CRAF Enhancement Program (CEP) was not cost-effective. Air carriers were not required to make aircraft modified under the CEP available for DoD use except in a national emergency, and there was no assurance that modified aircraft would remain committed to the CRAF program. Furthermore, MAC planned to continue the CEP, although the need for additional CEP-modified aircraft had not been documented. These conditions place the $582 million investment in the CEP at appreciable risk, and planned future expenditures to modify more civil aircraft are not warranted.

DISCUSSION OF DETAILS

Background

The CEP was authorized by Congress in 1981 to alleviate shortfalls in military cargo airlift capability. Under the original CEP, MAC participated in the cost of modifying commercial aircraft to allow conversion from passenger to cargo configuration. The modifications included the installation of cargo doors, reinforced floors, and the addition of a cargo handling system compatible with the Military Department's 463L pallets (portable platforms for moving material). In 1990, the Congress modified the CEP to authorize MAC to contribute to the cost of any modification that would increase the military utility of commercial aircraft.

Aircraft modified under the CEP are generally committed to the CRAF for 12 years. However, carriers are not required to make CEP-modified aircraft available for MAC's use until Stage III of CRAF activation. Aircraft modified under the CEP may be sold or leased by the carrier without penalty provided the new owner agrees to assume all contractual obligations to MAC. If the new owner does not agree to fulfill the remaining CRAF commitment, the original carrier must reimburse MAC a pro rata share of the Government's investment.

If the participating air carrier agreed not to use the main deck for cargo in peacetime, MAC paid the full cost of the modifications to the aircraft and the additional costs associated with operating the heavier, modified aircraft. However, if the carrier intended to use the main deck for peacetime cargo service, MAC would pay only up to 50 percent of the cost of aircraft modifications.

Between September 1983 and February 1990, MAC invested $582 million to modify 23 aircraft in the CEP. One CEP-modified aircraft was destroyed, but as of April 30, 1991, 22 remained in

service (18 Pan American World Airways, Inc. [Pan Am], B-747's; 2 Evergreen B-747's; and 2 Federal Express DC-10's). MAC funded the full cost of modifying the Pan Am aircraft; therefore, Pan Am is prohibited from using the main deck of the 18 CEP-modified aircraft for peacetime cargo service. No such restriction is applicable to the CEP-modified aircraft operated by Evergreen or Federal Express.

Government's Investment

The CEP contracts do not grant the Government any interest in the modified aircraft. According to Part I.F.9 of a standard CEP contract, " . . . the Government does not have and will not have pursuant to this contract any interest of any nature whatsoever in the aircraft." In the event of carrier bankruptcy, Section 1110, Chapter 11 of the Bankruptcy Code, provides that aircraft may be reclaimed by lessors after the expiration of a 60-day grace period, unless the lessee becomes current with regard to all payments that are due and cures all defaults under the lease or other financing. The Government may assert a claim against the cash--accounts receivable and refund obligations from CEP-modified aircraft. However, there is no positive assurance that CEP-modified aircraft will remain in the CRAF program or that MAC's $582 million investment is fully protected.

Future Availability

The future availability of the 18 Pan Am CEP-modified B-747 aircraft is in doubt because of the carrier's bankruptcy. The Pan Am contract provided that if ". . . the Contractor does not retain control over the aircraft for the period of this contract, the Contractor will refund to the Government . . . [a portion of the modification cost] . . . in accordance with the refund schedule." Pan Am filed for protection under Chapter 11 of the Bankruptcy Code on January 8, 1991. Since that time, six of Pan Am's CEP aircraft have been returned to leaseholders, resulting in a refund owed by Pan Am to MAC of more than $123 million. A MAC official told us that four additional aircraft are expected to be returned to the leaseholders after September 30, 1991, and another two aircraft within 12 months (about September 1992). The transfers of possession will make Pan Am liable for refunds greater than $102 million and $38 million, respectively. If Pan Am relinquishes control of all 18 CEP-modified aircraft, Pan Am would be liable for refunding about $404 million to MAC. MAC's contract is with Pan Am; the aircraft owners and lessors of the aircraft operated by Pan Am are under no obligation to MAC or the CRAF Program.

The $404 million includes a refund of a pro rata share of more than $251 million for fuel and associated costs that MAC paid up front to compensate Pan Am for the loss of revenue attributable

to the weight added to the aircraft by the modifications. The CEP contract states, "the contractor will refund to the Government the unammortized portion of the associated costs when an aircraft becomes unusable. . . ." The term "unusable" is defined as permitting any condition that precludes the aircraft from being available for CRAF activation under the Contractors Airlift Services Contract or parking an aircraft for any reason (unless explicitly provided for in the contract) in excess of 30 consecutive days. MAC may not be able to fully recover the reimbursable costs.

The Pan Am bankruptcy underscored the fragility of the CEP concept. The business failure of a single commercial air carrier jeopardized the future utility of more than 96 percent of MAC's $582 million investment in the CEP. Because of the uncontrollable risk attendant to the CEP, no future investment for civil aircraft modifications should be made without a documented, compelling need for more civil cargo airlift capacity than could be realized from the entire U.S.-registered commercial cargo fleet.

CEP Aircraft Use

CEP-modified aircraft are not required to be made available for MAC's use until Stage III of CRAF activation; however, Pan Am (four aircraft), Evergreen (two aircraft), and Federal Express (one aircraft) flew cargo missions during Stage II using CEP-modified aircraft. The CEP contract between Pan Am and MAC provided that the contractor and the Government ". . . may, from time to time, enter into separate agreements whereby contractor would operate certain modified aircraft in the freighter mode for the DoD during non-CRAF Stage III operations." In such instances, compensation to the carrier would be subject to negotiation. Furthermore, if a modified aircraft was used to perform cargo services for 30 consecutive days or more for the DoD, Pan Am would be required to reimburse a pro rata share of the allowances paid for associated costs for that aircraft.

MAC negotiated with Pan Am to convert four CEP-modified aircraft from passenger to cargo configuration to help reduce the cargo backlog at aerial ports during January and February 1991. MAC agreed to pay about $300,000 per aircraft ($1.2 million total) for conversion and reconversion back to passenger configuration after 30 days. MAC also guaranteed Pan Am payment for three missions per week for each of the four aircraft for a period of 30 days. MAC incurred no conversion costs and made no guarantees of missions with respect to Evergreen or Federal Express CEP aircraft. More than 2,800 cargo flights were made by CRAF aircraft in support of Operation Desert Shield/Storm, but only 81 cargo flights were made by CEP-modified aircraft

(45 Pan Am, 35 Evergreen, 1 Federal Express). The convertible features financed by the CEP were of limited use during Operation Desert Shield/Storm.

Airlift Requirements

The DoD Mobilization Requirements Study, April 1991, states that the national defense airlift objective is to ensure that military and civil aircraft resources will be able to meet defense mobilization and deployment requirements. With the diminished threat from the Soviet Union and the collapse of the Warsaw Pact, emphasis is shifting from a strategic global conflict scenario to one of regional confrontations. There are many potential regional threats. Since total airlift requirements are scenario dependent, considerable uncertainty remains on future needs for augmenting civil airlift.

Although actual airlift requirements are uncertain, in May 1991, MAC contracted with Evergreen to modify one additional B-747 aircraft under the CEP. Under the contract, MAC will pay $2.7 million for modifications that will include installation of a 463L pallet handling system. MAC has also identified a need for more than $40 million per year for the CEP during the FY 1992 through FY 1997 period. Those funds were intended to be used to modify three aircraft each year. The priority for CEP funding was too low for inclusion in the Air Force budget, but the requirement remains and would be funded if monies become available.

The audit identified 234 U.S.-registered LRI civil cargo aircraft that are potentially available to provide augmenting airlift to DoD. Only 70 LRI cargo aircraft were used during Operation Desert Shield/Storm, and the CRAF program plans for only 150 LRI cargo aircraft to support DoD at Stage III. The 84 LRI cargo aircraft not allocated to DoD could be made available by the DOT through the War Air Service Plan if circumstances warranted. Given those assets, further modifications to permit conversion from passenger to cargo configuration should be postponed until existing civil cargo capacity is determined to be inadequate.

RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Commander in Chief, Military Airlift Command eliminate the requirement for CRAF Enhancement Program funds under Program Element 41215F, appropriation 3010, to modify civil aircraft cargo or passenger capabilities until Joint Staff approved requirements for augmenting civil airlift exceed the capacity of the entire U.S.-registered commercial cargo fleet.

Management comments. The Air Force concurred with the finding but nonconcurred with the recommendation. Management stated that the CEP should be continued to provide an incentive to air carriers to make long-term commitments of aircraft to the CRAF program. However, the Air Force acknowledged that future Government investment may need to be guaranteed by liens on modified aircraft.

Audit response. We maintain that the recommendation is still valid. Aircraft modifications funded by the CEP were not needed for airlift support during Operation Desert Shield/Storm. During a period of full mobilization, the Secretary of Transportation could use emergency powers to allocate all civil aircraft to meet governmental needs; thus, the entire long-range civil air fleet could be made available. Furthermore, the Air Force will increase its organic airlift capability through procurement of the C-17 aircraft. Because of the changing threat environment and the revisions to contingency scenarios, a need to modify additional civil aircraft with convertible features cannot be determined at this time. We believe that it would be prudent to defer the CEP until airlift requirements are solidified. We request that the Air Force reconsider its position and provide comments on Recommendation B. in response to this report.

C. INTERNAL CONTROLS

Controls over the verification of airlift services received were inadequate. Existing controls did not ensure that only valid carrier invoices were paid, and the MAC contracting staff was not augmented to cope with the volume of procurement actions required to implement the CRAF. As a result, erroneous payments to air carriers were made during Operation Desert Shield/Storm, and actions affecting contract price were not promptly reported to the Airlift Services Industrial Fund.

DISCUSSION OF DETAILS

Background

MAC Regulation 76-8, "Commercial Airlift Management - Civil Air Carriers," dated November 3, 1989, establishes policy, procedures, and responsibilities for managing the use of civil aircraft. MAC established two detachments to administer the commercial airlift management functions; Detachment 4 at McGuire Air Force Base (AFB), New Jersey, and Detachment 5 at Travis AFB, California. The area of responsibility for Detachment 4 extends from the Mississippi River east to Calcutta, India. As a result, Detachment 4 was responsible for managing flights operating into the Persian Gulf region.

Verification of Airlift Services

Before 1981, MAC Form 8, "Civil Aircraft Certificate," was used by the Airlift Services Industrial Fund (ASIF) to verify the services rendered by commercial carriers under contracts for planeload lots (Category B missions). Form 8 provided a record of all services performed and accepted throughout the mission. Completed copies of Form 8 were to be forwarded to Headquarters, MAC, and to the air carrier. However, when carriers complained about slow payment because of delayed receipt of Form 8, MAC changed its procedure in accordance with MACR 76-8. Paragraph 2-3.d. of MACR 76-8 states that a message transmitted over an electronic mail system operated for commercial air carriers by Aeronautical Radio, Incorporated (ARINC), will take the place of MAC Form 8 for billing by the contractor to the ASIF. Accordingly, the MAC contracting officer's representative or other authorized official transmits a mission complete message to the carrier via the ARINC when a CRAF mission is completed. The carrier then forwards a copy of the mission complete message to the ASIF with an invoice as evidence that the services charged were performed. The ASIF relies on the ARINC message as confirmation of the services received for purposes of payment. No independent Air Force or Government-controlled means of verification was available.

Mission Complete Messages

Mission complete messages are initiated by either MAC Detachment 4 or Detachment 5. Information in the Global Decision Support System (GDSS), an automated system used for flight scheduling and flight monitoring, serves as the basis for determining when a mission has been completed. The GDSS contains an electronic schedule showing the scheduled arrival and departure times for each mission at the point of origin, enroute stops, and the destination. As the mission progresses, actual arrival and departure times are entered into the GDSS. Data in the GDSS are monitored, and when a mission has been completed, a mission complete message is sent to the carrier via the ARINC.

Payments to Carriers

Mission complete messages were issued for two flights that did not occur. In both instances, the ASIF paid for the missions because the air carriers' invoices were supported by ARINC mission complete messages. A Hawaiian Airlines DC-8 was scheduled to fly a round-trip CRAF mission. The outbound leg, mission V15593, was to originate at Norfolk, Virginia, on February 7, 1991. The inbound leg, mission V15598, was to return to Norfolk on February 8, 1991. Because of a mechanical failure, the DC-8 was removed from service before the mission started. Two days later, on February 9, 1991, the passengers that were originally scheduled to fly on mission V15593 were placed on-board a Hawaiian Airlines L-1011 aircraft, which was chartered to fly a one-way CRAF mission (mission V16091). MAC Detachment 4 approved the change as substitute service and authorized payment to the carrier for missions V15593, V15598, and V16091.

Even though the Hawaiian Airlines DC-8 did not fly a CRAF mission on February 12, 1991, MAC Detachment 4 issued a mission complete message for missions V15593 and V15598. A mission complete message for mission V16091, which was flown by the L-1011 aircraft was issued on February 11, 1991. Hawaiian Airlines submitted invoices supported by the mission complete messages for each mission. On March 12, 1991, MAC paid Hawaiian Airlines $192,548.61 for missions V15593 and V15598, which the DC-8 did not fly. The amount paid was based on the useful load of the DC-8 and the miles that would have been flown had the aircraft been operable. On March 5, 1991, MAC paid Hawaiian Airlines $329,544.79 for mission V16091, which was flown by the L-1011 aircraft.

MAC Detachment 4 defended the decision to pay for all three missions because the purpose of the missions had been accomplished by the flight of the L-1011. The inbound leg flown

by the L-1011 carried only 12 passengers and no cargo. CRAF missions are Category B, planeload lot charters, for which MAC hires an airplane and pays for its use regardless of the load transported. In retrospect and without faulting the decision made by the responsible contract administrator while operating under stress, a MAC official agreed that if the airplane does not fly, MAC should not pay.

A Southern Air Transport B-707 was scheduled to fly mission B910SM on August 20, 1990. The mission was canceled because the aircraft was damaged in a collision with ground equipment. However, a mission complete message was issued on August 20, 1990, attesting to the completion of the mission, even though the aircraft had been removed from service. MAC Detachment 4 was unable to determine why the mission complete message was generated; however, the message was presumed to be an undetected error because of the massive volume of flight data that were processed. On September 27, 1990, MAC paid Southern Air Transport $110,411.63 for mission B910SM based on an invoice supported by the mission complete message.

Management Controls

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires each DoD Component to implement a comprehensive system for internal management control that provides reasonable assurance that obligations and costs comply with applicable law. A control system is needed to ensure that only valid charges for services rendered are paid. Although the mission complete messages were generated by MAC Detachment 4, there were no records to show who initiated or who authorized the mission complete messages that caused payment to be made to carriers for missions that did not fly. Additionally, there were no controls over access to the ARINC terminal. We believe that a mission complete message transmitted via ARINC is not adequate proof that services billed have been received.

We believe that MAC should establish a system of control independent of air carriers that would permit the ASIF to verify charges for Category B airlift services prior to payment. We also believe that the ASIF should recoup the $192,548.61 paid to Hawaiian Airlines for missions V15593 and V15598 and the $110,411.63 paid to Southern Air Transport for mission B910SM.

Procurement Documentation

CRAF aircraft for troop unit moves were procured individually. Each mission required procurement actions and documentation. Because of urgent requirements, procurement was done by telephone, and documentation followed. The volume of contracting actions overwhelmed the staff of the contracting department that

was processing the procurements manually. The missions flew, but the documentation was delayed or incomplete. Of the 85 canceled missions with completed documentation that we reviewed, we found 3 instances of written service orders being issued after the missions were completed. We also identified five modifications to service orders that were written after the missions were completed. Contracting personnel told us that the service orders for six additional missions had been modified, but documentation could not be found at the time of the review. We attributed those errors and omissions to peacetime staffing attempting to accomplish a wartime work load. The MAC staff should have been augmented commensurate with the work load when the CRAF was activated.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Commander In Chief, Military Airlift Command:

1. Recoup the $192,548.61 paid to Hawaiian Airlines for missions V15593 and V15598 and the $110,411.63 paid to Southern Air Transport for mission B910SM.

2. Establish a control system to enable the Airlift Services Industrial Fund to verify receipt of planeload lot (Category B) airlift services before carrier invoices are paid.

3. Develop a plan to augment the Military Airlift Command contracting staff upon activation of the CRAF to provide efficient and timely processing of air carriers' contracting actions.

Management comments. The Air Force concurred with the finding and with all the recommendations.

PART III - ADDITIONAL INFORMATION

APPENDIX A - Summary of Potential Benefits Resulting from Audit

APPENDIX B - Activities Visited or Contacted

APPENDIX C - Report Distribution

APPENDIX A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.a.	Program Results. Improves the response of the CRAF program to the airlift requirements.	Nonmonetary.
A.1.b.	Program Results. Enhances support to CRAF participants at activation.	Nonmonetary.
A.1.c.	Economy and Efficiency. Use of authorities that accord DoD contract aircraft the privileges accorded U.S. military aircraft would reduce costs.	Funds put to better use are undeterminable until a future crisis requires activation of CRAF.
A.2.	Economy and Efficiency. Cap on cancellation fees would limit penalty costs during contingencies.	Funds put to better use are undeterminable until the procedures used to value cancellation fees are revised.
A.3.	Economy and Efficiency. Elimination of CRAF conversions using plywood would prevent inefficient utilization of aircraft.	Nonmonetary.
B.	Economy and Efficiency. Reduce funds used to modify commercial aircraft commensurate with airlift requirements and the availability of commercial cargo aircraft.	Funds put to better use are undeterminable until civil airlift requirements are identified.
C.1.	Internal Control. Payment for missions that did not occur should be recouped from air carriers.	Funds put to better use of $302,054.66.*

* MAC recouped $302,054.66 of the $302,960.24 in questioned costs.

APPENDIX A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT (Continued)

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
C.2.	Internal Control. Independent verification of receipt of services billed will prevent payment for nonperformed missions.	Nonmonetary.
C.3.	Economy and Efficiency. Adequate staffing will improve the efficiency of documenting contracting actions.	Nonmonetary.

APPENDIX B: ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Directorate of Transportation Policy, Washington, DC

Department of the Air Force

Office of the Deputy Chief of Staff, Plans and Operations, Washington, DC
Headquarters, Military Airlift Command, Scott Air Force Base, IL
Headquarters, 21st Air Force, McGuire Air Force Base, NJ

Other Defense Activities

The Joint Staff, Washington, DC
Headquarters, U.S. Transportation Command, Scott Air Force Base, IL

Non-DoD Federal Organizations

Department of Transportation, Office of Emergency Transportation, Washington, DC
Department of Transportation, Federal Aviation Administration, Washington, DC

Non-Government Activities

Evergreen International Airlines
Federal Express
Pan Am World Airways, Inc.
Trans World Airlines, Inc.

APPENDIX C: REPORT DISTRIBUTION

Department of Defense

Assistant Secretary of Defense (International Security Policy)
Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Program Analysis and Evaluation)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense
General Counsel, Department of Defense
Commander in Chief, U.S. Transportation Command
Director, Joint Staff
Deputy Assistant Secretary of Defense (Logistics)

Department of the Army

Assistant Secretary of the Army (Financial Management)
Auditor General, Army Audit Agency

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Other Defense Activities

Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Defense Logistics Studies Information Exchange

Non-DoD Activities

U.S. Department of Transportation
    Office of the Secretary
    Inspector General
Federal Aviation Administration
    Office of the Administrator
    Deputy Administrator for Emergency Operations
    Assistant Administrator for Policy, Planning and International Aviation
    Associate Administrator for Regulation and Certification
Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

APPENDIX C: REPORT DISTRIBUTION (CONTINUED)

Congressional Committees

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Subcommittee on Foreign Operations, Committee on Appropriations
Senate Subcommittee on Transportation, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Readiness, Sustainability and Support, Committee on Armed Services
Senate Committee on Commerce, Science and Transportation
Senate Subcommittee on Aviation, Committee on Commerce, Science and Transportation
Senate Committee on Foreign Relations
Senate Subcommittee on European Affairs, Committee on Foreign Relations
Senate Committee on Governmental Affairs
Senate Permanent Subcommittee on Investigations, Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Subcommittee on Transportation, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Investigations, Committee on Armed Services
House Subcommittee on Readiness, Committee on Armed Services
House Committee on Foreign Affairs
House Committee on Government Operations
House Subcommittee on Government Activities and Transportation, Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
House Committee on Public Works and Transportation
House Subcommittee on Aviation, Committee on Public Works and Transportation
House Subcommittee on Investigations and Oversight, Committee on Public Works and Transportation
House Committee on Science, Space and Technology
House Subcommittee on Transportation, Aviation and Materials, Committee on Science, Space and Technology

PART IV - MANAGEMENT COMMENTS

Department of the Air Force

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
OFFICE OF THE CHIEF OF STAFF
UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330

09 JAN 1992

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on the Civil Reserve Air Fleet
(Project No. 1RB-0018) - INFORMATION MEMORANDUM

This is in reply to your memorandum for the Draft Audit on the Civil Reserve Air Fleet requesting comments on the findings and recommendations made in subject draft report.

We concur, in principle, with the findings and most of the recommendations contained in the draft report. Management comments are provided at the attachment. We thank you for the opportunity to respond to this draft report.

CHARLES A. MAY, JR., Lt General, USAF
Assistant Vice Chief of Staff

1 Atch
Management Comments

REPORT OF AUDIT (PROJECT NO. 1RB-0010)
DRAFT AUDIT REPORT ON
THE CIVIL RESERVE AIR FLEET, dated 8 Nov 1991

RECOMMENDATION A1a: Revise MACR 55-8 to amend the Civil Reserve Air Fleet activation stages and the numbers of aircraft allocated to each to provide maximum flexibility in the use of and access to aircraft in emergencies less than full mobilization.

MANAGEMENT COMMENTS: Concur in part with finding. Concur with recommendation.

The finding implies that MAC's contingency planning required ample volunteer airlift over and above CRAF commitment for execution. This was not the case. All volunteer aircraft were already contracted into one of the three CRAF Stages. Had volunteers not been available, the next Stage of CRAF could have been activated. The excellent support of volunteers, in addition to Stage I and Stage II activation, provided the necessary augmentation for this particular contingency, and precluded the need to activate a higher stage of CRAF.

The finding also implies MAC did not have authority to selectively activate aircraft committed to CRAF. This was not the case. Once a stage of activation is approved by appropriate national authority, MAC has full flexibility within that stage. Both the CRAF contract and MACR 55-8 state "The CRAF airlift capability can be activated incrementally by stages. Each stage may also be activated incrementally by the Government's use of its option to select and call up only those CRAF aircraft needed to fulfill DOD airlift requirements." MAC exercised this option in the call up of aircraft after the activation of Stage II. Only cargo aircraft were called up initially. Later, cargo aircraft were released and passenger aircraft were selectively called up.

We concur that the flexibility can be improved and numbers of aircraft in each stage need to be adjusted. Stage I and II cargo and Stage I passenger capability have been increased. Aeromedical capability has been added to Stage II. Both the 1993-95 International Airlift Services Contract and the draft MACR 55-8 have been changed to reflect activation language improvements. CRAF carriers have been fully informed of the changes and are pleased with the detailed activation language. Whether carriers accept the higher numbers in the earlier stages of CRAF will not be known until May 1992, when final contract negotiations are forecast to be complete.

Open. ECD: 1 Jul 92

ACTION OFFICER

OPR: Major James H. Rainey, HQ USAF/LGTX, DSN 227-7332

OCR: Colonel Ron Priddy, HQ MAC/XOV, DSN 576-6751

RECOMMENDATION A1b: Revise MACR 55-8 to implement Senior Lodger support provisions upon activation of CRAF Stage I and provide military liaison personnel at civilian airfields served by Senior Lodger.

MANAGEMENT COMMENTS: Concur with findings and recommendation.

The revised MACR 55-8 and the 1993-95 International Airlift Services Contract will call for Senior Lodger support provisions upon activation of CRAF Stage I. We also plan that, where necessary, military liaison personnel will augment CRAF carrier personnel at civil airports to provide classified route briefings, intelligence support, and issue of special equipment.

Open. ECD: 1 Jul 92

ACTION OFFICER

OPR: Major James H. Rainey, HQ USAF/LGTX, DSN 227-7332

OCR: Colonel Ron Priddy, HQ MAC/XOV, DSN 576-6751

RECOMMENDATION A1c: Revise MACR 55-8 to establish procedures to exempt aircraft that perform military missions from fees and taxes that are not imposed on military aircraft.

MANAGEMENT COMMENTS: Concur with the finding. Do not concur with the recommendation.

Eurocharges and head taxes are "user fees" that support the very infrastructure through which the air carrier community operates. In the U.S., the Departments of Transportation and Interior both depend, to some extent, on user fees for funding. Most Western nations have separated these special use requirements from general funding requirements paid out of General taxes. These fees are essential to the research and development, capital investment, and operations of the facilities or services in question. During the Persian Gulf crisis, most of these civilian organizations had to surge and extend work periods to meet military requirements. It should not be expected that increased use of the services or facilities, as occurs during all contingencies, should be cause for exemption from payment.

Additionally, we do not concur with the concept of declaring CRAF aircraft "state aircraft" in contingencies. If this were done, the Federal Aviation Administration (FAA) would lose safety and regulatory compliance oversight of these aircraft. They would have to be removed from air carrier (FAA) operating certificates. After the contingency, the aircraft would incur costly maintenance conformity checks required for recertification. The Government would incur that cost as direct reimbursement. Additionally, during the period of no FAA oversight, the Air Force would have to assume responsibility for surveillance of these aircraft; something we are not manned or trained to do.

Recommend this item be closed without further action.

ACTION OFFICER

OPR: Major James H. Rainey, HQ USAF/LGTX, DSN 227-7332

OCR: Colonel Ron Priddy, HQ MAC/XOV, DSN 576-6751

RECOMMENDATION A2: Establish a ceiling on the maximum penalty MAC will pay for cancelled mission, and limit penalties within that ceiling to the carriers' actual costs.

MANAGEMENT COMMENTS: Concur with finding and recommendation.

The suspension provision of the MAC long-range international contract does not lend itself to a CRAF activation environment. The 1993-95 contract solicitation has taken into account the lessons learned from DESERT STORM as well as the concerns of the airlift industry. For the 1993-95 contract and the period beyond, MAC will have no suspension charge for periods of CRAF activation. Instead the government will guarantee a minimum utilization for aircraft called up under CRAF. This will also address carriers' concerns that their multi-million dollar aircraft not remain idle once activated. Typically, carriers in international operation achieve a minimum of 10 hours utilization per day for each aircraft. MAC will guarantee 8 hours per day authorization as a minimum compensation level for aircraft called up. The carriers need to generate revenues and are more interested in flying than receiving suspension payments for aircraft not flying. Furthermore, this creates an incentive for the DOD to maximize use of aircraft called up. If aircraft are under utilized, compensation will be based on industry costs, less costs not incurred such as fuel and direct maintenance.

Open. ECD: 1 Oct 1992

ACTION OFFICER

OPR: Major James H. Rainey, HQ USAF/LGTX, DSN 227-7332

OCR: Colonel Ron Priddy, HQ MAC/XOV, DSN 576-6751

RECOMMENDATION A3: Eliminate the use of Plywood CRAF conversions.

MANAGEMENT COMMENTS: Concur with findings and recommendation.

HQ MAC has begun formal decommissioning of the Plywood CRAF Program. We are reallocating all Plywood CRAF materials stored for contingencies to logistics agencies for reutilization. We will maintain a brief paragraph on Plywood CRAF Program in MACR 55-8 as a reminder that, in a worst case national emergency, marginal cargo capability can be gained through use of passenger aircraft.

Open. ECD: 1 Feb 92

ACTION OFFICER

OPR: Major James H. Rainey, HQ USAF/LGTX, DSN 227-7332

OCR: Colonel Ron Priddy, HQ MAC/XOV, DSN 576-6751

RECOMMENDATION 8: CINCMAC eliminate the requirement for CRAF Enhancement Program funds and Program Element 41215F, appropriation 3010 to modify civil aircraft cargo or passenger capabilities until Joint Staff approved requirements for augmenting civil airlift exceed the capability of the entire U.S. registered commercial cargo fleet.

MANAGEMENT COMMENTS: Concur with finding. Do not concur with recommendation.

The recommendation appears to presume that the government will have access to all U.S. registered commercial cargo aircraft. Without organization under the CRAF Program, carrier capability is not obligated to the government. The CRAF Enhancement Program has been a valuable incentive for carriers to commit portions of their fleets to the CRAF. The government gets long term commitment in return for an investment in the aircraft. While one of the major CRAF Enhancement contracts executed (Pan Am) has proven to be less than optimum, several subsequent contracts (Federal Express & Evergreen) are cost effective as incentives to long term CRAF commitment. In these latter contracts, the government only participated in part of the modification costs, with the carriers paying for the majority of the costs.

The CRAF Enhancement Program should be continued as an incentive program. However, on future contracts the government's investment may need to be guaranteed by a lien on the aircraft, not on cash collateral.

Recommend this item be closed without further action.

ACTION OFFICER

OPR: Major James H. Rainey, HQ USAF/LGTX, DSN 227-7332

OCR: Colonel Ron Priddy, HQ MAC/XOV, DSN 576-6751

RECOMMENDATION C1: CINCMAC recoup the $192,448.61 paid to Hawaiian Airlines for missions V15593 and V15598 and the $110,411.63 paid to Southern Air Transport for the mission B910SM.

MANAGEMENT COMMENTS: Concur with finding and the recommendation.

Modification F11626-90D0063-0020-1B was executed to Hawaiian Airlines on 13 Sep 91 and modification F11626-90-D0012-9003-1A to Southern Air Transport was accomplished 3 Sep 91. These actions recouped the actual amount of $191,964.61 for missions V15593 and V15598 from Hawaiian Airlines and the actual amount of $110,090.05 for mission B910SM from Southern Air Transport.

Recommend this item be closed.

ACTION OFFICER

OPR: Major James H. Rainey, HQ USAF/LGTX, DSN 227-7332

OCR: Colonel Ron Priddy, HQ MAC/XOV, DSN 576-6751

RECOMMENDATION C2: CINCMAC establish a control system to enable the Airlift Services Industrial Fund to verify receipt of plane load lot (Category B) airlift services before carrier invoices are paid.

MANAGEMENT COMMENTS: Concur with the finding and the recommendation.

MACR 76-8 is currently under revision. In conjunction with this revision, we are reinstituting the use of MAC Form 8 as well as revising the distribution of the form. The current solicitation contains the new language and procedures.

Open. ECD: Oct 92

ACTION OFFICER

OPR: Major James H. Rainey, HQ USAF/LGTX, DSN 227-7332

OCR: Colonel Ron Priddy, HQ MAC/XOV, DSN 576-8751

RECOMMENDATION C3: CINCMAC develop a plan to augment the MAC contracting staff upon activation of the CRAF to provide efficient and timely procession of air carriers' contracting actions.

MANAGEMENT COMMENTS: Concur with the finding and the recommendation.

The MAC contracting staff developed a concept of operations and forwarded it to SAF/AQCO on 25 October 1991 which utilizes Reserve Individual Mobilization Augmentees (IMA's) to augment the MAC Contract Airlift. The purpose is to provide IMA augmentation to Contract Airlift operations during peak periods occasioned by hostilities or natural disasters. This program, if accepted, provides 11 manning positions for officer and enlisted personnel. Training requirements provide for 12 days inactive duty and 12-14 days active duty in the MAC Contract Airlift per year.

Open. ECD: Apr 92

ACTION OFFICER

OPR: Major James H. Rainey, HQ USAF/LGTX, DSN 227-7332

OCR: Colonel Ron Priddy, HQ MAC/XOV, DSN 576-6751

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