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August 20, 2001

The Honorable Duncan Hunter, Chairman
Committee on Armed Services
Subcommittee on Military Research and Development
2340 Rayburn House Office Building
Washington, D.C. 20515-6041

Dear Chairman Hunter:

The Subcommittee on National Security, Veterans Affairs, and International Relations (NSVAIR) has been conducting an examination of production cost reduction plans (PCRP) for the F-22 program to determine extent of realized cost savings, the potential for additional savings and the value of improvements in manufacturing and procurement processes. In view of the recent Defense Acquisition Board Decision (DAB) decision to enter low-rate initial production (LRIP), and seek an increase in the production cost cap, this is to inform you of some preliminary findings regarding the integrity of the F-22 production cost estimating process.

As part of our examination, the Subcommittee requested the General Accounting Office (GAO) review the status of production cost reduction plans. GAO again reported a very sizeable difference between the Air Force Program Office and the OSD-Cost Analysis Improvement Group (CAIG) projections of total F-22 production costs. Comparison of the two estimates, adjusted for a 339 aircraft buy, indicated a difference of \$7 billion as of December 2000. (GAO-01-782) The \$7 billion variance represents fully 15% of the F-22 production budget, a large margin of error even in the imprecise field of weapon system cost estimation, and adds substantial risk to the F-22 program.

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The Air Force and OSD remain unable, or unwilling, to reconcile the production cost estimates to bring them within a tolerable range of variance. In an attempt to analyze the difference, GAO and the Subcommittee requested access to cost estimate records prepared by the OSD-CAIG, including briefings about the estimates, the methodologies used, and supporting analyses. The request was denied by the Department. The recent assertion by DOD Under Secretary (Acquisition, Technology and Logistics) E. C. Aldridge, Jr. that the Pentagon has to become more diligent in representing the true cost of weapon system development rings somewhat hollow in the context of the Department's refusal to disclose estimating data and the continued failure to reconcile widely varying F-22 production cost projections.

DOD refusal to provide GAO and the Subcommittee access to production cost estimation data and detailed methodologies prevents a complete analysis of the factors contributing to the estimating differences between the two production cost figures. But it is clear one major area of disagreement is valuation of PCRPs. Therefore, as you proceed with your deliberations on the pace and scope of the F-22 program, please be advised we can have little confidence in the accuracy of production cost estimates and less confidence in the legitimacy of projected production cost savings based on those estimates.

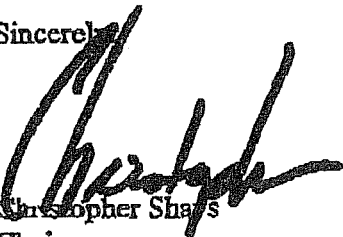
Based on the testimony and documents from three hearings conducted over the past 18 months, it also appears the F-22 production cost control effort has not been fully embraced by DOD leadership. Despite DOD agreement with the General Accounting Office recommendation to report detailed cost reduction plan information in F-22 Quarterly Reviews (including the total number of PCRPs identified, the number implemented, the cost reductions realized to date, and any deletions or additions from the plans included in the prior quarterly reviews), only summary information on the total estimated cost reductions has been reported as of the June 2001 quarterly review.

The production cost reduction effort is critical to an affordable F-22 program. Until Air Force and OSD production estimates are validated and reconciled, the PCRP process should be considered a largely cosmetic accounting exercise to evade congressional spending caps, not a genuine acquisition reform.

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If you have any questions, please contact Lawrence Halloran, Staff Director and Counsel or Vincent Chase, Chief Investigator of NSVAIR Subcommittee at 202-225-2548.

Sincerely,



Christopher Shays
Chairman

cc:

Hon. Donald Rumsfeld, Secretary of Defense
Hon. C.E. Aldridge, Under Secretary of Defense
Hon. Dan Burton
Hon. Henry Waxman
Hon. Dennis J. Kucinich
Hon. Adam H. Putnam