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GAO

United States General Accounting Office

Report to the Chairman, Subcommittee  
on Environment, Energy, and Natural  
Resources, Committee on Government  
Operations, House of Representatives

January 1990

# DEPARTMENT OF THE INTERIOR

## Bureau of Reclamation Aircraft Should Be Centrally Managed Like Other Interior Aircraft



94-19585



GAO/GGD-90-20

**GAO**

**United States  
General Accounting Office  
Washington, D.C. 20548**

**General Government Division**

B-231245.6

January 18, 1990

The Honorable Mike Synar  
Chairman, Subcommittee on Environment,  
Energy, and Natural Resources  
Committee on Government Operations  
House of Representatives

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Dear Mr. Chairman:

This report responds to your request that we examine the Bureau of Reclamation's management and administrative use of government aircraft. As agreed, we focused on aircraft that are configured and used primarily for transportation services similar to those provided by commercial airlines and by rental, lease, and charter businesses. You asked whether Reclamation, an agency of the Department of the Interior, was complying with the aircraft ownership, management, and administrative use policies of Office of Management and Budget (OMB) Circulars A-76 and A-126. You also asked whether there are any reasons why Reclamation's aircraft should not be owned and centrally managed by the Department of the Interior's Office of Aircraft Services (OAS) like most other Interior aircraft.

Because Reclamation's aircraft management practices were similar to those we found at other civilian agencies and reported to you in a recent overall report<sup>1</sup>, and as agreed with the Subcommittee, this report focuses primarily on the issue of whether Reclamation aircraft should be centrally owned and managed by OAS.

**Background**

OMB Circular A-76, "Performance of Commercial Activities," states that the government's general policy is to rely on commercial sources to supply the products and services it needs, including aircraft and aircraft services, when it is more economical to do so. It requires agencies to justify government performance of such commercial activities through cost studies demonstrating that government performance is less costly than commercially available services. The supplement to circular A-76 provides a methodology for agencies to use in doing these cost studies.

OMB Circular A-126, "Improving the Management and Use of Government Aircraft," prescribes policies executive agencies are to follow in

<sup>1</sup>Government Civilian Aircraft: Central Management Reforms Are Encouraging But Require Extensive Oversight (GAO GGD-89-86, Sept. 29, 1989)

acquiring, managing, using, and accounting for the costs of government aircraft. Basically, it requires agencies to do cost analyses to justify (1) the continuing need for government aircraft and the cost-effectiveness of in-house aircraft operations and (2) flight-by-flight use of government aircraft for administrative travel, i.e., passenger transportation or other administrative support purposes.

Within the Department of the Interior, OAS was established in 1973 to centrally manage all departmental aviation resources. OAS presently provides certain management support services to all Interior offices and bureaus. Individual offices and bureaus have day-to-day operational control of their aircraft, however, OAS owns or leases and centrally manages all Interior aircraft except those operated by Reclamation and the National Park Police. Reclamation participated in OAS' centralized system from October 1985 until June 1986. Reclamation was allowed out of the OAS system after only 9 months because (1) funding for its operations, including aircraft, comes under the jurisdiction of a different congressional appropriations subcommittee than other Interior offices and bureaus and (2) it believed its operating costs were higher under OAS ownership. Reclamation now owns and manages its aircraft independently of OAS.

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## Results in Brief

Reclamation does not know whether its aircraft operations are cost-effective because it has not complied with OMB policies designed to ensure that the ownership, operation, and administrative use of government aircraft are more economical than commercial alternatives. The four regions we reviewed had not done the required cost analyses to justify the continuing need for, and cost-effectiveness of, their aircraft and in-house aircraft operations. Also, the regions had not done valid flight-by-flight cost comparisons to justify the use of their aircraft for administrative travel. The regions' noncompliance with OMB aircraft management policies stemmed from inadequate guidance and oversight by Interior and Reclamation headquarters and from inadequate and incomplete cost data on their aircraft.

We found no compelling reasons why Reclamation should own and operate its aircraft independently of OAS. To the contrary, making Reclamation aircraft part of the OAS fleet should better ensure that aircraft operation and use are cost-effective and that Reclamation has complete and accurate cost data to comply with OMB's aircraft management directives and policies. Such an arrangement would also better utilize OAS' aircraft-management expertise.

## Objectives, Scope, and Methodology

Our objectives were to (1) evaluate Reclamation's aircraft ownership, management, and administrative use practices, particularly its compliance with OMB Circulars A-76 and A-126 and (2) determine whether there are any reasons why Reclamation aircraft should not be owned and centrally managed by OAS like most other Interior aircraft.

As of September 1, 1988, Reclamation operated a total of 11 aircraft—10 government-owned and 1 leased. As agreed with the Subcommittee, our evaluation focused on five aircraft—two Gulfstream Commanders, two Rockwell Commanders, and a Cessna—that Reclamation used for administrative travel such as transporting employees and other official and non-official passengers to remote work sites, meetings, and other functions. The five aircraft were operated by four Reclamation regional offices—the Upper Colorado Region in Salt Lake City, Utah; the Lower Colorado Region in Boulder City, Nevada; the Missouri Basin Region in Billings, Montana; and the Pacific Northwest Region in Boise, Idaho. In carrying out our work, we (1) examined Reclamation cost records, aircraft flight logs, passenger lists, and other data relating to the ownership and management of the five aircraft for fiscal year 1988 and (2) discussed these data and Reclamation's management practices with Interior and Reclamation headquarters and regional officials.

To determine why Reclamation chose to exclude its aircraft from the OAS fleet and whether those reasons are compelling, we examined documentation on Reclamation's decision and discussed that decision with responsible officials of the Department of the Interior in Washington, D.C.; OAS in Boise, Idaho; Reclamation headquarters in Denver, Colorado; and the four Reclamation regions. We met with OAS and Reclamation officials to determine what services OAS presently provides to Reclamation, what services Reclamation pays for, and the cost and benefit implications of making Reclamation aircraft part of the OAS fleet. Finally, we coordinated our findings with the House and Senate appropriations subcommittees that have jurisdiction over these agencies.

We did our work between March 1988 and November 1989 using generally accepted government auditing standards. Views of responsible agency officials are included where appropriate. However, in accordance with the Subcommittee's wishes, we did not obtain written comments on a draft of this report.

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## Reclamation Not Complying With OMB Aircraft Policies

Reclamation was not complying with OMB Circulars A-76 and A-126, which are designed to ensure that agencies' aircraft operations are justified and cost effective.

The four regions we reviewed owned, operated, and used their aircraft for administrative travel without adequately considering whether commercial alternatives might be more economical. The regions were not doing (1) annual cost analyses required by OMB Circular A-126 to justify the continuing need for, and cost-effectiveness of, their aircraft and in-house aircraft operations or (2) valid flight-by-flight cost comparisons to determine whether use of their aircraft for administrative travel was cost-effective. Also, the regions lacked complete cost data to determine whether their use of aircraft was cost effective.

The regions were not familiar with OMB's aircraft management policies. Neither Interior nor Reclamation had (1) notified the regions of the OMB Circular A-126 requirements, (2) issued implementing policies or guidelines for the regions to use in managing their aircraft, or (3) followed up to determine if the regions were complying with the governmentwide policies.

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## Regions Lacked Policies and Oversight to Ensure Cost-Effectiveness

OMB Circular A-126 required agencies to annually review and rejustify the continuing need for, and cost-effectiveness of, their government aircraft and in-house aircraft operations. It also required agencies to justify any administrative use of government aircraft by showing that the variable costs of using the aircraft are not more than the costs of commercial alternatives.

At Reclamation, we found that three of the four regions had not done the required annual reviews of their aircraft or aircraft operations. Also, we found that the regions had not done valid flight-by-flight cost comparisons to justify administrative usage of their aircraft. Some regions did not do the required flight-by-flight comparisons while other regions said that they did cost comparisons but did not document them. The cost comparisons available for our review did not consider all relevant aircraft costs. We noted instances in which the regions used the government aircraft for administrative travel even though their cost comparisons, which did not include all relevant costs, indicated that usage was not cost effective compared to commercial alternatives.

Regional officials said that they did not do annual reviews of their aircraft and aircraft operations and did not do or properly document flight-

by-flight cost comparisons because they were unaware of the Circular A-126 requirements. According to these officials, neither Interior, OAS, nor Reclamation headquarters notified them of the Circular or issued any implementing guidance or regulations for them to use in managing their aircraft.

Although the regions did not fully comply with the aircraft justification policies of Circular A-126, they had done aircraft studies. Two regions did A-76 cost analyses in 1982 and 1983 when they acquired new aircraft. Another region that wanted to convert from a leased aircraft to a government-owned aircraft had OAS do a cost analysis in 1984. Because of the time that had elapsed since the studies were made, we did not attempt to validate the study results.

Interior's Office of the Assistant Secretary for Policy, Budget, and Administration has overall responsibility for departmental leadership and coordination of aviation management policies, procedures, and practices. Interior assigned to OAS the responsibility for establishing policies to guide all Interior aviation operations. However, OAS did not notify Interior offices and bureaus about OMB Circular A-126 following its issuance in October 1983 or issue any regulations or other guidance to implement the circular. An OAS official said that he drafted implementing policy guidance but could not recall why it was never issued. Also, Interior officials we contacted could not explain why Interior did not follow up on the lack of guidance or ensure that Reclamation's aircraft management practices were consistent with OMB policies. However, OAS, on October 3, 1989, issued guidance to implement OMB's January 1989 revision to Circular A-126.

### **Regions Lacked Complete Aircraft Management Data Do the Required Analyses**

Besides prescribing policies for justifying government aircraft and their use for administrative travel, OMB Circular A-126 requires that agencies maintain accounting systems that accurately and completely account for all aircraft costs. Without complete cost data, agencies cannot do the cost-effectiveness determinations required by OMB Circulars A-76 and A-126.

None of the regions accounted for all aircraft costs. Generally, the regions accounted for aircraft fuel, maintenance, hangar, and depreciation costs, and labor costs such as pilots' salaries and benefits. However, only one region allocated administrative overhead costs to its aircraft operations. None of the regions recorded, as annual costs, reserves for accident damage (insurance) or for major maintenance costs. The

regions recorded costs for major maintenance as one-time charges in the year paid rather than amortize them over the remaining estimated flight hours of the aircraft. Regions were also inconsistent in their treatment of aircraft useful life and residual or salvage value for depreciation purposes. Unlike Reclamation, OAS' cost accounting system for the fleet aircraft, consistent with OMB Circular A-126 as revised in January 1989, accounts for all these costs (see p.10 of this report).

## OAS Ownership of Reclamation Aircraft Offers Opportunity for Improved Management

We found no compelling reasons for Reclamation to own and manage its aircraft independently of OAS. To the contrary, we believe that making Reclamation aircraft part of the OAS fleet would better ensure that Reclamation aircraft are operated and used cost-effectively.

## Our Past Reports Have Endorsed the OAS Concept

In three earlier reports, we concluded that Interior's limited efforts to centralize control over departmental aircraft through OAS had been effective. For example, in an October 1981 report<sup>1</sup> we concluded that Interior was achieving important benefits from OAS' centralized aircraft management in the areas of contracting effectiveness, safety, management information, flight coordination, and cost savings. We also concluded that individual Interior offices and bureaus could not provide these services as cost-effectively as OAS.

In a June 1983 report<sup>2</sup> we concluded that OAS had very effectively managed a number of Interior's aircraft operations by establishing uniform aircraft policies and procedures, an aircraft management information system that included a cost accounting system, and a safety program. We reported that a further indication of OAS' effectiveness and potential broader application of its services was that some non-Interior agencies had benefitted from using OAS services. On the basis of our work at OAS, we concluded that civilian agencies, in which multiple organizations required substantial aircraft services, needed an aircraft office, such as OAS, to serve as a focal point for overall aircraft management. We also concluded that the OAS aircraft management information system could serve as a model for a much needed governmentwide system. In that

<sup>1</sup>The Department of the Interior's Office of Aircraft Services Should Not Be Abolished (GAO, PLRD-82-5, Oct. 7, 1981).

<sup>2</sup>Federal Civilian Agencies Can Better Manage Their Aircraft and Related Services (GAO, PLRD-83-64, June 24, 1983).

report, we recommended, among other things, that (1) OMB require each civilian agency with substantial aircraft needs to establish a central office responsible for aircraft management and oversight and (2) the General Services Administration (GSA) establish and operate a governmentwide aircraft management information system similar to the one operated by OAS.

In response to our recommendations, OMB issued Circular A-126, "Improving the Management and Use of Government Aircraft," in October 1983. It contained some of the policy guidance and procedures we recommended, including a policy that agencies establish clear accountability for aircraft management at a senior management level and assign responsibility for implementing the Circular to a senior official. Also in response to our recommendations, GSA implemented a governmentwide aircraft management information system in February 1985.

In an April 1984 report<sup>4</sup> we pointed out that OAS was established to manage all Interior aviation resources, but Interior had only given OAS these responsibilities in Alaska. We recommended that the Secretary of the Interior direct OAS to assume ownership and overall management of all departmental aircraft, aircraft facilities and equipment, and aviation-related personnel managed by other Interior offices and bureaus.

### 5 Now Owns and Centrally Manages Most of Interior Aircraft

As of October 27, 1989, the Department of the Interior owned or leased a total of 86 aircraft. Of these, 73 were centrally managed by OAS (OAS fleet aircraft); 2 were managed by the National Capitol Park Police in Washington, D.C.; and 11 were managed by the Bureau of Reclamation. While OAS owns or leases the 73 fleet aircraft, individual Interior offices and bureaus maintain day-to-day operational control of 71 of the 73 aircraft; OAS controls and uses the other 2 aircraft.

Besides owning most of Interior's aircraft, OAS provides certain centralized aviation support services to all Interior offices and bureaus, including Reclamation. These services include (1) developing, implementing, and maintaining departmental aviation policies and standards governing aircraft operations, maintenance and aircrew qualifications, and proficiency; (2) procuring aircraft and charter and rental services and providing technical assistance to offices and bureaus upon request; (3) evaluating departmentwide aviation safety and providing aviation

<sup>4</sup>Actions Taken to Improve Management and Reduce Costs of Interior's Aircraft Operations and Further Improvements Needed (GAO/NSIAD-84-45, Apr. 2, 1984).



safety training; and (4) contracting for commercial aircraft services and aircraft maintenance.

Additionally, OAS provides certain centralized aviation support services to other Interior offices and bureaus but not to Reclamation. These services include (1) coordinating use of the fleet aircraft under the operational control of other Interior offices and bureaus to maximize their utilization and (2) prescribing the procedures for justifying, budgeting, and managing the financial aspects of the fleet aircraft, including aircraft acquisition, aircraft billings and payments, aircraft cost accounting, and the aircraft management information system. Through its cost-accounting system, OAS collects, and makes available to other Interior offices and bureaus, data on the costs of operating the fleet aircraft, such as fuel, regular and unscheduled maintenance, and reserves for major overhaul and accidental damage. Interior offices and bureaus need such cost data to make the A-76 cost analyses and the A-126 flight-by-flight justification cost comparisons.

As table 1 shows, OAS' operations are financed through a combination of appropriated funds, user fees, and other administrative fees. Interior receives direct appropriations for some of the aircraft services OAS provides to all Interior offices and bureaus. As a part of its centralized departmental program, OAS procures commercial aircraft services—aircraft charters, rentals, and maintenance contracts—through a working capital fund arrangement and charges user fees to Interior offices and bureaus as well as other federal agencies who use those commercial services. Like other Interior offices and bureaus, Reclamation finances a portion of OAS' operating costs through these user fees when it rents or charters aircraft or contracts for aircraft maintenance services through OAS. During fiscal year 1989, for example, Reclamation spent \$920,000 for such commercial aircraft services it obtained through OAS. OAS' operating costs that are not funded by appropriations or user fees are covered by other administrative fees charged to the Interior offices and bureaus that have operational control over the fleet aircraft.

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Sources of OAS' Funding for  
Year 1989

| Sources  | Amount             |
|--|--------------------|
| Appropriations                                   | \$1,813,000        |
| User fees  |                    |
| Commercial aircraft charters and rentals         | 1,011,000          |
| Commercial maintenance contracts                 | 2,826,000          |
| Other reimbursable services                      | 241,000            |
| Other administrative fees for the fleet aircraft | 426,000            |
| <b>Total</b>                                     | <b>\$6,317,000</b> |

According to the Chief of OAS' Management Services Division, the existing OAS system, including personnel as well as administrative support equipment, could accommodate additional fleet aircraft. He said that adding Reclamation's 11 aircraft to the OAS fleet would likely result in only minimal increases in OAS' operating costs. If Reclamation aircraft were part of the OAS fleet, Reclamation, like other Interior offices and bureaus, would pay a prorata share of OAS' operating costs that are not otherwise covered by appropriations and user fees.

Reclamation's Rationale  
for Leaving and Managing  
its Own Aircraft

Reclamation joined OAS' centralized fleet system in October 1985 but was allowed out after only 9 months. Reclamation's reasons for wanting out were that (1) its funding for operations, including aircraft, falls within the jurisdiction of a different appropriations subcommittee than other Interior offices and bureaus and (2) it believed that its aircraft operating costs were higher under OAS ownership. We do not believe these are compelling reasons for excluding Reclamation aircraft from the OAS fleet.

Reclamation's funding comes under the jurisdiction of the House and Senate Appropriations Subcommittees on Energy and Water Development. Appropriations for all other Interior offices and bureaus are under the jurisdiction of the House and Senate Appropriations Subcommittees on Interior and Related Agencies. Interior, Reclamation, and OAS officials could not identify why or how the appropriation jurisdictional differences were or would be an impediment to Reclamation aircraft being part of the OAS fleet.

Presently, Reclamation receives or has access to most of OAS' aviation support services. However, Reclamation helps finance OAS' operating costs only when it rents or charters commercial aircraft through OAS, contracts for maintenance through OAS, or obtains other special services

from OAS. Since Reclamation aircraft are not part of the OAS fleet, Reclamation does not help pay OAS' operating costs that are not covered by direct appropriations and user fees. Also, we noted that Reclamation sometimes chartered or leased aircraft directly from OAS' commercial vendors, at the prices OAS negotiated with those vendors, and, thus, avoided the OAS user fees.

Reclamation officials expressed a desire to keep aircraft costs as low as possible because such costs are allocated among various water projects and reimbursed by local water districts. Reclamation officials said that they were concerned that the water districts would question any higher costs associated with OAS ownership of Reclamation aircraft. Because of these concerns, Reclamation compared the costs of owning and operating its own aircraft with the costs it would incur if its aircraft were part of the OAS fleet. Reclamation's analysis, made in 1985, indicated that its costs would be higher under the OAS system. However, Reclamation understated the actual costs of owning and operating its own aircraft because its cost analysis did not include administrative overhead, accident reserves, or major maintenance reserves. OAS recognizes and charges these costs to the fleet aircraft, but Reclamation does not.

Because of these unrecognized costs and the administrative fees associated with OAS' operations, Reclamation's costs charged to aircraft operations would probably be higher in the short-term if its aircraft were made part of the OAS fleet. However, we believe that these costs would more accurately reflect the actual costs of Reclamation's aircraft operations. Over the long-term, we believe that making Reclamation aircraft part of the OAS fleet would result in cost savings through improved aircraft management. By providing more complete cost data on Reclamation aircraft and better utilizing OAS' aircraft management expertise, such an arrangement should better ensure that Reclamation aircraft are operated and used cost-effectively.

**Recent OMB Actions Make  
Aircraft Management  
More Effective**

During the course of our work at Reclamation, OMB made certain changes in the governmentwide aircraft ownership, management, and use policies. The OMB policy changes, made in response to GAO and Inspectors General findings at several other federal agencies, place more emphasis on aircraft cost analyses and flight-by-flight cost comparisons.

In a November 15, 1988, memorandum, OMB directed agencies to complete special A-76 cost analyses to justify the cost effectiveness of all

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government-owned and leased aircraft and in-house provision of aircraft operations by July 31, 1989. Although no federal agency met the July 31, 1989 deadline, the requirement to make the analyses is still in effect.

Effective January 18, 1989, omb revised its Circular A-126 to (1) clarify certain ambiguities in its aircraft management policies and to strengthen the interrelationship of Circulars A-76 and A-126; (2) incorporate cost-accounting guidance and standard aircraft program cost elements for agencies to use in complying with the justification and cost-effectiveness requirements of Circulars A-76 and A-126; (3) establish a government-wide leadership, technical assistance, and supporting oversight role for GSA in the aircraft area; and (4) provide for more omb oversight of agencies' aircraft management practices.

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## Conclusions

In view of the shortcomings in Reclamation's accounting system for aircraft costs and its noncompliance with the earlier version of OMB Circular A-126, we believe that Reclamation's capability to comply with OMB's revised aircraft management policies would be enhanced if its aircraft were part of the OAS fleet. OAS recently issued guidance to implement OMB's revised aircraft management policies within Interior. Its cost accounting system for the fleet aircraft provides the data needed to comply with OMB's aircraft ownership, management, and administrative use policies. Notwithstanding the fleet aircraft issue, sustained departmental oversight would be helpful in holding Reclamation accountable for complying with OMB policies.

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## Recommendations to the Secretary of the Interior

To better ensure that Reclamation aircraft and aircraft operations are cost effective, we recommend that the Secretary of the Interior require (1) Reclamation to place its aircraft into the OAS fleet and seek OAS' assistance in managing them and (2) Interior's Assistant Secretary for Policy, Budget, and Administration to oversee Reclamation's compliance with OMB's aircraft management policies.

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As arranged with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will provide copies to the Secretary of the Interior, Director of OMB, Administrator of GSA,

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Commissioner of the Bureau of Reclamation, Director of OAS, other congressional committees and subcommittees that have an interest in this matter, and to other interested parties upon request.

If you have questions about this report, please call me on 275-8676. GAO staff members who made major contributions are listed in the appendix.

Sincerely yours,



L. Nye Stevens  
Director, Government Business  
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