DOCUMENT RESUME

02958 - [A1953029]

[Transfer of Toolmaking, Toolcutting, and Grinding Functions at the Portsmouth Naval Shipyard]. LCD-77-435; B-168700. Jujy 11, 1977. 3 pp.

Report to Sen. John A. Durkin; by Robert G. Rothwell (for Fred J. Shafer, Director, Logistics and Communications Div.).

Issue Area: Facilities and Material Management: Operation and Maintenance of Facilities (708).
Contact: Logistics and Communications Div.
Budget Function: National Defense: Department of Defense - Military (except procurement & contracts) (051).
Organization Concerned: Department of the Navy: Portsmouth Naval Shipyard, NH.
Congressional Relevance: Sen. John A. Durkin.

A review was conducted of the transfer of certain machine functions at the Portsmouth Naval Shipyard in response to charges that the transfer increased costs, necessitated outside procurement, and resulted in an organizational structure contrary to a Navy instruction. The organizational control of these functions was transferred from the Central Tool Room (Shop 06) to the Inside Machine Shop (Shop 31). Findings/Conclusions: Since the workers were located in Shop 31 even before the transfer, and the transfer was merely organizational, the effective cost of the work was not changed. The allegation that the cost of work more than doubled due to increased overhead cost was based on an incorrect comparison of the average hourly direct labor cost of Shop 06 with the average hourly total costs including overhead of Shop 31. The overhead was more than 100% of direct labor, and this accounted for most of the difference. It was ascertained through an interview that purchases from outside contractors were made because of delivery time and cost considerations and not because of the transfer. Although the organizational structure did not comply with a Navy instruction which states that Shop 06 will be charged with toolcutting and grinding functions, and the transfer was made without requesting approval from the Commander, Naval Ship Systems Command, as required, it appeared that the Commander ratified the transfer. (Author/HTW)

3029

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS DIVISION

02958

B-168700

JUL 11 1977

The Honorable John A. Durkin
United States Senator
Norris Cotton Federal Building
Manchester, New Hampshire 03103

Dear Senator Durkin:

In accordance with your request dated February 16, 1977, we reviewed the transfer of the toolmaking, toolcutting, and grinding functions at the Portsmouth Naval Shipyard, Portsmouth, New Hampshire. The organizational control of these functions was transferred from the Central Tool Room (Shop 06) to the Inside Machine Shop (Shop 31) in January 1973. Your request was based on a letter from one of your constitutents. Enclosures to the letter indicate that the transfer (1) caused the cost of work to more than double, (2) caused tools and equipment previously manufactured at the shipyard to be procured from outside contractors, and (3) resulted in an organizational structure contrary to a Navy instruction. Our review effort did not substantiate these charges. Our findings regarding each charge are discussed below.

COST OF WORK HAS NOT DOUBLED

The allegation that the cost of work has more than doubled due to increased overhead cost was based on an incorrect comparison of the average hourly direct labor cost of Shop 06 with the average hourly total costs including overhead of Shop 31. The overhead was more than 100 percent of direct labor and this alone accounted for most of the difference. We discussed this with the shipyard employee who made the comparison and he acknowledged that his comparison was not valid due to a misunderstanding of the contents of the figures he used.

The toolmakers, toolcutters, and grinders have been physically located in Shop 31 for some time, even before the transfer. Since the work is performed by the same people in the same location and the transfer was merely an organizational realignment, the effective cost of the work would not change

LCD-77-435

because of the transfer. The amounts of overhead allocated to the two shops would change because of the cost accounting system. Shop 31 is a production cost center and is charged with three overhead rates; production, general manufacturing, and general administrative. Shop 06, however, is a support/service cost center and is charged with only the general manufacturing overhead rate. Since the total shipyard costs would remain the same, shipyard customers would neither benefit nor be penalized from the realignment.

PURCHASE OF EQUIPMENT FROM OUTSIDE CONTRACTORS NOT DUE TO TRANSFER

As discussed above, the cost of work performed has not increased due to the transfer and, accordingly, the transfer is not the reason that tools and equipment previously manufactured at the shipyard are now being procured from outside contractors.

We interviewed the person who recently purchased a $4,950 machine for use in the shipyard that had been previously made by shipyard toolmakers. He stated that delivery time and cost were the two important considerations in the decision. He said that his experience with the shipyard toolmakers was that they often delivered items late and overran their cost estimates. As a result, he now procures certain items from outside vendors. He believes that the reason for the late deliveries is heavy workload and higher priority placed on items other than the ones he has ordered.

DEVIATION FROM NAVY INSTRUCTION

The current organizational structure at the shipyard does not comply with a Navy instruction which states that Shop 06 will be charged with the toolcutting and grinding functions. The instruction further states that it is mandatory and shall not be deviated from without specific approval from the Commander, Naval Ship Systems Command, now the Naval Sea Systems Command (NAVSEA).

Shipyard officials advised us that the transfer of these functions from Shop 06 to Shop 31 was made without requesting approval from NAVSEA. However, it appears that the Commander, NAVSEA, has ratified the transfer. In his letter to you dated April 7, 1977, he concluded that the organizational placement of these functions at the shipyard is appropriate for that particular organization. Such placement, according to his response, does not increase overhead costs charged to shipyard customers and cannot be construed as an undue expenditure of public funds.

In conclusion, we found that the organizational realignment did not increase shipyard costs. Although the shipyard did not request approval for the change, NAVSEA's response to your letter indicates that it would be willing to specifically approve it.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

R. G. Rothwell

for F. J. Shafer
Director