

DOCUMENT RESUME

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[Sole Source Award to Hughes Aircraft Company To Repair Equipment Aboard USS Kitty Hawk]. PSAD-78-87; B-1 46889. April 7, 1978. 4 pp.

Report to Secretary, Department of Defense; by Richard W. Gutmann, Director, Procurement and Systems Acquisition Div.

Issue Area: Federal Procurement of Goods and Services (190C).

Contact: Procurement and Systems Acquisition Div.

Budget Function: National Defense: Department of Defense - Procurement & Contracts (058).

Organization Concerned: Department of the Navy; Hughes Aircraft Co.

Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services.

In response to congressional requests, the award of a Department of the Navy sole-source contract to the Hughes Aircraft Company to repair tactical data system equipment aboard the USS Kitty Hawk was reviewed. As a result, it was recommended that the Navy solicit competition to the maximum practicable extent from all potential Government and commercial sources for repair projects in excess of the Navy's need for in-house maintenance capability. The Navy determined that Hughes should be retained as the sole commercial source of the repair work for the following reasons: Hughes is the developer, sole manufacturer, and major source of supply of the equipment; only the developer/manufacturer can accommodate the continually changing nature of the equipment; it is not economically practicable to update the technical data packages; fair and reasonable prices can be negotiated with Hughes; stocked repair and replacement parts will be standardized; and approximately 3 years would be required before any commercial source, other than Hughes, could begin work. Still unresolved is the question of whether it is in the best interest of the Government to have the repair work performed on a noncompetitive basis. The Secretary of the Navy should: prepare a technical data package sufficient to define the scope of work necessary for solicitation of bids; solicit bids from all potential commercial and Government sources; and, after appropriate negotiations with all offerors, award the work to the low responsive and responsible offeror.

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

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PROCUREMENT AND SYSTEMS  
ACQUISITION DIVISION

B-146889

April 7, 1978

The Honorable  
The Secretary of Defense

Attention: Assistant for Audit Reports  
Room 3A336  
ASD (Comptroller)

Dear Mr. Secretary:

At the request of Senators Morris K. Udall, Warren G. Magnuson, Henry M. Jackson, and Representative Norman D. Dicks, we reviewed the award of a Department of the Navy sole-source contract to the Hughes Aircraft Company to repair Navy tactical data system (NTDS) equipment aboard the U.S.S. Kitty Hawk. In August 1977, we issued a report (B-146889) to the congressional requestors stating the results of our review. Briefly, our report noted that:

- The U.S.S. Kitty Hawk was the first of about 30 ships scheduled for similar equipment overhaul.
- The primary justification for the sole-source award was that detailed design and performance specifications were not available to other commercial sources because the Navy's drawings and data package had not been kept up to date; therefore, in January 1976, the contract was awarded to Hughes Aircraft Company, the supplier of the original equipment.
- In November 1976, the U.S.S. Ranger was assigned to the Puget Sound Navy Shipyard for similar work.
- The Navy planned to have some future tactical data system overhauls performed by the Puget Sound and Philadelphia shipyards so that

in-house technical competence necessary for military contingencies would be maintained, but that overhaul projects in excess of the shipyards' capacity would be awarded to Hughes on a noncompetitive basis because of the cost and time necessary to prepare and maintain system design packages for potentially competitive sources.

--In our opinion, the Navy had not demonstrated that competition was not available from other commercial sources or that only one source could meet the Government's minimum needs.

Based on the above, we recommended that the Navy solicit competition to the maximum practicable extent from all potential Government and commercial sources for those repair projects in excess of the Navy's minimum needs for in-house maintenance capability.

On December 12, 1977, the Navy commented on our report. Briefly, the Navy noted that it had determined that Hughes should be retained as the sole commercial source of NTDS repair work for the following reasons:

- Hughes is the developer, sole manufacturer, and major source of supply of the equipment;
- only the developer/manufacturer can accommodate the continually changing nature of the equipment;
- it is not economically practicable to update the technical data packages;
- the shipyards will consult with Hughes on work performed by the shipyards;
- special test equipment facilities would have to be duplicated in the private sector;
- fair and reasonable prices can be negotiated with Hughes;
- stocked repair and replacement parts will be standardized; and

--approximately 3 years would be required before any commercial source, other than Hughes, could begin work.

We believe that the basic question, still to be satisfactorily resolved, is whether it is in the best interest of the Federal Government to have the repair work performed on a noncompetitive basis. Of about 68 ships in the Fleet equipped with similar NTDS equipment, 30 are scheduled for repair by 1982. The remaining 38 ships will also require repair or replacement work resulting in a continual repair program. The Navy plans to conduct the program with the two Navy shipyards limited to one suite of equipment each at any time with the overflow to Hughes on a sole-source basis.

The Navy, however, has not conducted a detailed examination of the cost necessary to update the technical data packages or performed a valid survey of the market to determine whether other companies would be interested in bidding on this work. Further, without an up-to-date data package, the Navy is dependent upon Hughes and the shipyards to scope as well as price the repair work. As a result, the Navy has less than adequate assurance that the cost incurred for this work is fair and reasonable and the lowest price available in the marketplace.

In its response to our report, the Navy cited several advantages of having the developer of the equipment perform the work. However, both the Puget Sound and Philadelphia Navy shipyards are performing similar work on 2 of the 30 ships and are scheduled to repair others. We recognize that, for the reasons cited by the Navy in its response, the developer may have certain competitive advantages. However, the work scheduled by the Navy for the shipyards illustrates that other sources can also perform the work.

We believe that the recommendations made in our report are sound and should be given further consideration. For the Navy to be in a position to adequately assess the advantages that might accrue through competition, we believe it should attempt to solicit competition for the subject equipment on at least one ship. Accordingly, for the next scheduled overhaul, we recommend that you direct the Secretary of the Navy to:

--prepare a technical data package sufficient to define the scope of work necessary for solicitation of bids;

--solicit bids from all potential commercial and Government sources; and

--after appropriate negotiations with all offerors, including the opportunity to correct minor deficiencies in technical approach and capability, award the work to the low responsive and responsible offeror.

If the effort is not successful in generating competition because interested contractors lack the necessary technological capability, we recommend that the Navy explore the feasibility of assisting the contractors in developing the required capability.

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Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report today to the Secretary of the Navy; the Director, Office of Management and Budget; the Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, the House and Senate Committees on Appropriations, and Armed Services; and the individual Congressmen who requested the review. Copies will also be made available to other interested parties.

Sincerely yours,



R. W. Gutmann  
Director