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

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-205964

JANUARY 11, 1982

The Honorable Caspar W. Weinberger
The Secretary of Defense



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Attention: Director, GAO Affairs

Dear Mr. Secretary:

Subject: Navy's Budget Requests for Revised Shipboard Allowances Are Overstated (PLRD-82-31)

We have completed our survey of the economy and effectiveness of the Navy's planned revision of its shipboard stockage criteria. The basis for the change was a study by the Center for Naval Analyses (CNA) completed in July 1980. We were advised of the planned revision in a March 1981 letter in which the Navy commented on our report concerning supply support for combat surface ships. ^{1/} The Navy estimated that the revised criteria would result in additional items being stocked that would require increased budget requests of over \$200 million. According to the Navy, it planned to implement the new criteria in fiscal year 1983.

Although the study was completed in July 1980, it had not been released as of November 20, 1981. Navy personnel advised us that, until the study results are released, the Navy has not officially revised its stockage criteria. While the Navy has not officially adopted the new stockage criteria, it has submitted funding requests to implement this change. Our survey work indicated that the Navy's request for Operation and Maintenance Navy (O&MN) funding to implement the revised criteria is significantly overstated because the Navy did not consider inventories of items already on the ships.

^{1/}"Supply Support Costs of Combat Ships Can Be Reduced By Millions and Readiness Enhanced" (LCD-81-9, Jan. 15, 1981).

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In view of the pending Navy decision to adopt a new stockage criteria, we plan no further work at this time, but we are calling our observations to your attention, since the Navy's action can cause unnecessary fund requests.

BACKGROUND

The Navy provides newly constructed or overhauled ships with sufficient supplies and repair parts to sustain uninterrupted operations for 90 days. To sustain continuous operations during the 5-year operational cycle, the initial inventory allowances are systematically replenished and additional range and depth of items are added and resupplied as necessary based on quantity and frequency of usage. The initial 90-day inventory allowances are called coordinated shipboard allowance list inventories. To determine initial 90-day stockage quantities, the Navy uses a replacement factor, which is based on a fleetwide usage rate. It represents the expected annual failure rate for each item and is updated annually. A technician's estimate is the basis for initial stockage of items without usage data. Items which are not expected to be used within 90 days are not stocked unless vital to the ships and generally have an expected failure rate of one in 4 years. These items are referred to as insurance stocks.

Under the above policy, only about one-half of the items demanded annually on board the typical ship can be satisfied from inventories stocked on the ship. To improve readiness, the Navy wanted a better allowance policy--one that would provide a higher shipboard issue rate for repairs to important equipment. Consequently, CNA studied the shipboard allowance policy and proposed the following revisions to the Navy's current policy.

- Items deemed essential to the ship's ability to perform its mission should be stocked based on a criteria of one predicted failure in 10 years.
- Items deemed essential to the ship's mission, with demands of two to four in 1 year should have their allowances increased from one to two minimum replacement units.

The Navy plans to implement, in fiscal year 1983, the allowance policy modification to permit greater stockage of items essential to the ship's ability to perform its mission. It plans to request O&MN funds totaling \$212.6 million through fiscal year 1987, as follows:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Total</u>
	------(millions)-----					
O&MN funds	\$36.9	\$44.5	\$41.0	\$42.6	\$47.6	\$212.6

OVERBUDGETING OF O&MN FUNDS

The Navy's O&MN budget estimate to implement the revised criteria could be overstated by millions of dollars, because in their cost estimates, Navy personnel did not consider all assets already on board the ships. To determine the amount of additional funding required by the revised stockage criteria, Navy personnel increased, by a specified percentage, the average cost of ship allowances for ships of the same class computed under the current method of determining allowances. For combatant and noncombatant ships, the increases were 37 percent and 14 percent, respectively.

Navy officials stated that the basis for the 37-percent increase was a study of four combatant ships by the Fleet Material Support Office (FMSO), Mechanicsburg, Pennsylvania. The objective of the FMSO study was to determine the impact on peacetime fleet support of CNA-recommended revisions to the shipboard stockage criteria. The study showed that the value of shipboard allowances would increase for the four ships by an average of 38.6 percent under the revised stockage criteria or slightly more than the 37-percent figure used by the Navy in its budget request. Navy officials attributed the difference to the fact that they considered the AT-5 items (items retained aboard ship that no longer qualify for the allowance list).

In performing the study, FMSO developed simulated allowance lists under the old and revised stockage criteria based on the equipment configuration and usage factors as of August 1980. The study measured the differences in the simulated allowances and did not consider all assets carried by the ship. Thus, using the study results as a basis for increasing budget requests could result in excessive funding. To illustrate, an amplifier was authorized for stockage on the ship before August 1980. The FMSO study showed that the item did not qualify under the old criteria of one predicted demand in 4 years, but it did qualify under a revised criteria of one predicted demand in 10 years. Therefore, the study reflected this as an increase over what was needed under the old method. However, funds to procure the amplifier should not be justified on the basis of the increase since the item was already on the ship.

The basis for the 14-percent increase for noncombatant ships was an earlier Navy study which showed that the quantity of primary equipment installed on noncombatant ships is significantly less than for combatant ships. We did not pursue the validity of the 14-percent factor since about 93 percent of additional funds required for fiscal year 1983 are attributable to combatant ships.

We reviewed stock records for one of the four combatant ships included in the FMSO study. The study showed that for this ship,

the revised criteria caused a range increase of 3,322 items and a depth increase of 783 items in the allowance list. The combined total of 4,105 items caused an increase of \$592,000 to the value of the ship's allowance list. We found that, of the 4,105 items, 1,840 items valued at \$173,000, or 29 percent of the increased value, were already on board the ship in sufficient quantities to satisfy the increased allowance. This did not include AT-5 items, which Navy officials said they considered in arriving at the budget estimate. If this situation prevailed for all combatant ships receiving updated allowance lists during fiscal years 1983 through 1987, the Navy's budget estimate for implementing the revised stockage criteria could be overstated by many millions of dollars.

We discussed the budget estimate with personnel within the Office, Chief of Naval Operations. Although they agreed that their O&MN budget estimate did not consider all the assets on board the ships, the personnel expressed concern about our limited survey. They stated that they would like to expand this observation on one ship and test other ships to more accurately predict asset availability. The personnel agreed to consider these available assets in future budget estimates.

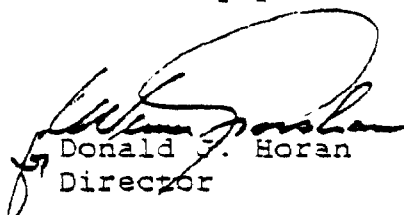
CONCLUSION AND RECOMMENDATION

The Navy has overstated its need for O&MN funds to implement the revised shipboard stockage criteria because it did not adequately consider assets already on board ships. We recommend that you direct the Navy to consider the assets already on board ships and appropriately adjust its budget requests.

As you know, 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 Senate Committee on Governmental Affairs and the House Committee on Government Operations 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 to the Secretary of the Navy; the Director, Office of Management and Budget; and the chairmen of the appropriate congressional committees.

Sincerely yours,


Donald J. Horan
Director