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

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

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Admiral J. G. Williams
Chief of Naval Material
Naval Material Command
Department of the Navy

Dear Admiral Williams:

Subject: Questionable Funding Computation for the Ship Intermediate Maintenance Commercial Industrial Services Program (GAO/PLRD-83-23)

In a recent followup survey of intermediate maintenance management for Navy ships, we found that a situation reported by us 5 years ago is still occurring. Certain work data important to the budget process are routinely being recorded incorrectly at some intermediate maintenance activities (IMAs), with the result that Government funds budgeted for commercial contracts may be overstated. Although the Navy is presently implementing a comprehensive management information system that should significantly improve maintenance management and eliminate such problems as the one we uncovered, this new system will not be in place and completely functioning for several years. In the meantime, the Navy needs to ensure that procedures are changed to avoid overstating its budget requests.

As you know, workload beyond the capacity of Navy IMAs is performed by the private sector under the Commercial Industrial Services (CIS) program. In our followup we found that, due to inaccurate historical data, the Navy is overstating its need for contractor support funds. In determining its contractor needs, the Navy does not adjust work data for unproductive time erroneously recorded as productive time.

As reported previously, 1/ the Navy's Material Maintenance Management (3M) system does not provide a separate accounting of unproductive time, so some supervisors record all available staff hours--including leave, liberty, training, military duties, and

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1/"The Navy's Intermediate Ship Maintenance Program Can Be Improved" (LCD-77-412, Sept. 23, 1977).

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shop cleanup--as productive time. Given the importance of productivity data to the budget process, we recommended in 1977 that the 3M system be revised to prevent such errors. Yet, our survey this year found that most IMAs continue to use the same 3M system to report and consequently record unproductive time as productive. Thus, reports of maintenance hours remain unreliable.

Moreover, the formula currently used to estimate the intermediate maintenance workload for the budget process--and therefore to estimate the CIS budget—provides no method of adjusting workload figures to correct overstated productive time. IMAs productive capacity for a budget year is based on the number of staff years assigned and adjusted to reflect time lost to leave and training. Workload requirements are based in part on the time recorded for past ship maintenance under the 3M system. 1/ If the adjusted staff year figure (capacity) falls short of the projected workload requirement, the formula produces the CIS requirement. Since this process assumes that the historical data underlying its figures are accurate, no control exists to insulate the maintenance budget and CIS projections from significant errors in workload records. Consequently, substantial amounts of Government funds are allocated on a questionable basis. We learned from Navy officials that CIS funds generated by this procedure for surface ship IMAs amounted to $40 million in fiscal 1982 and may reach $60 million in future years.

Certain improvements could rectify this situation. The Navy has already developed a new management information system under the "Ship Support Improvement Project" that can adjust some 3M data to reflect true productive time. For example, during the last 2 years the Navy has been conducting a pilot program on engineered work standards at the Norfolk Shore IMA. This new system adjusts the work schedule for its shops to reflect worker skills, training, and other unproductive time. These adjustments are based on recent experience. Navy officials informed us that the shore IMA at San Diego has a similar system to record unproductive time.

1/The workload requirements data currently used were developed by a Naval Sea System Command (NAVSEA) contractor who used mostly those labor hours for intermediate maintenance reported under the 3M system. His recommended annual maintenance requirement has replaced the two fleet estimates used in previous budget submissions, which were also based on the questionable 3M system reports.

If the data reported by IMAs under the old 3M system were adjusted based on actual experience, the recorded productive time would be substantially more accurate. The corrected data would, in turn, further refine the workload requirements and capacity estimates used in the CIS budget formula.

We discussed our concerns with personnel within the Office of the Chief of Naval Operations (CNO) and were informed that the NAVSEA contractor will be updating the IMA workload requirements. He will be told to consider that maintenance staff hours recorded under the old 3M system may be overstated. According to CNO officials, the contractor will obtain--and use to adjust other data as necessary--maintenance staff hours recorded at those IMAs using engineered standards and data reporting systems under pilot programs.

In summary, the Navy has overstated its need for CIS funds because historical data used to determine the intermediate maintenance requirements were not adjusted for inaccurate reports of unproductive time. The amount of overstatement is not known but the current computation method, in our opinion, is not sound enough to define the CIS funds needed. We suggest that you consider all available intermediate maintenance information and adjust future ship intermediate maintenance requirements accordingly.

We are sending copies of this report to the CNO and the Commander, NAVSEA. We would appreciate receiving your views on this matter as well as notification of any action you plan to take.

Sincerely yours,

Henry W. Connor
Senior Associate Director