

125771

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

FOR RELEASE ON DELIVERY
EXPECTED AT 9:00 A.M.
WEDNESDAY, DECEMBER 5, 1984

STATEMENT OF
JOHN LANDICHO
SENIOR ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL
AFFAIRS DIVISION
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ON
THE NAVY'S PROJECTED COST AND SCHEDULE SAVINGS
IN THE ACQUISITION OF NUCLEAR AIRCRAFT CARRIERS

030739



125771

Mr. Chairman and Members of the Committee:

I am pleased to be here today to respond to your request to discuss GAO's recent reviews of the Navy's projected cost and schedule savings in the acquisition of nuclear aircraft carriers.

As you know, the Navy has three nuclear carriers under contract with the Newport News Shipbuilding and Dry Dock Company. The CVN-71, U.S.S. Theodore Roosevelt, was launched in October 1984, and is scheduled for operational deployment in 1986. The CVN-72, U.S.S. Abraham Lincoln, is scheduled to join the fleet in 1989, and the CVN-73, U.S.S. George Washington, in 1991.

In fiscal year 1983, the Navy requested \$6.8 billion to fully fund two nuclear carriers--the CVN-72 and CVN-73--instead of incrementally funding one in fiscal year 1984 and one in fiscal year 1986. According to the Navy, fully funding both carriers in fiscal year 1983 would result in a delivery date for each that would be 2 years earlier and would achieve a \$754 million cost avoidance if the multiship approach was authorized and appropriated, rather than the single ship approach. The multiship approach was approved by the Congress in December 1982.

In February 1982, the Chairmen of the Senate Armed Services Committee and House Appropriations Subcommittee on Defense requested GAO to review the Navy's proposal to fully fund two Nimitz-class nuclear aircraft carriers in fiscal year 1983.

We reported in March 1982 that the Navy's estimated savings were centered around certain assumptions regarding escalation

avoidance, economic order quantities, reductions in nonrecurring costs, and improved shipyard productivity. We found the Navy's estimate of \$754 million in cost avoidance to be achievable based on our analysis of its cost estimating assumptions and techniques.

We noted, however, that these savings could be negated by interest costs in the outyears when expenditures would be made. The future outlay streams for the single ship approach and the multiship approach are different.

We reported that the present value of the two funding approaches using a discount rate of 10 percent as prescribed by the Department of Defense showed that the multiship alternative was about 2 percent less costly. However, using a 13.97 percent discount rate based on the 12-year Treasury bond yield, the approximate period of projected outlays, our analysis showed that the cost advantage of the multiship approach was almost negated.

I should point out that the Navy emphasized that the projected cost savings were a secondary consideration and that the military need for early delivery of the carriers was the primary consideration behind the multiship procurement approach.

We concluded that the improved delivery schedule of 22 months was achievable under the assumptions made by the Navy if certain events occurred as planned. These events were (1) the provision of sufficient fiscal year 1982 Research, Development, Test and Evaluation funds to Newport News Shipbuilding and

Dry Dock Company during the Spring of 1982 for planning purposes, (2) the award of a long-lead contract in October 1982, and (3) having fiscal year 1983 funds appropriated in time to award the basic ship construction contract by January 1983.

Because of the limited scope of our review, we did not verify the need for early delivery of the carriers. Nor did we examine issues related to the early delivery of the two carriers, such as whether carrier aircraft and battle group escort ships were being procured on an accelerated schedule to coincide with the early delivery of the carriers, and whether trained crews would be available to operate the carriers, aircraft, and escort ships.

Two related reports were issued subsequent to the March 1982 report:

--In March 1983, we issued a report in response to a request by the Chairman of the Subcommittee on Defense, Senate Appropriations Committee. We found that the key events critical to the achievement of earlier delivery and cost avoidance had occurred as planned and that events and assumptions affecting anticipated savings had not changed.

We also reported that the Navy was requesting \$87.8 million in its fiscal year 1984 budget for escalation costs on the CVN-72 and CVN-73. This was in addition to the amount provided for in the fiscal year 1983 budget and was based on higher inflation indices. We noted that this escalation increase reflected the extreme difficulty which exists in predicting future costs over a long

period of time--in this case almost ten years. Since 41 percent of the projected \$754 million savings was due to reduced escalation resulting from earlier procurement, we pointed out that this request and future requests could affect the upward or downward movement of the projected cost savings.

--In July 1983, we issued a report in response to an April 1983 request by the Chairman of the Subcommittee on Defense, House Appropriations Committee. We reported that the Navy's estimated savings of \$74 million on the CVN-71 appeared to be reasonable if the incentive delivery date of December 31, 1986, was met. At that time, the CVN-71 was 53 percent complete and on schedule for delivery.

Our original and subsequent reviews were performed under tight time constraints which addressed specific questions of the Committees. In conducting our reviews, we obtained and analyzed data related to the preparation of cost estimates and interviewed personnel in the Office of the Secretary of Defense, the Navy, the Congressional Budget Office, and the Office of Management and Budget. In the March 1982 and 1983 reviews, we interviewed officials at the Newport News Shipbuilding and Dry Dock Company.

We did not verify the accuracy of the projected cost avoidance by performing a detailed pricing audit of the estimates. Rather, as requested by the Committees, we reviewed the reasonableness of the underlying assumptions on which the

cost and schedule savings were based, and pointed out some uncertainties in the estimated cost savings.

Other Work

The Committee staff asked us to discuss some other work our office has currently underway even though it does not deal directly with the acquisition of nuclear aircraft carriers. We have two draft reports dealing with contracts awarded by the Department of Energy for naval nuclear reactors. These reports deal with the potential overpricing of as much as \$5 million under two contracts. Copies of the drafts have been provided to the Committee. We have not yet received comments on these draft reports from the Department of Energy or the contractor.

In addition, we have a survey underway regarding aircraft carrier crossdecking activities. Crossdecking is when material is transferred from an aircraft carrier returning to port to an aircraft carrier beginning deployment in order to facilitate the latter's operational readiness. The objectives of this effort are to identify the types and magnitude of material being cross-decked, the causes for crossdecked items being in short supply, actions being taken by the Navy to alleviate shortages, and to determine whether additional actions are needed.

- - -

This concludes my statement Mr. Chairman and I would be happy to respond to any questions you may have.