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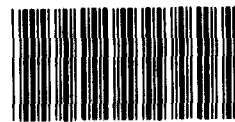
United States General Accounting Office

Briefing Report to Congressional  
Requesters

December 1990

# NAVY BUDGET

## Potential Reductions to Shipbuilding and Conversion Funds



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**National Security and  
International Affairs Division**

B-241599

December 13, 1990

The Honorable Daniel K. Inouye  
Chairman, Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable John P. Murtha  
Chairman, Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

As you requested, we reviewed the Navy's fiscal year 1991 budget request for shipbuilding and conversion and the status of prior year appropriations for this account. In July and September 1990, we briefed your staffs on the preliminary results of our review. This report summarizes and updates the information provided in those briefings.

**Results in Brief**

We identified \$89.4 million in potential reductions to the fiscal year 1991 budget request for the MHC-51 program and \$13.4 million in potential rescissions from the fiscal year 1986 appropriations for the Outfitting and Post Delivery accounts. These reductions and rescissions result primarily from (1) a delay in approval of one of the three MHC-51 class ships requested in fiscal year 1991 until shipyard capabilities are proven and (2) unobligated, uncommitted balances in the Outfitting and Post Delivery accounts. Table 1 shows the potential impact on shipbuilding and conversion, and appendix I provides further details.

**Table 1: Potential Reductions to Navy Shipbuilding and Conversion Funds**

Accounts	Fiscal year		Total
	1991	1986	
MHC-51 program	\$89.4		\$89.4
Outfitting account		\$9.8	9.8
Post Delivery account		3.6	3.6
<b>Total</b>	<b>\$89.4</b>	<b>\$13.4</b>	<b>\$102.8</b>

**Scope and  
Methodology**

This review is one of a series that examines defense budget issues. We conducted our review at the Departments of Defense and the Navy, Washington, D.C. We interviewed budget and program officials and reviewed pertinent program documents and budget support data

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obtained from Defense and Navy headquarters. We examined selected aspects of all programs and accounts included in the fiscal year 1991 shipbuilding and conversion budget request. We also reviewed the status of obligations for funds appropriated in prior years and the Navy's plans to obligate these funds. We conducted our review from January to September 1990 in accordance with generally accepted government auditing standards.

As requested, we did not obtain written agency comments on this report. However, we discussed our findings with responsible Defense and Navy officials and have included their comments where appropriate. The officials generally agreed with the facts presented in this report.

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We are sending copies of this report to the Secretaries of Defense and the Navy; the Director, Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Martin M Ferber, Director, Navy Issues, who may be reached on (202) 275-6504 if you or your staff have any questions. Other major contributors are listed in appendix II.



Frank C. Conahan  
Assistant Comptroller General



# Potential Reductions to Navy Shipbuilding and Conversion Funds

We identified a potential reduction of \$89.4 million in the fiscal year 1991 budget request for MHC-51 class coastal minehunter ships and a \$13.4 million potential rescission from the fiscal year 1986 appropriations for the Outfitting and Post Delivery accounts.

## MHC-51 Class Coastal Minehunter

The MHC-51 class coastal minehunter is designed to clear U.S. harbor and coastal waters of acoustic, magnetic, and pressure/contact type mines. The MHC-51, the lead ship of this class, is a modification of the Lerici fiberglass ships built by Intermarine SpA of Italy. Congress appropriated funds for the first five MHC-51 coastal minehunters in fiscal years 1986, 1989, and 1990.

## Results of Analysis

The Navy requested \$268.1 million for fiscal year 1991 to buy three more MHC-51 class ships. Congressional approval of one of the requested ships could be deferred because one of the shipyards will deliver the first two ships later than contracted for, and the other shipyard has not yet demonstrated a capability to produce fiberglass hulls.

A sole-source contract for the MHC-51 was awarded in May 1987, with funds appropriated in fiscal year 1986, to Intermarine USA (IMUSA), Savannah, Georgia. IMUSA was established by Intermarine SpA of Italy. No additional funds were authorized until fiscal year 1989, when funding for the MHC-52 and 53 was approved.

In February 1989, IMUSA was awarded a sole-source contract for the MHC-52. Avondale Industries, a competitively selected second source, was awarded a contract for the MHC-53 in October 1989. The remaining ships of this class will be competed between Avondale and IMUSA.

Both IMUSA (in 1987) and Avondale (in 1989) were allowed a year to prepare facilities to construct this type of ship. Both shipyards opted for facilities capable of assembling one MHC hull at a time. Avondale, which had not built fiberglass ships before, procured the technology directly from Intermarine SpA. On August 2, 1990, Avondale was awarded a contract for one of the two ships included in the fiscal year 1990 appropriation. The contract included an option for the other fiscal year 1990 ship, and separate options for one, two, or all three of the ships requested in the fiscal year 1991 budget.

If Avondale is awarded both of the fiscal year 1990 ships, the Navy must decide whether to exercise its options for the fiscal year 1991

ships and leave IMUSA with no work or to recomplete part of the 1991 ships between Avondale and IMUSA. Alternatively, the Navy may award the second fiscal year 1990 ship to IMUSA, with or without options for the fiscal year 1991 ships. In either case, it appears that one of the shipyards will be awarded at least three and as many as five ships in 2 years.

As of July 1, 1990, the Navy's program manager estimated the MHC-51 will be delivered by IMUSA 9 months later than originally contracted for and the MHC-52 will be delivered 2 months later than originally scheduled. The Navy plans to have eight ships funded before the first ship is delivered, including the three ships requested for fiscal year 1991. Also, as of July 2, 1990, Avondale had not made any of the fiberglass hull test sections required to prove successful adoption of the technology for molding complete MHC hulls.

Considering the delivery delays from IMUSA, Avondale's lack of experience with fiberglass shipbuilding, and the plan to have eight ships funded before the first is delivered, the Navy could be limited to two ships a year until the shipyards prove the capacity to successfully build this size fiberglass ship. Deletion of one third of the fiscal year 1991 request for MHC-51 class ship construction would result in a reduction of about \$89.4 million.

MHC program officials said they informed Congress that they had reestimated costs based on offers from both shipyards. They now estimate that three ships will cost about \$298 million, whereas two ships would cost about \$204 million. If the Navy's new estimates are used, the fiscal year 1991 budget request could be reduced by about \$64 million rather than \$89.4 million. The \$64 million is the difference between \$268.1 million—the original budget request for three ships—and \$204 million—the new estimated cost for two ships.

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## Outfitting and Post Delivery Accounts

The Outfitting account provides spares, repair parts, and other material required to fill ships' initial allowance of storeroom and operating space items. Funds are budgeted for each ship far enough in advance to ensure that long-lead or large-quantity items are received in time to meet the ship's projected fitting out completion date.

The Post Delivery account provides funding for design, planning, government-furnished material and related labor costs required to correct ship deficiencies identified during sea trials. Post delivery funds are

limited to the work that can be accomplished within 11 months (15 months for attack submarines) after the month in which completion of fitting out occurs. All funds to correct deficiencies for a particular ship are budgeted in the first fiscal year in which funding is estimated to be required.

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## **Results of Analysis**

The fiscal year 1986 appropriation for the Navy's Outfitting account had an unobligated, uncommitted balance of \$9.776 million. According to Navy budget officials, there are no requirements for these funds for the purpose for which they were appropriated. Also, the fiscal year 1986 appropriation for the Navy's Post Delivery account had an unobligated, uncommitted balance of \$3.586 million. According to the Navy, these funds could be obligated only for post delivery costs for one ship (TAGOS 13, Adventurous). Since this ship was delivered on August 19, 1988, its requirement for post delivery funds to correct deficiencies identified during sea trials appears to have been satisfied, leaving no further requirement for these funds. A rescission of both balances would yield \$13.4 million.



# Major Contributors to This Report

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