

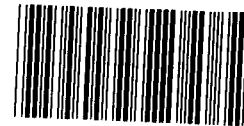
GAO

Briefing Report to the Chairmen,
Subcommittees on Defense, Senate and
House Committees on Appropriations

September 1992

1993 NAVY BUDGET

**Potential Reductions in
Operation and
Maintenance Programs**



147733

**National Security and
International Affairs Division**

B-250406

September 30, 1992

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

We reviewed the Navy's amended fiscal year 1992-93 budget request to identify potential reductions to the fiscal year 1993 budget request for selected programs.

Results in Brief

We identified \$249.9 million in potential reductions to the Navy's operation and maintenance budget request for fiscal year 1993. Of this amount, \$213.6 million is from the operation and maintenance, Navy, request and \$36.3 million is from the operation and maintenance, Navy Reserve, request. Table 1 summarizes the potential reductions by activity.

Table 1: Potential Reductions to Navy Operation and Maintenance Budget for Fiscal Year 1993

Dollars in millions	
Activity	Amount
Depreciation	\$156.0
Sound Surveillance System	50.0
Frigate Trainer Program	36.3
Fleet air training and support	5.7
Contractor support for canceled programs	1.1
Ship inactivation and habitability	0.4
Departure assistance center	0.4
Total	\$249.9

Appendix I provides additional information on the results of our review.

**Scope and
Methodology**

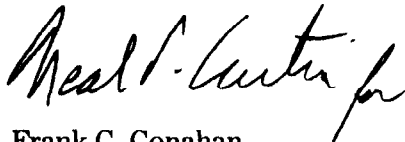
This review is one of a series that examines defense budget issues. To conduct our analysis, we reviewed Navy budget justification documents and budget support data from the Department of the Navy, Comptroller's

Office, Washington, D.C.; and the Commander in Chief, U.S. Atlantic Fleet. We also analyzed data relating to requirements and program status. We often had to rely on interviews with program officials because the Navy operation and maintenance budget does not identify all funding by weapon system. We did not conduct a detailed review of each program's requirements.

We conducted our review from February to August 1992 in accordance with generally accepted government auditing standards. We discussed a draft of this report with Navy comptroller and program officials and incorporated their comments where appropriate.

We are sending copies of this report to the Chairmen and Ranking Minority Members, House and Senate Committees on Appropriations and on Armed Services; the Chairmen, Senate Committee on Governmental Affairs and House Committee on Government Operations; the Director, Office of Management and Budget; and the Secretaries of Defense and the Navy.

This report was prepared under the direction of Richard Davis, Director, Navy Issues, who may be reached on (202) 275-6504 if you or your staff have any questions. Major contributors to this report are listed in appendix II.



Frank C. Conahan
Assistant Comptroller General

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Potential Reductions to Navy Operation and Maintenance Budget

We reviewed the Navy's amended fiscal year 1992-93 operation and maintenance budget request and identified potential reductions for fiscal year 1993. The following sections briefly describe the programs reviewed and the results of our analysis.

Depreciation

The Department of Defense uses the Defense Business Operations Fund to finance general operations and maintenance activities. The fund charges users, such as Navy fleets, for the costs that have been incurred in repairing ships. The fund uses these revenues to pay labor, material, and overhead costs associated with providing the repair services. The fleet uses operation and maintenance funds to pay the fund's charges.

Results of Analysis

We reported¹ that in calculating the fund's annual charges, the Department included costs needed to replace facilities and equipment (i.e., depreciation). Because the Department uses military construction funds to pay for new facilities and equipment, including depreciation costs, the fund's charges result in double payments for new facilities and equipment.

We determined that the Navy's fiscal year 1993 request for operation and maintenance funds includes \$156 million to pay for the fund's depreciation charges. Because the Congress has directed that fund-related military construction projects continue to be financed through the military construction appropriation, operation and maintenance funds are not needed for this purpose. Therefore, the Committees should consider reducing the operation and maintenance request by that amount.

Sound Surveillance System

The Sound Surveillance System is an acoustic sensor program that collects and processes undersea acoustic data. The system's primary purpose is to detect potential enemy submarine movements. The system consists of listening devices connected by cable to shore sites and shore processing equipment. The fiscal year 1993 Navy operation and maintenance budget request includes \$139 million for this program.

¹Financial Management: Defense Business Operations Fund Implementation Status (GAO/T-AFMD-92-8, Apr. 30, 1992).

Results of Analysis

The Navy can reduce the cost of operating and maintaining the system by \$50 million in fiscal year 1993 if unnecessary system improvements are eliminated. Planned system improvements are unnecessary because they were developed to counteract a global threat that no longer exists. A reduction of \$50 million could be made to the Navy's fiscal year 1993 operation and maintenance budget request.² Navy comptroller officials agreed that these funds were not needed for the Sound Surveillance System. However, they believe that this money should be used elsewhere within the operation and maintenance budget.

**Frigate Trainer
Program**

In 1990 the Secretary of the Navy approved a program that would assign eight FF-1052 Knox class frigates to the reserves. These frigates would be used to train a nucleus crew of personnel for another 32 Knox class frigates that would be decommissioned and maintained in a slightly higher state of readiness than other ships the Navy planned to decommission. The Navy viewed the training program as a hedge against the possibility of a future global war. The fiscal year 1993 Navy operation and maintenance budget request includes \$63.9 million for this program.

Results of Analysis

In April 1992 we recommended³ that the Navy cancel the frigate trainer program because of the reduced threat of global war. The Department of Defense did not agree with our recommendation and stated that the program supports the nation's new regional defense strategy by adding to its reconstitution element. After evaluating the Department's comments, we concluded that our recommendation was still valid because the possibility of a future global war continued to be remote. In addition, we pointed out that despite the Department's statement that there are potential global threats, the Department had yet to issue any policy or statement that identified or provided guidance for dealing with these threats.

We identified \$36.3 million in fiscal year 1993 operation and maintenance funding that would not be needed if the program is canceled. This amount takes into account the costs to operate the eight ships for part of fiscal year 1993 until they are inactivated. A reduction of \$36.3 million could be made

²Reducing the scope of the program also could result in savings in other appropriation accounts (research, development, test and evaluation; and other procurement). These savings could amount to \$17.2 million in fiscal year 1993.

³Naval Reserves: The Frigate Trainer Program Should Be Canceled (GAO/NSIAD-92-114, Apr. 28, 1992).

to the fiscal year 1993 operation and maintenance, Navy Reserve, budget request.⁴

Fleet Air Training and Support

The majority of the Atlantic Fleet's funding of flying hours for aircraft operations is contained in three categories. These categories are referred to as the tactical air/antisubmarine warfare operation group, the fleet air support group, and the fleet air training group.

Results of Analysis

The fiscal year 1993 budget request provides \$55 million less for Atlantic Fleet aircraft operations than the Atlantic Fleet believes is required. However, some individual aircraft types are overfunded. Within the fleet air support activity group, three aircraft types are scheduled to receive funding in excess of current requirements. Similarly, within the fleet air training activity group, four aircraft types are scheduled to receive funding in excess of current requirements. Thus, the budget request could be reduced by \$5.7 million—\$2.2 million in the fleet air support activity group and \$3.5 million in the fleet air training activity group (see table I.1). Alternatively, if the Navy could justify flying hours for portions of its unbudgeted requirement, the \$5.7 million could be used for some currently unbudgeted flying hours.

⁴Canceling the program also could save \$41.7 million in other fiscal year 1993 appropriation accounts: \$15.1 in reserve personnel, Navy; \$13.1 million in military personnel, Navy; and \$13.5 in other procurement, Navy. On the other hand, canceling the program would require one-time inactivation costs of \$1.1 million a ship (or a total of \$8.8 million) that would be funded by the operation and maintenance, Navy, appropriation.

**Appendix I
Potential Reductions to Navy Operation and
Maintenance Budget**

**Table I.1: Summary of Overfunded
Atlantic Fleet Flying Hours**

Aircraft type	Flying hours required	Flying hours requested	Flying hours overfunded	Value of overfunded hours
Fleet air support				
C-130F	1,200	1,858	658	\$1,138,000
KC-130F	700	1,089	389	559,000
UH-1N	2,324	3,324	1,000	521,000
Fleet air training				
A-6E	8,323	9,295	972	\$2,269,000
C-2A	1,389	1,557	168	121,000
SH-3H	2,957	3,280	323	552,000
SH-60B	4,902	5,429	527	543,000
Total	21,795	25,832	4,037	\$5,703,000

**Contractor Support for
Canceled Programs**

In January 1992 the Secretary of Defense announced that certain Navy weapon system programs were being restructured or canceled. Two of the canceled programs were the Supersonic Low Altitude Target weapon system and the AN/SQQ-89I weapon combat system for surface ships.

Results of Analysis

The Navy's operation and maintenance budget request for fiscal year 1993 contains \$200,000 in contractor support costs for the Supersonic Low Altitude Target program and \$900,000 in contractor support costs for the AN/SQQ-89I program. Contractor support costs are for technical and engineering work, and such support includes graphics, weapon system blueprints, and program development schedules. According to a Navy comptroller official, contractors can usually shut down all support efforts within 6 to 9 months after a program has been canceled. This means that contractor support should not be needed for these two canceled programs in fiscal year 1993. We discussed this finding with Navy comptroller officials who agreed that contractor support for these programs is unnecessary. Therefore, a reduction of \$1.1 million could be made to the operation and maintenance budget request.

**Ship Inactivation and
Habitability
Improvements**

We examined the Commander in Chief, U.S. Atlantic Fleet, portion of the ship maintenance program. This program finances ship overhauls; maintenance availabilities; emergent work; habitability improvements; intermediate maintenance; outfitting, berthing, and messing; and other maintenance and engineering support.

Results of Analysis

The Navy's request includes \$400,000 for habitability improvements to two amphibious ships that are scheduled for inactivation in fiscal year 1993. The amphibious assault ship, LPH-2, was scheduled for \$220,000 in maintenance improvements and the tank landing ship, LST-1180, was scheduled for \$180,000 in improvements.

According to Atlantic Fleet officials, habitability improvements emphasize replacing or upgrading obsolete or inefficient ship conditions such as galleys; laundry equipment; personnel support equipment; and aged, leaking, or clogged piping. Since both of these ships are scheduled for inactivation during fiscal year 1993, these repairs are not needed. Therefore, a reduction of \$400,000 in fiscal year 1993 operation and maintenance funds should be made to the Navy's ship maintenance program. We discussed this finding with fleet comptroller officials who agreed that the habitability improvements had been erroneously planned.

**Departure Assistance
Center**

The Naval Facilities Engineering Command, Atlantic Division, contracts for a departure assistance center to provide relocation services for workers transferring to any of the 23 other Naval Facilities Engineering Command locations.

Results of Analysis

The departure assistance center contract provides services that duplicate those offered under another program called the relocation assistance program. Both programs give Navy personnel the chance to research potential family relocation issues such as housing, schooling, recreational facilities, and auxiliary employment for spouses before they are transferred to a new location.

Naval Facilities Engineering Command officials agreed that this is a duplicate effort and stated that they would not renew the departure assistance center contract for this service in fiscal year 1993. As a result, \$367,000 will be avoided. The contract contained future year options amounting to \$373,000 for fiscal year 1994, \$380,000 for fiscal year 1995, and \$221,000 for fiscal year 1996, or a total of \$1.3 million for fiscal years 1993 to 1996. In addition, a Naval Facilities Engineering Command official told us that they had planned to open departure assistance centers at other Navy locations, but as a result of our finding, they would not open such centers now and instead would rely on local Navy offices to provide such services. A reduction of \$367,000 could be made to the fiscal year 1993 operation and maintenance budget request.

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