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Report to the Honorable  
Barbara Boxer, House of Representatives

December 1988

# NAVY MAINTENANCE

## Implementing the Commercial Industrial Services Program at San Diego



137448

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National Security and  
International Affairs Division

B-231303

December 2, 1988

The Honorable Barbara Boxer  
House of Representatives

Dear Mrs. Boxer:

This report responds to your February 9, 1988, request, and subsequent discussions with your staff, that we review the Navy's management of the Commercial Industrial Services (CIS) program in San Diego, California, as administered by the Supervisor of Shipbuilding, Conversion, and Repair (SUPSHIP). Specifically, you asked us to determine whether

- SUPSHIP, San Diego, was implementing the program in accordance with Navy policy and regulations and in a manner similar to SUPSHIPS at other west coast locations and
- Navy policy has changed to shift work from CIS contractors to Master Ship Repair (MSR) contractors and, if so, whether the change has resulted in additional costs to the Navy.

You also asked us to assess how the management at SUPSHIP, San Diego, views the CIS program in light of other work priorities and to obtain various CIS contractors' views of how the Navy is managing the program. Details on our objectives, scope, and methodology are in appendix I.

## Results in Brief

At San Diego, we found that the Navy is implementing the CIS program generally in accordance with Navy policy and regulations. The other west coast CIS programs are being operated in a similar manner, except that, until recently, the amount of CIS-funded work going to MSR contractors at San Francisco exceeded Navy guidelines. There has been no change in Navy policy to shift work from CIS contractors to MSR contractors and with the exception of fiscal year 1985, MSR contractors have received 1 percent or less of the funds obligated for CIS-type work in San Diego. However, the Pacific Fleet has decreased the amount of funds available for the program and increased the funding for in-house work.

SUPSHIP, San Diego, officials stated that although managing the CIS program places a heavy burden on their limited staffing resources, they like the program and believe it is functioning well. CIS contractors we interviewed were generally satisfied with the program; however, some felt

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that potential CIS work was being awarded to MSR contractors. A consultant to one of these contractors cited three ships as examples. We found the assertion to be basically incorrect concerning these ships.

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## Background

Intermediate level ship maintenance is generally done by Navy personnel aboard tenders or at Navy shore facilities, while organizational level ship maintenance is generally done by a ship's crew. The Navy established the CIS program in 1978 to use private contractors to (1) accomplish intermediate level ship work that is beyond the capacity, but within the capability, of fleet intermediate maintenance activities and (2) reduce ship personnel working hours by doing certain categories of organizational maintenance generally done by a ship's crew. Ship work that requires depot level maintenance is not done under this program.

The intent of the CIS program is to use advertised contracts under which the Navy can place purchase orders for intermediate maintenance and repair work on short notice. Type Commanders and their intermediate maintenance coordinators determine intermediate and organizational maintenance requirements to be accomplished under the program. The contracts are developed and awarded by either a Naval Supply Center or a Naval Regional Contracting Center. According to Navy policy, the Navy is to use MSR contractors only as the last alternative for accomplishing CIS-type work. That is, MSR contractors should not generally be used to accomplish single maintenance requirements that are within the capability of CIS contractors. MSR contractors primarily perform major repairs or overhauls, while CIS contractors tend to specialize in certain types of repair and maintenance such as vent cleaning, deck repair, and bilge and tank cleaning.

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## San Diego Program Compliance

SUPSHIP, along with the Pacific Fleet and the Naval Regional Contracting Center, was involved with the CIS program at San Diego and was generally managing the program according to Navy policy, including using the contracting methodology and organizational strategy developed for implementing the program. For example, this SUPSHIP developed and maintained CIS contracts and placed work orders, when directed by the Pacific Fleet, with CIS contractors. Our findings in this regard are consistent with a September 1987 Naval Sea Systems Command audit that found this SUPSHIP generally complied with Navy CIS program guidelines.

We found that SUPSHIPS and other Navy activities operated and managed the CIS program similarly at San Diego, Long Beach, and San Francisco,

except that SUPSHIP, San Francisco, provided a significantly higher percentage of CIS program funds to MSR contractors than did SUPSHIP, San Diego. Navy regulations stipulate that no more than 50 percent of CIS-funded work requirements can be assigned to MSR contractors. For fiscal years 1983 through 1987, estimated CIS-funded work provided to MSR contractors ranged from 37 to 65 percent at San Francisco compared with 0 to 8 percent at San Diego. Since fiscal year 1987, SUPSHIP, San Francisco, has reduced the amount of CIS funds going to MSR contractors.

## Navy Has Not Shifted Work From CIS to MSR Contractors

We found no evidence that the Navy has changed its policy or practice to increase the work of MSR contractors at the expense of CIS contractors. However, to become more self-sufficient and to make more effective use of Navy personnel and facilities, the Pacific Fleet recently has performed more intermediate and organizational maintenance in-house. Consequently, CIS program funding has been reduced while funding for in-house Navy intermediate maintenance activities has increased.

Navy records show, for example, that the Pacific Fleet's estimated annual expenditures for the CIS program decreased from about \$41 million in fiscal year 1983 to about \$28 million in fiscal year 1987, a 32-percent reduction. During the same period, the Fleet's estimated annual expenditures for in-house intermediate maintenance activities increased about 51 percent, from \$83 million to \$126 million.

## SUPSHIP Management's Views of the Program

SUPSHIP, San Diego, officials stated that they like the CIS program and believe it is functioning well. They believe that the September 1987 Naval Sea Systems Command audit of their CIS program supports their opinion that they have successfully operated the program. According to the Commanding Officer, comments attributed to SUPSHIP, San Diego, management personnel that the program is burdensome were taken out of context and that, to the contrary, the quality of SUPSHIP management attention to CIS contracts is not low and individual managers are committed to the program. He acknowledged, however, that SUPSHIP's supervision of CIS contracts does have a lower priority than multimillion dollar overhaul or complex repair contracts.

## CIS Contractor Views of the Program

As of mid-1988, SUPSHIP, San Diego, had 27 active CIS contracts. We interviewed representatives from three CIS contractors at San Diego to obtain their views on the Navy's management of the program. Representatives of two contractors were generally satisfied with the way SUPSHIP was

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operating the CIS program; one was dissatisfied. Two contractors, one of which was satisfied with program management, said, however, that the Navy was not providing them enough work. These two contractors and others believe that when the Navy does not use a CIS contractor for ship intermediate or organizational maintenance requirements, the work ends up with an MSR contractor as part of a major repair or overhaul work package at a much greater cost to the government. As the examples discussed below show, we did not find this to be the case for the limited number of instances reviewed.

One CIS contractor, and its consultant, alleged that work done by MSR contractors could have been performed for less under a CIS contract and cited three ships as examples. We found the allegation to be basically incorrect. The Navy used its in-house resources in two cases and an MSR contractor to do the work in only one case. However, in that case, SUPSHIP officials directed the MSR contractor to do the work because, in SUPSHIP's opinion, the work was covered by the fixed-price ship overhaul contract awarded to the MSR contractor. However, there is a dispute between the contractor and the Navy about whether the work was covered by the contract.

Navy officials indicated that it is possible for work packages awarded to MSR contractors to contain work that CIS contractors are capable of performing. However, they said that if ship availability does not permit using CIS contractors, either before or after major ship repairs and overhauls, it is generally in the Navy's best interest to have an MSR contractor function as a prime contractor and be responsible for managing the entire work package, including the work of subcontractors.

According to the SUPSHIP, MSR contractors are used as prime contractors for overhauls and major repairs because it does not have sufficient staff to coordinate the work of multiple contractors on the same ship, and it wants to avoid work claims from independent contractors working simultaneously in the same general area of a ship and to have one contractor responsible and accountable for all the work.

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Detailed information on these issues is in appendixes I to V. As requested by your Office, we did not obtain official agency comments on this report, but we did discuss its contents with Department of Defense and Navy officials. Their comments were incorporated in this report as appropriate.

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We are sending copies of this report to the Secretaries of Defense and the Navy and other interested parties. We will also make copies available to others upon request.

The major contributors to this report are listed in appendix VI.

Sincerely yours,

A handwritten signature in black ink that reads "John Landicho". The signature is written in a cursive style with a large initial "J".

John Landicho  
Senior Associate Director

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**Abbreviations**

CIS	Commercial Industrial Services
MSR	Master Ship Repair
SUPSHIP	Supervisor of Shipbuilding, Conversion, and Repair

# Introduction

The Navy established the CIS program in 1978 to use private contractors to (1) accomplish intermediate level ship work that is beyond the capacity, but within the capability, of fleet intermediate maintenance activities and (2) reduce ship personnel working hours by doing certain categories of organizational maintenance generally done by a ship's crew. Ship work that requires depot level maintenance is not done under this program.

## Levels of Maintenance

Depending on the type and complexity of work, the Navy accomplishes ship maintenance at the following three levels:

- Organizational maintenance is performed by a ship's crew members and includes inspecting, servicing, and lubricating equipment and repairing equipment and facilities.
- Intermediate maintenance consists of work done by Navy personnel on tenders or at Shore Intermediate Maintenance Activities and Naval Reserve Maintenance Facilities. Such work includes calibrating, repairing, or replacing damaged parts, components, or assemblies; modifying material; and providing technical assistance to ship maintenance personnel.
- Depot maintenance, done mainly by public and private shipyards, includes overhauls, conversions, modifications, and repairs that require a greater industrial capability than available at organizational or intermediate maintenance activities.

## CIS Contracting Methodology, Organization, and Responsibilities

According to program guidance, the preferred contract method for the CIS program is to use advertised contracts under which purchase orders can be placed on short notice. These contracts are developed and awarded to CIS contractors by either Naval Supply Centers or Naval Regional Contracting Centers. Under this program, the Navy is to use MSR contractors only as the last alternative for accomplishing CIS-funded work. Navy regulations stipulate that no more than 50 percent of CIS-funded work requirements can be assigned to MSR contractors.

MSR contractors are primarily engaged in depot level ship repair work. To qualify, they must be able to perform 55 percent of a ship overhaul with their own facilities and work force and have the ability to subcontract for work beyond their capability or capacity. MSR contractors also must be capable of assuming full responsibility for scheduling work and for the cost and quality of subcontractor performance. CIS contractors generally do not have the capability to either perform or manage a

complete depot level repair of Navy ships. Rather, CIS contractors specialize in specific types of repair and maintenance such as vent cleaning, deck repair, and bilge and tank cleaning.

According to Navy regulations, several organizations, including Fleet Type Commanders,<sup>1</sup> SUPSHIPS, and Naval Regional Contracting Centers, have responsibilities under the program.

- Type Commanders and their intermediate maintenance activity coordinators for the ports are responsible for annually determining intermediate and organizational level maintenance requirements by work category and estimating the quantity of this work to be accomplished under the program. These projections are based on such factors as number of ships homeported, the ships' operating schedules, and historical experience. The coordinator, using these projections, determines CIS contracting requirements by work category needed to support ship maintenance and authorizes work to be accomplished under the program. The coordinator is to assign work to this program only after determining that a local intermediate maintenance activity or a ship's crew cannot do the work.
- Each port area SUPSHIP has a CIS manager who is responsible for the overall management of the program. The CIS manager, working with the coordinator, prepares the specifications needed to develop CIS contracts required by the fleet. SUPSHIP also places CIS work orders authorized by the coordinator and monitors, inspects, and provides quality assurance of the work accomplished by private contractors. When existing CIS contracts are not available, a SUPSHIP can use onetime procurements or existing MSR contracts. MSR contractors are to be used only when other alternatives are unavailable.
- The Naval Regional Contracting Center or the Navy Supply Center, using SUPSHIP developed work specifications, develops, solicits, and awards CIS contracts.

## Objectives, Scope, and Methodology

On February 9, 1988, Representative Barbara Boxer asked us to review the Navy's management of the CIS program in San Diego. Our objectives were to determine

<sup>1</sup>These are administrative commands that provide tactical commands with the means of conducting tactical operations, such as administration of training, supply, and repair of fleet units.

- whether SUPSHIP, San Diego, was implementing the program in accordance with Navy policy and regulations and in a manner similar to other SUPSHIPS on the west coast;
- whether Navy policy has changed to shift work from CIS contractors to MSR contractors at a higher cost to the Navy;
- how SUPSHIP, San Diego, officials view the program, and what priority SUPSHIP officials give the program in light of other work requirements; and
- how San Diego CIS contractors' view the Navy's management of the program.

To accomplish these objectives, we performed work primarily at SUPSHIP, San Diego, and the Office of the Commander, Naval Surface Force, Pacific, and its Readiness Support Group, also located at San Diego. We also visited SUPSHIP activities and Naval Surface Force, Pacific, units located at Long Beach and San Francisco, California; the Naval Regional Contractor Center, San Diego; the Naval Air Force, Pacific, San Diego; United States Pacific Fleet Headquarters, Pearl Harbor, Hawaii; and the Naval Sea Systems Command, Washington, D.C.

At these activities we interviewed key officials responsible for (1) establishing CIS program policy and procedures, (2) overseeing and monitoring the program, and (3) administering and implementing the program at San Diego and other west coast locations.

We also analyzed Navy policies and regulations and other documentation applicable to Navy ship maintenance and repair, particularly the CIS program and its implementation by the Navy in San Diego and at other locations. This included a detailed analysis of the funds budgeted and used by the Pacific Fleet for the program and for other ship maintenance during fiscal years 1983 through mid-1988. Furthermore, we examined the procedures and methodology the Pacific Fleet and SUPSHIP used to determine the need for and to develop CIS contracts, and we analyzed the Navy's use of selected CIS contracts in San Diego.

As of July 1988, SUPSHIP, San Diego, had 27 CIS contracts. We interviewed a consultant and three CIS contractors referred to us by the consultant to obtain their views of how the Navy was implementing and administering the CIS program in San Diego. To observe differences in the work environments under which MSR and CIS contractors perform their work, we toured three ships undergoing repair or overhaul.

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**Appendix I  
Introduction**

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We conducted our work between March and August 1988 in accordance with generally accepted government auditing standards.

# San Diego CIS Program Complies With Policy and Regulations

We found that the Navy was operating the CIS program in San Diego in accordance with Navy policy and regulations and that the program at San Diego was being managed similar to those at other west coast locations. The Pacific Fleet, SUPSHIP, and the Naval Regional Contracting Center were generally managing the program in compliance with Navy policy.

As set forth in Navy guidance, Naval Surface Force, Pacific, the Type Commander for surface ships in the Pacific Fleet and its intermediate maintenance activity coordinator for each port estimate annual intermediate maintenance and CIS work requirements and submit budget requirements to Pacific Fleet Headquarters. According to a Pacific Fleet Headquarters official, based on these estimates, historical experience, and fiscal guidance received from the Office of the Chief of Naval Operations<sup>1</sup> Fleet Headquarters allocates a portion of its maintenance funds for operating the intermediate maintenance activities and the CIS program. Fleet Headquarters provides an allocation for funding CIS work directly to each SUPSHIP activity with program responsibilities.

The Readiness Support Group, the intermediate maintenance activity coordinator for the San Diego port, screens requests for ship intermediate maintenance work and either assigns this work to a Navy activity or the CIS program or sends the requests back to the ship to be accomplished by the ship's crew. Ship intermediate maintenance work requirements sent to the coordinator come from the following three sources:

- Intermediate maintenance work packages, which the Type Commander and ship personnel develop for ships undergoing scheduled or emergency work at an intermediate maintenance activity.
- The ship's crew.
- Navy maintenance personnel, who, in developing work packages for ships scheduled for depot level maintenance, may decide that some work requirements can be accomplished at the intermediate level rather than the depot level.

Requirements identified as intermediate maintenance work are referred to the coordinator for accomplishment by a Navy intermediate maintenance activity rather than being included as a part of the depot level

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<sup>1</sup>This guidance provides direction concerning the amount of funds to be spent in each area of maintenance such as overhauls and intermediate maintenance.

work package. Type Commander officials stated that they use their professional judgment and experience in making such decisions. They consider such factors as the funds available for the depot level work, the ship's availability and operating schedule, and the capability of the intermediate maintenance activity and the ship's crew to do the work.

We found that the SUPSHIP, San Diego, CIS Program Unit, working in conjunction with the coordinator, was involved in developing and maintaining CIS contracts and placing work orders with CIS contractors. As of July 1988, SUPSHIP, San Diego, had 27 active contracts with CIS contractors. A September 1987 Naval Sea Systems Command audit found that this SUPSHIP's program was generally complying with Navy policy and regulations and that a good communication link existed between the coordinator and the CIS manager.

The audit, however, pointed out a need for this SUPSHIP to improve quality assurance support. The audit found that the quality assurance staff did not participate in the advanced planning, pre-award surveys or monitor CIS contractor performance. Further, the audit report stated that this SUPSHIP was not forwarding requests for CIS contract solicitations to the Naval Regional Contracting Center in a timely manner, which resulted in some CIS contracts expiring before being renewed.

In response to the audit findings, this SUPSHIP is rewriting its quality assurance instruction and is reorganizing to improve quality assurance support for CIS contracts. Also, it is using a contract milestone matrix, which was developed by the Readiness Support Group, to track, project, and schedule milestone dates it needs to accomplish contract support services so that new contracts are developed and issued in a timely manner.

Generally, we found that the Type Commander and SUPSHIPS operated and managed the CIS program at San Diego and other west coast locations in a similar manner. At Long Beach and San Francisco, as at San Diego, the Type Commander's coordinators screened and authorized all work to be done under the program, and these SUPSHIPS developed CIS contracts and placed approved CIS work orders. However, SUPSHIP, San Francisco, expended a significantly higher percentage of program funds with MSR contractors than did SUPSHIP, San Diego. As shown in table 2.1, estimated CIS-funded work provided to MSR contractors ranged from 37 to 65 percent at San Francisco compared with 0 to 8 percent at San Diego for fiscal years 1983 through 1987.

**Appendix II  
San Diego CIS Program Complies With Policy  
and Regulations**

**Table 2.1: CIS-Funded Work Provided to  
MSR Contractors**

Dollars in thousands

Fiscal year	San Francisco			San Diego		
	Total CIS-funded work	CIS-funded work to MSR contractors	Percent	Total CIS-funded work	CIS-funded work to MSR contractors	Percent
1983	\$17,890	\$11,056	62	\$18,089	\$ 230	1
1984	16,889	10,986	65	16,722	—0—	0
1985	14,693	7,233	49	15,020	1,234	8
1986	10,604	5,494	52	14,803	175	1
1987	8,150	3,040	37	8,708	109	1

Since fiscal year 1987, SUPSHIP, San Francisco, has reduced the amount of CIS funds going to MSR contractors. As of March 1988, it had provided only about 9 percent (\$218,000) of the \$2,383,000 in CIS-funded work for fiscal year 1988 to MSR contractors, while SUPSHIP, San Diego, had not provided any CIS-funded work to MSR contractors.

# No Evidence of Navy Shifting Work From CIS to MSR Contractors

We found no evidence in Navy policy or practice that would indicate the Navy has shifted or plans to shift work from CIS contractors to MSR contractors. However, in recent years the Pacific Fleet has taken steps to perform more intermediate and organizational maintenance requirements in-house. Consequently, it has decreased the funding level of the program while increasing funding for its intermediate maintenance activities.

In 1986, certain CIS contractors working in the San Diego area expressed concern that SUPSHIP, San Diego, was shifting CIS-type work to MSR contractors at a much greater cost to the government. One of these contractors believed that there was a movement within the Navy to terminate the program. We found no evidence to support this contention; however, we identified several situations, which are discussed below, that may have caused some CIS contractors to believe the Navy was attempting to abandon the program or to shift CIS work to MSR contractors.

One contributing factor is that Pacific Fleet maintenance funds allocated for the program have been decreasing. Type Commander officials indicated that the reason for the decrease is that the Fleet is requiring intermediate maintenance activities and ships' crews to do more work. They indicated the Fleet took this action to become more self-sufficient and to make more effective use of assigned Navy personnel and facilities.

The Pacific Fleet uses the same funding allocation, designated for intermediate maintenance, to operate both the intermediate maintenance activities and the CIS program. One official stated that it is Pacific Fleet policy to fund intermediate maintenance activities before providing funds to the program. Therefore, since the Fleet has expanded the amount of work to be done in-house, it has increased the funding for these activities, while decreasing funding for the CIS program.

For example, the Pacific Fleet estimated that annual expenditures for the program decreased from about \$41 million in fiscal year 1983 to about \$28 million in fiscal year 1987, a 32-percent reduction. During the same period, the Fleet's estimated annual expenditures of general purpose and reserve forces maintenance funds for intermediate maintenance activities increased from about \$83 million to about \$126 million, a 51-percent increase. Between fiscal years 1986 and 1987, annual funding for the San Diego CIS program decreased by 39 percent, from about \$14.8 million to about \$9 million, while funding for the shore intermediate maintenance activity and the three tenders serving San Diego increased by 44 percent, from \$28.2 million to \$40.7 million.

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**Appendix III**  
**No Evidence of Navy Shifting Work From CIS**  
**to MSR Contractors**

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According to some CIS contractors, MSR contractors have said in various association meetings and correspondence that the program should be terminated. However, Pacific Fleet, SUPSHIP, and Naval Sea Systems Command officials stated that they like the program and believe it is functioning well. They stated that the program benefits the Navy because it gives the Fleet another alternative for quickly accomplishing necessary maintenance of its ships.

Another contributing factor has been discussions within SUPSHIP and the Pacific Fleet concerning the feasibility of moving program administration from SUPSHIP to another Navy organization. According to SUPSHIP officials, this subject was discussed during an annual meeting of SUPSHIP supervisors in October 1986. One SUPSHIP official stated that the consensus was that, even though SUPSHIP had staff shortages, it was the best organization to administer the program because it works with private contractors and provides technical expertise in developing contract work specifications.

# SUPSHIP, San Diego, Management's Views of the CIS Program

SUPSHIP, San Diego, officials stated that they like the CIS program and believe it is functioning well. However, they expressed concern that administering the program, along with their other responsibilities, places a heavy burden on their limited staff resources.

A Naval Sea Systems Command representative investigating this SUPSHIP's administration of two CIS contracts in September 1987 made the following statement in a trip report:

"Further interviews with SUPSHIP San Diego management personnel revealed that the CIS program was burdensome, carried a low priority and that the SUPSHIP San Diego management would rather not be responsible for the administration of the CIS program in general. This general feeling of management prevailed throughout the SUPSHIP San Diego organization and appeared to affect the quality of management attention placed on the CIS program."

The SUPSHIP, San Diego, Commanding Officer stated that this comment was taken out of context. According to the Commanding Officer, his conversation with this representative involved a discussion of this SUPSHIP's extensive and demanding work load requirements and its desire to divest the organization of some responsibilities for which it did not have adequate resources to support properly. One of the programs discussed was the CIS program.

The Commanding Officer stated that CIS contracts demand more time to manage and administer than MSR contracts of equivalent value. He indicated that the reason for this is that CIS contractors often do not have the management capability to integrate their work with other events happening on a ship. Consequently, SUPSHIP must perform this extra work.

The Commanding Officer also stated that although supervision of CIS contracts does not have as high a priority as multimillion dollar overhaul or complex repair contracts, he believes that individual managers are committed to the program. In addition, the Commanding Officer and other SUPSHIP officials stated that they support the program, even though limited staff resources restrict the time they can devote to it and still fulfill their other responsibilities. They believe the 1987 Naval Sea Systems Command audit of their CIS program supports their view that they have successfully operated the program.

# CIS Contractors' Views of the Program

Representatives of two of the three CIS contractors we spoke with in San Diego stated that they were generally satisfied with the way SUPSHIP was operating the CIS program. Two contractors, one of which was satisfied with the program management, also said that the Navy was not providing them enough work. These two contractors and others believe that when the Navy does not use a CIS contractor for ship intermediate and organizational maintenance requirements, the work is done by an MSR contractor as part of a major repair or overhaul work package at a much greater cost to the government.

A consultant to one of the CIS contractors suggested that the Navy was not properly managing its ship repair and overall work load because the Navy was using MSR contractors to do intermediate repair and maintenance work when performing overhauls or major repairs. It would be better, he said, to have this work done during in-port periods and allow all contractors an opportunity to bid on the work. He suggested that CIS contractors could be used when time does not allow for the Navy to competitively bid the work.

The CIS contractor and the consultant believed vent cleaning and repair work requirements on three Navy ships—U.S.S. Fife (DD 991), U.S.S. Kitty Hawk (CV 63), and U.S.S. Tarawa (LHA 1)—should have been performed by a CIS contractor. They alleged that the work was done or probably would be done by MSR contractors at a much greater cost to the government. We found no evidence to support this allegation.

In one case, the MSR contractor performed the vent cleaning work on only one ship—the U.S.S. Fife—while it was undergoing an overhaul and extensive modernization at the contractor's shipyard. However, SUPSHIP officials stated they directed the contractor, not the CIS contractor, to do the work because, in their opinion, the work was covered by the basic work specifications of the fixed-price contract awarded to the MSR contractor. The MSR contractor contends that this work was not covered by the contract and has submitted a claim in the amount of \$71,517 for the vent cleaning to the Navy. At the time of our review, the claim had not been settled, but SUPSHIP officials believe that the MSR contractor is not entitled to any additional compensation.

In the second example, the CIS contractor stated that it was invited by two Navy officers aboard the U.S.S. Kitty Hawk to submit quotations for fixing air conditioning and ventilation problems in 31 living and work spaces aboard the ship, but the SUPSHIP awarded this work to an MSR contractor, rather than providing the work to it. It indicated that the MSR

contractor replaced, rather than repaired, the air conditioning and ventilation systems for a cost of \$1.4 million, while it would have charged only \$300,000 to correct these problems.

Our analysis of the work that the SUPSHIP awarded to the MSR contractor showed that it did not include the work on which the CIS contractor provided price quotations. The ventilation work the MSR contractor accomplished involved replacing vents that either had disintegrated or were badly corroded and that were located in other parts of the ship. Most of this work was identified by a Navy pre-overhaul inspection team developing an overhaul work package for the ship.

Our review of U.S.S. Kitty Hawk maintenance records showed that the Navy is correcting most of the air conditioning and ventilation problems cited by the CIS contractor. Further, the work in most of the spaces involves design alterations to the ship which, according to SUPSHIP officials, the CIS contractor is not authorized to do. The Navy has included this work as part of a ship alteration work package to be done while the ship is undergoing a service life extension program overhaul at the Philadelphia Naval Shipyard. A Navy Aircraft Carrier Climate Control Investigation Team, which reviewed these same 31 spaces, determined that no additional work was required for the air conditioning and ventilation systems in 3 of the 31 spaces.

As to the third example, the U.S.S. Tarawa's crew cleaned the ventilation vents while the ship was undergoing overhaul at the Long Beach Naval Shipyard.

Navy officials said that it is possible for MSR contracts to contain work that CIS contractors can do. However, in their opinion, if ship availability does not permit using CIS contractors, either before or after major ship repairs or overhauls, it is generally in the best interest of the Navy to have an MSR contractor function as a prime contractor and manage the entire work package, including the work of subcontractors.

According to Naval Sea Systems Command guidance and various SUPSHIP and Type Commander officials, if depot level repair work on a ship is subdivided among several contractors, the Navy must (1) perform the coordinating role, (2) hire a prime contractor to provide the necessary interface, supervision, and coordination of contractors working on the ship, or (3) schedule the work sequentially, which may increase the overall time required for repairs. Further, SUPSHIP officials stated that often, due to ships' scheduling requirements, there is not sufficient time

to assign discrete segments of work to different contractors to accomplish on a sequential basis.

SUPSHIP and Type Commander officials said that SUPSHIP must hire MSR contractors to function as prime contractors for depot level overhauls and repairs because it does not have enough staff to coordinate the work of multiple contractors on the same ship. Further, these officials indicated that having independent contractors work together in the same work area or near each other could cause coordination problems and may result in some contractors submitting delay-of-work or similar types of claims because of interference by other contractors. They stated that using MSR contractors can help avoid such claims. MSR contractors either do all the work themselves or subcontract a portion of the work for which they are responsible.

SUPSHIP and Type Commander officials stated that under these circumstances it is important to have one contractor responsible and accountable for the repairs or modifications of a complete system. Naval ships are designed and built with a high degree of interaction between components and systems and, thus, repairs or modifications to one or more systems could affect the operation of many other systems or components that are physically remote from the system being repaired. These officials stated that it would be difficult for the government to hold contractors accountable for their work when more than one contractor was involved in repairing systems aboard a ship unless one contractor was held fully responsible for all the work.

SUPSHIP officials stated that MSR contractors generally use their own industrial facilities for major depot level ship repairs. According to these officials, MSR contractors dislike having independent contractors in their shipyards to perform work because they are liable for accidents that may occur and they must provide overhead services such as security, utility services, and fire protection. It also causes them labor problems because MSR contractor unions view independent contractors as taking work away from them.

SUPSHIP officials stated that when more than one independent contractor is working on a ship at the same time, the ship is located at a government facility. They stated that generally this occurs either before or after the ship has gone into the MSR contractor's facilities for repair.

SUPSHIP officials stated that depending on a ship's availability, the Navy attempts to use CIS contractors for certain types of projects rather than

MSR contractors because CIS contractors are generally less expensive. They cited replacement and repair of deck tile/terrazzo, non-skid decking, insulation, and lagging (insulation and taping of pipes) as examples. These officials said that if a ship's availability permits, the Navy would have CIS contractors do this work before or after the MSR contractor's work. But they pointed out that if there were not sufficient time during the depot level repair period, the Navy would have the MSR contractor do the work.

SUPSHIP, San Diego, officials cited the overhaul of the U.S.S. Jouett (CG 29) as an example of where a CIS contractor was used to reduce overhaul costs. Prior to sending the ship to the Long Beach Naval Shipyard for overhaul, a CIS contractor removed all the lagging from the pipes so that it could test the pipes and determine what repairs were needed.

Fleet and SUPSHIP officials also indicated that they have used the services of CIS contractors for non-CIS funded projects to reduce repair and maintenance costs. For example, SUPSHIP, San Diego, provided information showing that the Navy used at least \$1.9 million of non-CIS funds, as shown in table 5.1, to contract with CIS contractors during the first 7 months of fiscal year 1988.

**Table 5.1: Non-CIS Funding Provided to San Diego CIS Contractors From October 1987 to April 1988**

<b>Funding source</b>	<b>Amount</b>
Fleet Overhaul Funds	\$ 914,519
Shore Intermediate Maintenance Activity Funds	775,000
Naval Sea Systems Command Barge Funds	175,959
Other Navy Activity Funds	45,379
<b>Total</b>	<b>\$1,910,857</b>

Work done by CIS contractors but paid with non-CIS funds included tank cleaning, fixed staging and scaffolding, vent cleaning, deck covering, and bilge cleaning. For example, about 54 percent (\$579,257) of the almost \$1.1 million awarded for vent cleaning came from non-CIS program sources.

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