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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
 3086 FEDERAL OFFICE BUILDING, 909 FIRST AVENUE
 SEATTLE, WASHINGTON 98104

NOV 2 1970

Commander
 Puget Sound Naval Shipyard
 Bremerton, Washington 98314

AGC 000682



Dear Sir:

We have completed a survey of the cost accounting and production reporting system at the Puget Sound Naval Shipyard (hereinafter referred to as the Shipyard). The primary objectives of this survey were to determine whether Department of Defense Instruction (DODI) 7220.29 conforms in all material respects with applicable accounting principles and standards of Title 2 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, and to obtain knowledge of the practical difficulties that may be involved in fully implementing DODI 7220.29.

During our survey, completed at the shipyard in April 1970, we interviewed and had discussions with officials in the Comptroller, Data Processing, Industrial Management, Planning, Production, and Supply Departments of the Shipyard. We reviewed pertinent accounting records and reports prepared on depot maintenance costs and production quantities; also pertinent Navy and Shipyard regulations, directives, and instructions. During the course of our survey we worked closely with Shipyard personnel and, as the survey progressed, discussed the results with them.

Although DODI 7220.29 was issued on 10/28/68, the Shipyard did not receive a copy of this instruction until 2/24/70. Accordingly, DODI 7220.29 has not yet been implemented. However, the Shipyard is currently evaluating changes that will be needed in the present Shipyard accounting and reporting system to conform to DODI 7220.29.

Based on our survey, we have concluded that the Shipyard's current cost accounting and reporting system contains or is capable of producing a substantial amount of data required in the report prescribed by DODI 7220.29. However, additional information needs to be developed to meet the requirements of DODI 7220.29. These matters are commented on below.

1. Military direct labor cost and related hours are required to be reported. Currently the Shipyard does not have such cost and related hours in its accounting and data processing systems. Our

- ① Federal agency accounting systems compliance
- ② Financial disclosure reporting
- ③ Audit reports
- ④ Agency evaluation
- ⑤ Cost accounting standards
- ⑥ Auditing procedures
- ⑦ Cost analysis

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survey disclosed that a significant amount of direct labor has recently been performed by the ship's force during the availability of an aircraft carrier (CVA63). In this connection we noted that under the recently established "Ship's Force Overhaul Management System" (SFOMS) there will be more direct labor work done by the ship's force on subsequent carrier availabilities. Since such direct labor cannot be charged to the Shipyard's Navy Industrial Fund (NIF) cost according to the NIF Handbook, we believe that, if the cost of this labor is considered to be a depot maintenance cost, it should be accounted for statistically solely for reporting purposes in compliance with DODI 7220.29. We recognize this matter as being one requiring Departmental level consideration, and it will be pursued at that level.

2. DODI 7220.29 requires that the cost of materials and supplies acquired from an inventory account financed by appropriated funds be reported. Department of Defense Directive (DODD) 7410.4 "Regulations Governing Industrial Fund Operations," defines unfunded costs as those costs which are not paid from the industrial fund, and it requires that those costs be determined and recorded in the industrial fund accounts on a memorandum basis. Currently the Shipyard does not have the cost of nonreimbursable Appropriation Purchase Account (APA) material in its accounting and data processing systems. We believe that this cost should be accounted for on a memorandum basis in compliance with DODI 7220.29 and DODD 7410.4.

3. A cost accounting objective stated specifically in Section VI.A.1. of DODI 7220.29 is to provide the basis for determining the total cost by all elements of cost on an accrual basis of completed depot maintenance on end items identified to weapon/support systems. In this connection our survey disclosed that the inventory of Unassigned Direct Material (UDM) contains items that have been reduced to a nominal value of \$.01 per unit of issue. In those cases where the material comes from the UDM inventory at the nominal \$.01 per unit of issue price, we suggest that you develop the actual acquisition cost for such material in order to report the total cost of direct material used for completed depot maintenance work.

In addition to these three matters, our survey disclosed that there are five specific items of report data called for in DODI 7220.29 that the Shipyard's data processing program does not currently provide.

Commander, PSNS

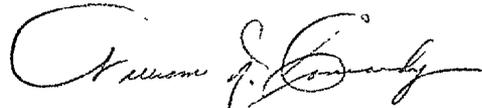
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These items are specified as Field Nos. 1, 2, 4, 7, and 28. A Shipyard official informed us that it will be possible to program the required data for these Fields into the data processing system.

We appreciate the cooperation and courtesies extended to our staff during this survey. We will be glad to meet with you should you have any further questions on these matters.

Copies of this letter are being furnished to the Assistant Secretary of Defense (Comptroller), the Assistant Secretary of Defense (Installations and Logistics), the Assistant Secretary of the Navy (Financial Management), and the Commander, Naval Ship Systems Command.

Sincerely yours,



William N. Conrardy
Regional Manager