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Report to the Deputy Commander for
Nuclear Propulsion,
Naval Sea Systems Command,
Department of the Navy

July 1986

NUCLEAR PROPULSION

Repair Part Costs Being Reduced



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**National Security and
International Affairs Division****B-221408**

July 21, 1986

Admiral K. R. McKee, Deputy Commander
for Nuclear Propulsion
Naval Sea Systems Command
Department of the Navy

Dear Admiral McKee:

Our review of the prices paid for repair parts used in the Naval Nuclear Propulsion Program showed that nuclear repair part costs could be reduced by

- using available Department of Defense (DOD) supply system inventories instead of purchasing repair parts commercially;
- having the prime contractors and the DOD supply activities (1) combine requirements into larger, more economical buy quantities, (2) use available technical data, and (3) exchange supplier and price information; and
- transferring excess shipyard materials to the DOD supply system.

These matters were discussed in detail in a draft report furnished DOD for comment. In its official written comments, DOD partially agreed with our findings and proposals but stated that, for the most part, it already had taken action to carry out our proposals. DOD stated that the full benefit of these actions will not be immediately evident, but improvements should occur over time. We believe that the actions DOD cited, if properly implemented, should help correct the weaknesses we identified. We also believe that further opportunities exist for top management officials to work with supply officials in improving the exchange of technical, supplier, and price information and to reassess practices on transferring excess shipyard materials in the future.

**Nuclear Repair Part
Supply Responsibilities**

Two prime contractors buy nuclear repair parts used to provide (1) initial inventory of on-board parts required for a ship before it is launched, (2) initial inventory of parts to be placed in the Navy supply system, and (3) parts for shipyard use. While the prime contractors supply the initial program requirements, the Navy's Ships Parts Control Center and the Defense Logistics Agency are responsible for replenishing repair part inventories for the operating fleet. Over \$50 million a year is spent for nuclear reactor repair parts.

DOD Supply System Stock Being Used

We found that the nuclear program could reduce repair part costs by obtaining parts from the DOD supply system instead of buying them from commercial suppliers. Our tests showed that \$923,000 of the \$2.8 million of repair parts being purchased by the prime contractors as of May 1984 could have been obtained from the DOD supply system. DOD supply activities often had repair parts on hand in quantities sufficient to completely satisfy the prime contractors' needs. For example, at the Ships Parts Control Center, we found that many items had inventory levels that exceeded current and anticipated operating fleet requirements.

The prime contractors did not use the DOD supply system because the former nuclear program policy was to buy repair parts commercially to insure the quality and timely delivery of the parts. However, the policy was changed to make the DOD supply system the first source of supply for repair parts. The prime contractors began requisitioning repair parts from the Defense Logistics Agency in September 1984 and from the Ships Parts Control Center in April 1985. This action, if properly implemented, will insure that available DOD supply system inventories are used before procurements are made from commercial sources.

Repair Part Prices Being Reduced

Closer coordination between nuclear program activities and DOD supply system activities can reduce the cost of nuclear reactor repair parts. Our analysis of selected procurements in which a prime contractor and a DOD supply activity concurrently bought the same line items showed that costs could have been reduced by \$440,000, or 32 percent, by (1) combining requirements into larger, more economical buy quantities, (2) using available technical data to buy items competitively, and (3) exchanging supplier and price data to solicit lower price suppliers and assess supplier prices.

The action to obtain nuclear repair parts from the DOD supply system will not only use available system stock but will also help buying activities to obtain larger, more economical buy quantities. In addition, the prime contractors and the DOD supply activities have begun to exchange some supplier and price data and the prime contractors have provided some technical data to the DOD supply activities.

Although these actions are a step in the right direction, our discussions with DOD supply activity officials indicated that even more could be done. They stated that some of the technical data the prime contractors provided was insufficient to obtain competition because some drawings

contained proprietary information while others contained only part numbers and no technical descriptions. The officials also stated that the supplier and pricing information provided was not always in usable form because it did not contain quantities, actual prices, or suppliers' names and that the annual exchange of information was not frequent enough because subsequent procurement information was not included. We believe that this is an opportunity for nuclear program top management officials to work with supply activity officials to fully resolve these issues so that the best prices can be obtained.

Using Excess Shipyard Inventories

The nuclear program had excess shipyard inventories of repair parts to support ship construction that could have been used by the DOD supply system. Had these excesses, valued at about \$8.8 million in May 1984, been made available to the DOD supply system, the supply activities could have reduced procurement costs for the same items by about \$2.8 million.

During our review, the prime contractors took some actions to transfer excess parts to the DOD supply system. However, we found that these actions did not go far enough and that the shipyards continued to keep inventories above authorized levels. In commenting on our draft report, DOD agreed that some additional actions could have been taken to transfer more stock to the DOD supply system but disagreed with our estimate of the magnitude of the transfers that should have taken place. DOD stated that contractors are allowed to retain quantities above the authorized quantities and that a better definition of excess material would be inventories that have on hand and on order quantities greater than 150 percent of the authorized quantities. Our subsequent analysis indicated that considerable excesses existed even under the DOD definition. In our opinion, this area provides another opportunity for nuclear program top management officials to reassess whether sufficient transfers are being made.

DOD also commented that nuclear program prime contractors are required to update program requirements for repair parts, compare requirements to assets, and transfer excess inventories annually. We believe that this review and transfer process, if properly implemented, will help reduce excess shipyard inventories and make them available to the DOD supply system.

Objectives, Scope, and Methodology

Our objectives were to determine whether (1) nuclear reactor repair part prices paid by the two prime contractors and by DOD supply activities were consistent and could be reduced through improved procurement practices, (2) DOD supply activities' inventories were available to reduce repair part procurements made by the prime contractors, and (3) excess shipyard repair part inventories, which the prime contractors controlled, could be used by the DOD supply activities.

We evaluated separate and random samples of repair part procurements or inventories for each of our objectives, using computerized data base information. We selected sample sizes that enabled us to project to the various universes with a 95-percent level of confidence. In conjunction with evaluating our samples, we held discussions with nuclear program, prime contractor, and DOD procurement and supply officials. In addition, we reviewed procurement procedures and regulations, contract files, procurement history records, budget and expenditure records, prime contractor inventory and requirement records, and DOD inventory and requirement records. Our work was performed in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretaries of Defense and the Navy.

Sincerely yours,



John Landicho
Senior Associate Director

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