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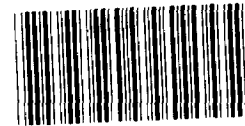
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BY THE COMPTROLLER GENERAL
 Report To The Chairman, Subcommittee On
 Defense, Committee On Appropriations
 House Of Representatives
 OF THE UNITED STATES

**Need To Extend
 The Period Of Availability
 For Navy Shipbuilding Funds**

The Navy has requested that the current 5-year time limit for obligation of shipbuilding and conversion funds be extended to 7 years.

Because construction times average 6 to 7 years, the Navy has been unable to obligate the total full-funding dollars approved for shipbuilding programs within the 5-year period. In most cases, additional work needs to be funded after the appropriations have expired. To finance the completion of ship construction, the Navy has requested, and obtained, special funding extensions. Also, funds made available by the Congress on an annual basis to cover cost growth in the programs have been used to fund work beyond the initial 5 years.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-202534

The Honorable Joseph P. Addabbo
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

As requested in your May 2, 1980, letter, this report discusses the Navy's proposal to extend the availability of funds in the Shipbuilding and Conversion Appropriation from 5 to 7 years. Also, in accordance with discussions with your office, we have included possible alternatives to the Navy's proposal.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton J. Fowler".

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CHAIRMAN,
SUBCOMMITTEE ON DEFENSE,
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

NEED TO EXTEND THE
PERIOD OF AVAILABILITY
FOR NAVY SHIPBUILDING
FUNDS

D I G E S T

The Navy's shipbuilding programs are fully funded and the funds must be obligated within 5 years or they expire. The 5-year period begins on the 1st day of the fiscal year regardless of when the appropriations bill is approved or the date of contract award. (See p. 6.) At the end of the 5-year period, the funds expire and thereafter can only be used for upward adjustments or within scope changes to existing contracts. (See p. 9.) Expiring funds are approximately 5 percent of the total resources made available. (See p. 10.)

The Navy has requested, through a proposed appropriation language change, that the time limit for obligating shipbuilding and conversion funds be extended to 7 years. The chairman, Subcommittee on Defense, House Appropriations Committee, asked GAO to determine the reasonableness of the proposed extension. (See p. 1.)

SHIP CONSTRUCTION TIMES PRECLUDE
OBLIGATION WITHIN 5 YEARS

The Navy has not been able to obligate the total dollars approved for ship programs within 5 years because of lengthy construction times. Navy officials say that none of the fiscal year (FY) 1981 ships will be completed within the 5-year period. Of the last 40 major combatant ships delivered, the original estimated contract delivery averaged 5 years from the beginning of the fiscal year. Actual delivery schedules for these same 40 ships averaged 6-1/2 years. Generally, 6 months to 1 year of this time was required to get the ship's construction contract awarded. (See pp. 5 to 8.)

After ship delivery from the contractor, at least 11 months is scheduled for completion of the ships, making the total construction time approximately 7-1/2 years. Funding for some work performed after delivery from the contractor, such as completion of fitting out and correction of deficiencies, is done separately from the original full-funding appropriation. However, some work, such as test and trials, engineering services, and deferred work, is funded from the original full-funding appropriation. It is the funding of this work that has caused the Navy problems with the 5-year limit on funding availability. (See pp. 8 and 9.)

HOW FUNDS HAVE BEEN MADE
AVAILABLE TO FINANCE THE
COMPLETION OF THE SHIPS

On two occasions, the Navy has requested and obtained special funding extensions to finance the completion of ship construction. In September 1977, the Congress made the FY 1973 shipbuilding appropriation, due to expire on September 30, 1977, available for obligation until September 30, 1979--an extension of 2 years. In a 1980 budget supplemental, the Congress approved a 2-year extension of \$96.8 million of the FY 1976 funds which were due to expire September 30, 1980. (See pp. 10 to 12.)

In addition, annual appropriations from FYs 1976 to 1980 totaled over \$2 billion to cover cost growth in the programs. These cost growth funds, appropriated in a single budget line item and not on an individual program basis, are available for a 5-year period from the date of appropriation, and thus, are available to fund work beyond the 5 years of the original ship appropriation. Also, in some instances, originally appropriated ship funds have been transferred, with congressional committee approval and under statutory authority, to a later year cost growth account so that they would be available for a longer period of time. The availability of these cost growth funds has provided a means of lengthening the availability of funds. However, with the exception

of the Trident and one destroyer tender, cost growth funds have not been programmed for the FY 1976 and subsequent years ships. (See pp. 12 to 15.)

The Navy is assessing the need to request extending all or part of the FY 1977 funds which are due to expire at the end of FY 1981. Furthermore, it anticipates the probability of requesting an extension for each succeeding year. A preliminary estimate of the expiring FY 1977 funds needed for new obligational purposes is \$163 million. (See p. 20.)

OPTIONAL FUNDING APPROACHES

GAO identified the following optional funding approaches and considered the effects of each option on such factors as full funding, unobligated balances, management flexibility and congressional control, and resources required to manage and execute the programs. (See ch. 3.)

- Maintain the current 5-year availability period.
- Provide for no-year funding.
- Provide a 1-year appropriation.
- Provide shipbuilding and conversion transfer authority.
- Provide different funding availabilities for different types of ships.
- Provide separate budget line items for test and trials, engineering services, deferred work, and so forth.
- Grant the extension from 5 to 7 years.

CONCLUSIONS

The availability of cost growth funds has alleviated the problem of expiring funds because they are used to fund work such as test and trials. But the visibility of funds in the cost growth budget line item, relative to

individual ship programs, is restricted because funds within the budget line item can be moved; within DOD reprogramming directives, from one program to another without going through the formal reprogramming processes. (See p. 15.)

GAO believes that the 7-year availability period is reasonable and represents the best of the options identified. Extending the funding availability from 5 to 7 years would maintain the integrity of the full-funding policy and provide the Navy the time to complete most programs, while allowing the Congress to maintain control through the fixed-term appropriation. There may be, however, a "stretchout" of unobligated balances. (See pp. 27 and 28.)

RECOMMENDATIONS TO THE CONGRESS

GAO recommends that the Congress give the Navy 7 years in which to obligate shipbuilding funds and also make the extension retroactive to include the FY 1978 through FY 1981 appropriations. (See p. 28.)

MATTER FOR CONSIDERATION BY THE CONGRESS

The Congress should consider providing cost growth funds as part of the individual ship budget line item, as done for advance procurement, rather than including all ship program cost growth in one budget line item. This would provide the Congress greater visibility and control over the funds applied to individual ships. However, if such an action is taken, the Congress should also recognize that doing so reduces the Navy's flexibility to adjust resources among ship programs to meet changing requirements, especially in view of the line item appropriation which allows no reprogramming actions without prior approval. The need for some flexibility has been recognized by both GAO and the Congress. (See pp. 15 and 16.)

AGENCY COMMENTS

GAO met with Department of Defense officials to obtain their oral comments. The Office

of Management and Budget also provided comments on the report.

Both agencies agree with the conclusion that the 7-year availability period is reasonable and represents the best of the options identified. Defense believes that the 2-year extension should be retroactive to FY 1977 instead of FY 1978. GAO believes that the Navy should plan to request an extension of all or part of the FY 1977 funds, if necessary, to avoid any problems which may arise with a late appropriation or no change to the availability period of the funds. (See p. 28.)

Neither agency agrees with appropriating cost growth funds with the individual ship budget line item. They believe that the loss of ability to move funds between ship types, especially in conjunction with the line item appropriation in the shipbuilding account, offsets any advantages to increased congressional visibility. GAO has pointed out the loss of flexibility and stated that, in considering a change to appropriating cost growth, this loss also be considered. However, GAO believes that the need for some of the flexibility relative to the use of cost growth funds will be reduced if the extension is granted and that such a change would provide better congressional visibility and control of the total funds applied to individual ship programs. (See pp. 16 and 17.)

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ABBREVIATIONS

DOD	Department of Defense
FY	fiscal year
GAO	General Accounting Office
PSA	post shakedown availability
SCN	Shipbuilding and Conversion, Navy

CHAPTER 1

INTRODUCTION

The Navy has requested, through a proposed appropriation language change, that the time limit for obligating Shipbuilding and Conversion, Navy (SCN) funds be extended. In the fiscal year (FY) 1981 President's budget, the proposed SCN appropriation language stated that the FY 1981 SCN funds "* * * remain available for obligation until September 30, 1987, * * *." This would make the SCN funds available for 7 years instead of the current availability of 5 years.

This report is in response to a May 2, 1980, letter from the chairman, Subcommittee on Defense, House Appropriations Committee, which requests that we review the reasonableness of the proposal to extend the availability of the SCN appropriation from 5 to 7 years.

BACKGROUND

In the FY 1970 budget review, the House Appropriations Committee expressed concern that the funds made available to the Department of Defense (DOD) were not being used for the purposes for which they were appropriated and that the unobligated, or "carryover," balances contributed to this problem. In an effort to tighten congressional control of DOD appropriations, the House Appropriations Committee recommended, in its action on the FY 1970 Defense Appropriation Bill, that the DOD procurement including shipbuilding, and the research, development, test, and evaluation accounts be made multiyear appropriations; that is, funds are available for obligation for a specific length of time (in excess of 1 year). Before this time, these accounts were no-year appropriations, that is, the funds appropriated were available for obligation for an indefinite period--until expended. The House and Senate conference committee agreed to the Senate proposal to require that the old unobligated balances be recommended for rescission.

The rescission action did not work and in the FY 1971 budget, both the House and Senate Appropriation Committees agreed to make the procurement and research and development accounts multiyear appropriations. The research and development appropriations were made available for 2 fiscal years, shipbuilding for 5 fiscal years, and the other procurement accounts for 3 fiscal years.

In June 1977, Naval Sea Systems Command proposed that the FY 1979 SCN appropriation be extended from 5 years

of availability to 8 years of availability and that all unexpired appropriations be extended to reflect the 8-year availability period. They made the same proposal in May 1978 for the 1980 budget. They were unable to convince the higher DOD authorities that the extension was necessary for the then current appropriations. The Navy, however, has requested and received extensions of two appropriations which were to expire. In September 1977, as part of the FY 1978 appropriation act, the Congress made the FY 1973 ~~SCN appropriation, due to expire at the end of FY 1977,~~ " * * * available for obligation until September 30, 1979"-- an extension of 2 years. In a FY 1980 budget supplemental, the Congress approved the Navy's request to extend for 2 years a portion of the FY 1976 funds which were to expire at the end of FY 1980. The need for a longer fund availability was justified through the Navy and the Office of the Secretary of Defense authorities in 1980 and this is reflected in the proposed FY 1981 SCN appropriation language. However, the Congress provided the FY 1981 shipbuilding funds for 5 years.

SCN BUDGET

The SCN appropriation finances the construction of new ships and the conversion of existing ships, including the hull, mechanical, electrical and electronics equipment, communications system, guns, and torpedo and missile launching systems. It is a fully funded multiyear appropriation, available for obligation over a 5-year period. The 5-year period begins on the 1st day of the fiscal year.

In addition to funds for individual ship programs, the SCN appropriation includes funds for cost growth and escalation on prior year programs, and for post delivery and outfitting.

Since FY 1976, the Congress has appropriated the shipbuilding account by line item--that is, the appropriation act specifies the funds available by ship type. The effect of this line item appropriation is that any movement of funds between ship programs, done under statutory authority and DOD directives, must be approved by the concerned committees. This is unlike the other DOD procurement accounts, which are "lump-sum" appropriations, where reprogramming policies allow the flexibility to move up to \$5 million between budget lines within an appropriation without congressional approval.

A result of the multiyear, fully funded appropriation is unobligated balances--available funds which have not yet been obligated. An average of approximately 50 percent

of the available funds have been obligated in the 1st fiscal year. By the end of the 5th fiscal year, about 95 percent of the funds have been obligated--leaving an unobligated balance of about 5 percent of the available resources. This 5 percent is available after the 5th year only for upward adjustments or within scope changes to existing contracts.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to determine the reasonableness of the proposed extension of SCN funds from 5 to 7 years and in addition, we were asked to determine if alternatives to the proposed extension existed. We did not examine management actions or construction methods which might be undertaken to shorten the construction or acquisition cycle to keep within 5 years. This was outside the scope of the request.

To accomplish our objectives, we interviewed the Office of the Secretary of Defense and the Navy personnel currently involved in the ship acquisition and budgeting process. We also interviewed former naval officials who were familiar with ship budgeting and acquisition, but who no longer had a vested interest in the process. We also visited two shipbuilders to obtain their comments.

We evaluated the Navy's need for relief from the 5-year SCN fund availability period. Our review concentrated on the major new construction ship programs because they represent the largest portion of the appropriation.

We reviewed documents on construction schedules, type of work, and obligations for the shipbuilding programs. We selected the FFG-7 (guided missile frigate) and SSN-688 (nuclear attack submarine) as examples for our detailed analysis because they represent opposite ends of the ship construction spectrum. The SSN-688s are very complex ships which have a relatively long construction period. The FFG-7s are less complex and have a much shorter construction schedule, but the multiquantity buys of the FFG-7s funded in a given fiscal year can cause problems in meeting the 5-year obligation period. The results of our analysis of the information and data obtained are combined in what we judge to be an accurate, narrative description of the situation.

Chapter 2 analyzes the Navy's reasons for requesting the extension as well as other information we feel is relevant to the issue, including how the Navy is financing the completion of the ships after the funds expire, including cost growth considerations.

Chapter 3 gives seven options and discusses four factors which should be considered in deciding which to select. These factors are not independent of one another, can conflict with or influence one another, and are not necessarily of equal weight. Also, their assessment relative to the options is subjective.

CHAPTER 2

SCN FUNDS ARE NOT BEING OBLIGATED

WITHIN THE AVAILABILITY PERIOD

Because of the length of time required to construct a ship and the additional time required when more than one ship is approved for a given fiscal year, the Navy has generally not been able to obligate all necessary funds within the existing 5-year appropriation availability period. In the past, the Navy has had to request special funding extensions to selected fiscal year programs and use extensive cost growth funds to finance the completion of ships' construction. The Navy has, therefore, requested that the funding availability period be extended to 7 years. Even though the Navy has testified that many of the problems which have plagued naval shipbuilding are under control, they say that none of the FY 1981 ships will be delivered within the current 5-year appropriation availability period.

CONSTRUCTION TIME PRECLUDES OBLIGATION WITHIN 5 YEARS

The Navy has not been able to obligate all the funds approved for ship programs within 5 years because of lengthy construction times. Several Navy and DOD officials have said that ships under construction today are some of the most complex ships ever built. Other reasons given for the long construction period include

- delays in obtaining material and parts,
- labor strikes at contractor shipyards,
- adverse weather conditions,
- finalizing design and technical specifications,
- long leadtimes for materials,
- shipyard facility limitations,
- interruptions caused by change orders, and
- late appropriations.

As noted in chapter 1, we did not evaluate whether improvements in acquisition policies or management

efficiencies could shorten the time currently being taken to construct ships.

Construction of naval ships exceeds 5 years

The length of time required to construct a ship varies according to different ship types. For major combatant ships, such as CGN, DD, FFG, and SSN, ^{1/} the time from contract award until a ship is actually delivered from the contractor averaged about 5.8 years for the last 40 ships delivered, ranging from 3.8 years for the FFG-8 to 7.8 years for the SSN-697. The time from contract award until the original estimated delivery date averaged about 4.4 years for these same 40 ships. This excludes the time involved in negotiating contracts and any work done after the ship is delivered. Even some of the less complex ships, such as oilers and destroyer and submarine tenders, are taking 4 and 5 years from the contract award until delivery from the contractor. Table 1 shows the length of time from the contract award until a ship is delivered, both actual and the original estimate, for selected types of ships.

Table 1

Lengths of Time from Contract Award to Original Estimated and Actual Delivery Dates

<u>Ship</u>	<u>Contract award date</u>	<u>Original estimated delivery</u>	<u>Actual delivery</u>	<u>Contract award</u>	
				<u>Original estimate</u>	<u>Actual</u>
				(years/months)	
CGN-39	12-21-71	1-31-76	7-26-77	4/1	5/7
CGN-40	1-21-72	9-30-76	7-14-78	4/8	6/6
FFG-10	2-27-76	3-31-80	5-15-80	4/1	4/3
FFG-11	2-27-76	6-30-80	5-09-80	4/4	4/2
SSN-695	1-24-72	7-30-76	12-08-78	4/6	6/10
SSN-696	1-24-72	6-30-76	1-23-79	4/5	7/0
SSN-697	1-24-72	10-31-76	11-30-79	4/9	7/10

However, the 5-year obligation period starts on the 1st day of the fiscal year in which the ship program is

^{1/}CGN--Nuclear guided missile cruiser.
 DD--Destroyer.
 FFG--Guided missile frigate.
 SSN--Nuclear attack submarine.

approved, regardless of when the appropriation bill is passed or the contract is awarded. The length of time from the start of the fiscal year until a ship is actually delivered from the contractor averaged about 6.5 years for the last 40 ships delivered, ranging from about 5 years to over 8 years. Of the 40 ships, only 1 was delivered in less than 5 years. For these same 40 ships, the time from the start of the fiscal year until the original estimated delivery date averaged about 5.0 years. Table 2 shows the time spans from the first of the fiscal year in which funds are appropriated for a ship until it is delivered, both actual and original estimates, for selected ships.

Table 2

Lengths of Time from Start of Fiscal Year to Original Estimated and Actual Delivery Dates

<u>Ship</u>	<u>FY start</u>	<u>Original estimated delivery</u>	<u>Actual delivery</u>	<u>FY start</u>	
				<u>Original estimate</u>	<u>Actual</u>
				(years/months)	
CGN-39	7-1-70	1-31-76	7-26-77	5/7	7/1
CGN-40	7-1-71	9-30-76	7-14-78	5/3	7/0
FFG-10	7-1-74	3-31-80	5-15-80	5/9	5/10
FFG-11	7-1-75	6-30-80	5-09-80	5/0	4/10
SSN-695	7-1-71	7-30-76	12-08-78	5/1	7/5
SSN-696	7-1-71	6-30-76	1-23-79	5/0	7/7
SSN-697	7-1-71	10-31-76	11-30-79	5/4	8/5

Six months to a year, and sometimes more, is taken to get the contract awarded. Usually, the delay between the beginning of the fiscal year and the award of the basic ship construction contract is caused by several factors--date of the appropriations bill, administrative processes, and contract negotiations.

The time period between the beginning of a fiscal year and when a contract is awarded varies significantly for different programs. For example, the CGN-39 is a FY 1971 program, with the funding availability period beginning July 1, 1970. The contract was awarded December 21, 1971, some 18 months later. The contract for the CGN-40 was awarded January 21, 1972, about 7 months after the beginning of the fiscal year (FY 1972) in which it was approved. The FFG-10 was a FY 1975 program and the FFG-11 was a FY 1976 program. Both were contracted for on February 27, 1976. Thus, the time from the beginning of the fiscal year when

the ships were approved until they were contracted for was 20 months and 8 months, respectively. Part of the delay in awarding the contract for the FFG-10 was due to the Navy not having sufficient funds in FY 1975, because the contractor bids came in significantly higher than expected.

This discussion shows that the time from the beginning of the fiscal year when the program is approved until a ship is delivered from the contractor ranges from about 5 to over 8 years. As discussed below, additional time is required for work to be accomplished after ship delivery.

Additional work is required after ship delivery

Once the ship is delivered from the contractor, funding is required for the completion of fitting out, correction of deficiencies found during the post shakedown availability (PSA) period, deferred work items, engineering services, tests and trials, and so forth. The completion of fitting out date normally corresponds to the ship delivery date, but occasionally is a month or two after the ship delivery. PSA is the period of time when sea trials are performed and deficiencies noted. Funds for outfitting and correcting deficiencies identified during PSA (post delivery funds) are appropriated later than the full-funding moneys and would therefore, not fall within the same 5-year availability period.

During the PSA period, however, work which is funded from the original full-funding appropriations is also done. This work includes such things as deferred work items, test and trials, engineering services, and ordnance modification. The largest percentage of this work is for deferred work items.

Deferred work is work which was not done during the regular construction period because of a delay in obtaining materials or parts, problems with installation, system changes, and so forth. Of the \$96.8 million funding extension of the FY 1976 SCN appropriation, \$59.7 million, or 61.7 percent, is estimated for funding deferred work items during PSA. Examples of the deferred work items for the FY 1976 SSN-688 and FFG-7 programs are shown in appendix II. When these type problems arise and the item or system involved is not considered critical to the operations of the ship, the Navy may decide that it is more economical and less disruptive to the ship's construction to delete the work from the original contract and defer it to a later time.

This is done to avoid delaying the delivery of the ship as much as possible and to avoid incurring greater costs.

Deferred work is considered "new" scope work because it will require issuing new contracts or other obligating documents to perform the work. As new scope work, funds for deferred work items must be obligated within the original 5-year funding period, 1/ or other funds must be used.

The Navy requires that all obligations and work including deferred work, test and trials, corrections of deficiencies, and so forth, must be accomplished before the end of the 11th month after completion of fitting out. If SCN work has not been completed before this obligation/work limiting date, the Assistant Secretary of Defense (Comptroller) has the authority to grant an extension. Estimated obligation/work limiting dates for ship programs for the last 5 fiscal years are shown in appendix III. This shows the length of time that the Navy estimates funds are required to be available for obligation.

As previously stated, the PSA period occurs after the ship's delivery, and deferred work items must be funded from the original full-funding appropriation within the 5-year availability period. Contractor delivery of major combatant ships is already exceeding the 5-year funding availability period. Funds for deferred work items and other work done during the post delivery period therefore, have expired and thus, are not available when the work is to be performed. Navy personnel maintain that they cannot obligate funds for this work before the 5-year expiration time. They state that it is not a sound business practice to obligate funds too early because, among other things, the total scope of work may not be fully defined and something may occur to alter the work or work schedules, thereby causing the possibility of a contractor claim.

1/The funds which have expired are withdrawn and revert to the General Fund of the Treasury. These funds can be restored and used only for upward adjustments in cost and within scope changes to existing contracts. They can never be available for new scope work or new procurement. These funds maintain their fiscal year identity for 2 fiscal years.

HOW FUNDS HAVE BEEN MADE AVAILABLE
TO FINANCE THE COMPLETION OF SHIPS

FY 1971 funds, the first of the 5-year appropriations, expired at the end of FY 1975. The FY 1976 funds expired at the end of FY 1980.

An average of approximately 50 percent of the funds has been obligated during the 1st fiscal year. This is primarily related to the award of the basic ship construction contract in the 1st year. This is usually the most expensive contract in the procurement. By the end of the 5th fiscal year about 95 percent of the original appropriation has been obligated. The funds not obligated at that point expire--an average of 5 percent of the available resources. Table 3 shows the percentage of unobligated balances for each year by fiscal year. The variations in these percentages exist because of such factors as delays in contract award, postponement of procurement for more economic buys, and variations in programs and program plans. Appendix IV shows the obligations by fiscal year for the FFG and SSN programs.

Table 3

SCN Unobligated Balances as a Percent
of Total Available Resources

<u>Year</u>	<u>FYs</u>									
	<u>71</u>	<u>72</u>	<u>73</u>	<u>74</u>	<u>75</u>	<u>76</u>	<u>77</u>	<u>78</u>	<u>79</u>	<u>80</u>
1	35.2	43.9	46.8	53.3	63.5	43.2	57.6	50.1	42.5	55.2
2	18.8	28.3	22.6	36.9	37.5	31.8	42.4	31.0	30.4	
3	15.0	22.4	11.9	24.1	14.6	24.3	29.2	24.7		
4	9.6	13.2	7.4	12.8	8.1	18.8	17.6			
5	5.6	5.6	3.0	4.0	2.3	7.8				

The unobligated funds have expired and are no longer available to fund test and trials, deferred work, engineering services, and so forth. To finance the completion of ship construction, the Navy has requested special funding extensions in 2 of the 6 years where funds have expired. Also, extensive cost growth funds, appropriated to fund increases in approved amounts for ship programs, are available to fund work beyond the initial 5 years, thus minimizing the problems resulting from the 5-year limitation. These actions were necessary because the full-funding appropriations were expiring and work still had to be done on the ships.

Funding extensions requested
for FYs 1973 and 1976 programs

The Navy has requested, and the Congress approved, the extension of expiring funds for 2 of the 6 fiscal years which have expired since the inception of multiyear appropriations.

In September 1977, as part of the FY 1978 appropriation act, the Congress made the FY 1973 SCN appropriation, due to expire on September 30, 1977, " * * * available for obligation until September 30, 1979," an extension of 2 years. The funds which would have expired at the end of FY 1977 were approximately 3 percent of the original funds available for the FY 1973 programs.

In a 1980 budget supplemental, the Congress approved an extension of \$96.8 million, approximately 25 percent of the 7.8 percent of the FY 1976 funds due to expire as of September 30, 1980. These funds, like the FY 1973 extension, were made available for 2 additional years. The extended funds are for new scope work for five different types of ships funded in FY 1976 and for FY 1976 cost growth funds appropriated for the FY 1975 CGN-41. Table 4 shows the major categories of work to be performed with the FY 1976 extended funds. The balance of FY 1976 funds, approximately \$300 million, which expired as of September 30, 1980, are available for within scope adjustments to existing contracts.

Table 4

Major Categories of Work for FY 1976 Extended Funds

Work category	Total	Ship class (note a)					
		SSN	FFG	AO	AD	PHM	CGN
-----(\$ in millions)-----							
PSA deferred work	\$59.7 (61.7)	\$15.5 (67.4)	\$28.5 (64.8)	\$ 4.5 (45.0)	\$ - -	\$ - -	\$11.2 (75.7)
Test and trials	11.0 (11.4)	1.5 (6.5)	5.5 (12.5)	0.4 (4.0)	- -	- -	3.6 (24.3)
Ordnance	8.3 (8.6)	1.1 (4.8)	6.0 (13.6)	0.2 (2.0)	- -	1.0 (50.0)	- -
Engineering services	5.0 (5.2)	2.5 (10.9)	2.0 (4.5)	0.1 (1.0)	- -	0.4 (20.0)	- -
Sup ship Government furnished material	4.0 (4.1)	0.2 (0.9)	- -	3.8 (38.0)	- -	- -	- -
Hull, mechanical and electrical	2.3 (2.4)	1.7 (7.4)	- -	- -	- -	0.6 (30.0)	- -
Other	6.5 (6.7)	0.5 (2.2)	2.0 (4.5)	1.0 (10.0)	3.0 (100.0)	- -	- -
Total	\$96.8	\$23.0	\$44.0	\$10.0	\$3.0	\$2.0	\$14.8

a/Numbers in parentheses are percent of total column, and do not add to 100 percent due to rounding.

For four of the six ship classes for which FY 1976 funds were extended, deferred work represents the largest percentage of the total amounts for each ship class. Deferred work accounts for about 62 percent of the total \$96.8 million that was extended.

Extensive cost growth funds have also been used

Cost growth funds are requested, to the extent sufficient resources do not exist within currently appropriated amounts, to fund the difference between the initial congressionally approved amounts for a ship program and the current estimated needs. These funds will also be used, within reprogramming restrictions, to cover new scope or previously uncontracted requirements for those ship programs whose funds have expired for obligation.

According to some Navy officials, having needed funds expire at the end of 5 years has not been a great problem to date because of the existence of cost growth funds. For example, the funds appropriated in FY 1975 for the two Tridents expired at the end of FY 1979. The first FY 1975 Trident is not scheduled for delivery until November 1981 and the second in July 1982. The availability of about \$200 million in FY 1976, 1978, 1979, and 1980 cost growth funds ensures that some funds will be available for obligation until September 30, 1984--5 years after the FY 1980 appropriation. On the basis of a July 1982 delivery date for the second FY 1975 Trident, there should be no problem with nonavailability of funds, even after adding the 1 year after ship delivery from the contractor for test and trials, post delivery, and so forth.

Although cost growth funds are made available because of increased costs in the program, they, in effect, lengthen the availability of SCN funds for the prior year programs. In some instances, the request for cost growth funds was made for the specific purpose of maintaining funding availability beyond the 5 years. The Navy had originally wanted the \$96.8 million of FY 1976 SCN funds, which the Congress extended for 2 years, transferred to FY 1980 cost growth, thus extending the availability for 4 years.

Thirteen million dollars of the FY 1980 appropriation of cost growth funds were programed by DOD for completion of five FY 1974 SSN-688 class submarines currently scheduled for delivery between October 1982 and May 1984. The original funds had expired and were no longer available for new work. The FY 1974 funds were used instead in the settlement of the

ship claims, as opposed to FY 1977 and 1978 claims' funds. This \$13 million in 1980 cost growth is available for obligation until September 30, 1984.

In September 1979 the Navy requested authority to transfer \$26.5 million from the FY 1973 SSN program and \$21 million from the FY 1975 SSN program to the FY 1979 cost growth line. These funds were still needed to complete the programs for which they were budgeted, but were due to expire and would no longer be available for obligation. The House Committee on Appropriations, Subcommittee on Defense, reviewed the request and determined that it was not entirely based on firm requirements. Navy officials were able to justify a need for \$21.7 million and \$11.3 million for the FYs 1973 and 1975 programs, respectively. Accordingly, the committee allowed the transfer of \$23.8 million from the FY 1973 program and \$12.4 million from the FY 1975 program to the FY 1979 cost growth line. These amounts represent the sums the Navy was able to identify as known requirements plus an additional 10 percent.

As previously stated, the entire FY 1973 SCN appropriation had been extended an additional 2 years through September 30, 1979. The transfer of \$23.8 million to the cost growth line discussed in the prior paragraph, in effect, extends this amount for the FY 1973 SSN program another 4 years. Therefore, some funds for the FY 1973 SSN will be available for obligation for a total of 11 years, from July 1972 until September 1983. Likewise, the transfer of \$12.4 million for the FY 1975 SSN program extends the obligation period of this program for a total of 9 years, from July 1974 until September 1983.

Cost growth funds have been used extensively to fund FY 1975 and prior year programs. As the following table shows, over \$2 billion in cost growth funds has been appropriated between FYs 1976 and 1980 to finance the completion of prior year programs. However, with the exception of \$118 million for the FY 1976, 1977, and 1978 Tridents and \$1.7 million for the FY 1976 AD (destroyer tender), the Navy has not, to date, programmed cost growth funds for any FYs 1976 through 1981 ships. Thus, no cost growth funds are available to fund the completion of most of the FYs 1976 through 1981 ship programs after the original appropriations expire.

Table 5

SCN Cost Growth Funds

<u>FY</u>	<u>Cost growth funds</u> (millions)
1976	\$1,008.2
1977	321.7
1978	189.8
1979	388.5
1980	<u>193.6</u>
Total	<u>\$2,101.8</u>

Appendix V shows a detailed breakdown of the cost growth funds appropriated by fiscal year and ship programs.

Utilizing cost growth funds provides the Navy the flexibility of adjusting funds from one ship program to another within the cost growth budget line as situations dictate. For example, in late 1979, the Navy moved \$4.9 million of FY 1976 cost growth funds from the FY 1975 SSN program to the FY 1974 Trident program. In early 1980, they moved \$4.9 million from the FY 1979 cost growth funds for the Trident into the FY 1979 cost growth funds for SSN. This exchange was made because the need for funds in the Trident program would allow the use of expired funds (FY 1976 funds were to expire in FY 1980). The FY 1975 SSN programs needed funds available for a longer period of time which the availability of FY 1979 cost growth funds provided. The Navy also moved \$7.2 million FY 1978 cost growth funds from the FY 1974 DD program to the FY 1975 DD program, reflecting the use of an asset in the FY 1974 program to solve a problem in the FY 1975 program.

The availability of cost growth funds has alleviated, to a degree, the problem of nonavailability in later years. Original resources will be used first to prevent them from expiring and becoming unavailable and then the cost growth funds will be used--a first-in first-out accounting approach. In addition to the cost growth funds appropriated, originally budgeted funds have been transferred into a later fiscal year cost growth budget. The transferred funds are automatically extended to the term of the fiscal year appropriation to which they were moved. To the extent these cost growth funds are used for cost elements normally included in the original estimate, like test and trials, the cost growth line item includes funds for work which does not represent real cost growth. Although the concerned committees approve

the transfer actions moving funds to cost growth and have received the status of the funds from DOD when significant changes occur, once the funds are in the cost growth line item the traceability and control of these funds is lessened because movement within the cost growth line is not governed by reprogramming policies.

CONCLUSIONS

Measured from the start of the fiscal year in which ship programs were approved, naval ships are currently taking about 6.5 years to be delivered from the contractors. Six months to a year of this time is taken to get the basic ship construction contracts awarded. Once the ship has been delivered from the contractor, test and trials, engineering services, deferred work, and so forth, are still to be done. It is basically for this work that obligational availability is needed after 5 years. A major portion of the funds required after the ship is delivered from the contractor is for deferred work.

To finance the completion of the ships, the Navy has requested, and been granted, 2-year extensions on the availability of the FY 1973 and part of the FY 1976 funds. In addition, the availability of cost growth funds on the FY 1975 and prior ships has alleviated the problem of having the ship funds expire. With the exception of the Tridents and one AD (destroyer tender), there are presently no cost growth funds programed for the FY 1976 and subsequent ships.

The availability of cost growth funds has alleviated the problem of expiring funds because they are used to fund work, such as test and trials. Also, the visibility of funds in the cost growth budget line, relative to individual ship programs, is restricted because funds within the budget line can be moved from one program to another without going through the formal reprogramming processes.

We recognize the reality of cost growth funds and that the Navy should be able to spend funds appropriated for a particular program whether originally budgeted or provided through cost growth. Although we looked at a very limited sample, we do not, however, believe that the cost growth line should be used as a repository for funds previously appropriated for the purpose of giving these funds new life.

MATTER FOR CONSIDERATION BY THE CONGRESS

The Congress should consider providing cost growth funds as a part of the individual ship budget line item, rather

than including all ship program cost growth in one budget line item. For example, the budget line for FFG would then contain funds for the fiscal year procurement, advance procurement on future year programs, and cost growth on prior year ships. This would provide the Congress greater visibility and control over the funds applied to individual ships, like the FFG, since all funds would be in one budget line. However, if such an action is taken, the Congress should also recognize that doing so reduces the Navy's flexibility to adjust resources among ship programs to meet changing requirements, especially in view of the line item appropriation which allows no reprogramming actions without prior approval. The need for some flexibility has been recognized by both the Congress and us.

AGENCY COMMENTS

We met with DOD officials to obtain their oral comments. The Office of Management and Budget also provided comments which are included in appendix VII.

Both agencies disagree with our position that the Congress should consider providing cost growth funds as a part of the individual ship budget line item.

The Office of Management and Budget said that appropriating cost growth by ship line item would add another opportunity for visibility at the expense of making management discretionary decisions on the use of funds unnecessarily cumbersome.

DOD points out that the little flexibility presently available in the shipbuilding appropriation to meet emergent requirements is only available within the Cost Growth and Escalation line items. This is because of the line item appropriation within SCN which necessitates the use of transfer authority (requiring the approval of all four concerned congressional committees) to make changes in any amount. They say that if the line item appropriation remains and cost growth is appropriated by ship line, the Navy will lose all its ability to effect minor reprogramings between different types of ships, causing the potential for work stoppages while the approval of the congressional committees is requested. They recommended that a provision be added that this change be made only together with a decision to eliminate line item appropriations.

We have stated in our report that an examination of this matter should include consideration of the reduction in Navy's flexibility to meet changing fund requirements.

We believe that the need for some of the flexibility relative to the use of cost growth funds will be reduced if the extension is granted and that such a change would provide better congressional visibility and control of the total funds applied to individual ship programs.

CHAPTER 3

OPTIONS FOR FUNDING SCN

The current 5-year availability of funds is not sufficient to allow for the completion of most ship programs. Naval ships are taking an average of 6.5 years from the first availability of funds until they are delivered from the contractor. Following delivery, approximately 1 year remains during which SCN funds are still to be obligated. Because of this, the proposed FY 1981 budget appropriation language reflects a change making SCN funds available for obligation for 7 years instead of the current availability of 5 years. There are a number of optional funding approaches which the Congress can consider. When evaluating these options, however, the effect on several factors should be considered. In this chapter, the options are described and the effects on these factors are discussed.

FACTORS TO BE CONSIDERED

In our opinion, the following factors should be considered in any discussion of the options we are presenting.

- Full funding.
- Unobligated balances.
- Management flexibility and congressional control.
- Resources required to manage and execute the programs.

These factors are not independent of each other, can conflict with, or influence one another, and are not necessarily of equal weight. In addition, their assessment relative to the options is subjective. For example, because of the subjective nature of when obligations are made, we can only point out possible effects on or trends in the unobligated balances. See appendix VI for a discussion of each of these factors.

OPTIONS FOR SCN FUNDING

There are several options which the Congress can consider for funding the SCN account. A number of these options are described below and the effects on the factors listed in the preceding section are discussed.

- Maintain the current 5-year availability period for SCN.

- Provide for no-year funding.
- Provide for a 1-year appropriation.
- Provide SCN transfer authority.
- Provide different funding availabilities for different types of ships.
- Provide separate budget line items for test and trials, engineering services, deferred work, and so forth.
- Grant the extension from 5 to 7 years.

Maintain the current 5-year
availability period of SCN

Under this option, the Congress would continue to provide shipbuilding funds to be available for obligation for 5 years.

By maintaining the current 5-year fixed-term appropriation, the amount of funds appropriated are still based on the estimated fully funded end cost of the ship programs. However, the Congress has approved transfer actions which move funds to later year cost growth where they could be available for up to 4 additional years. Although we recognize the reality of cost growth funds to meet changes in estimates made as much as 10 years in advance of a completed system, we believe that moving funds from an expiring account into the cost growth line, to be used for the purposes originally planned, obscures not only the real need for cost growth, but also the full-funding concept.

Since no change is being made in the current way of operating, there would be no change in the unobligated balances.

A criterion for selecting the period of availability for a fixed-term appropriation--such as 5 years--is that the availability period be long enough to provide program managers the flexibility to effectively and economically carry out the program objectives, but short enough to force any needed planning and budget execution discipline required by the Congress.

The current construction schedules, as discussed in chapter 2, preclude obligating all SCN funds before the end of the 5-year period of availability for many of

the Navy ship programs. Because the Navy does not have the funds available after the 5-year period to complete the programs, it must request extensions of the funds, request transfer of the funds into the cost growth budget line, or request the use of DOD transfer authority. Although there was no indication of an adverse effect to date, we believe that the possibility exists that if these actions were disapproved or approval was significantly delayed, there could be an adverse effect on the program execution.

Since no change is being made in the current way of operating, there would be no change in congressional control over the programs. However, as noted in chapter 2, we believe that congressional visibility is lost when the funds are transferred into the cost growth account for the purpose of extending their availability.

The necessity to document, review, and approve actions to extend the availability of expiring funds uses resources that could be used for other high-priority work if there was no need for extensions. The Congress has already recognized the need to extend the funds for 2 fiscal year programs. The Navy is currently assessing the need to extend all or part of the FY 1977 funds which are due to expire at the end of FY 1981. Furthermore, they anticipate the probability of requesting an extension for each succeeding year. A preliminary estimate of the expiring FY 1977 funds needed for new obligational purposes is \$163 million. The time and resources needed to get the documents prepared and approved through all the "channels" can take many months. Also, the Congress is "reappropriating" funds which they have already deemed necessary for completing a program. So in effect, they are making the same decision twice.

No change is made in the unobligated balances and the Congress maintains "pressure" to get the programs executed, but there is the possible effect on full funding through the use of cost growth funds, the restriction on program execution, and the resources used by both the Congress and DOD.

Provide no-year funding

Under this option, funds would be available for obligation until expended. That is, no time limit is placed on the availability of funds. There is no general agreement on which appropriation method is most advisable--fixed term or no year. Until 1970, shipbuilding funds were a no-year appropriation. However, the Congress changed to a fixed-term appropriation in an effort to tighten congressional

control over the appropriated funds for shipbuilding (as well as other DOD procurement and research and development appropriations).

Funds would still be appropriated on a fully funded basis as was done before 1970.

There would be a change in the unobligated balances. Currently, the unobligated balances expire at the end of 5 years and may not be used to incur new obligations. Under a no-year appropriation, the unobligated balances will remain available for obligation until they are expended. (See app. VI.) Currently, approximately 5 percent of original resources expire at the end of 5 years. These balances would remain available indefinitely, thus stretching out the existence of unobligated balances.

A no-year appropriation would eliminate the need to go through extensive exercises to keep or obtain funds for completion of the ships and allow the Navy to concentrate on effective management of shipbuilding programs instead of being constrained by artificially set limits on the availability of funds.

The Congress can, however, lose some control over program execution with a no-year appropriation. Fixed-term appropriations give the Congress more control over the funds and it is not necessary to review unobligated balances and require rescission action since the funds expire automatically at the end of the term of availability. In addition to providing an "easy" control over unobligated balances, fixed-term programs can force needed program/budget planning and execution discipline. Since funds expire at the end of the availability period, the Navy is "under pressure" to get the programs accomplished or lose the funds. This external pressure does not exist with a no-year appropriation.

Under a no-year appropriation, there is no need for the Navy and DOD or the Congress to spend time getting the funds extended or transferred to lengthen their availability. However, the Congress may have to spend more time on reviewing unobligated balances and the use of funds for approved programs.

Although a no-year appropriation can provide greater flexibility to the Navy to execute its programs, there may be, at the same time, a loss of congressional control over the programs.

Provide 1-year appropriation

In a 1-year appropriation, only the amount of funds which are to be obligated in the fiscal year are provided. That is, the ship programs would be incrementally funded.

By incrementally funding the shipbuilding programs, the full-funding policy is negated, along with the benefits which accrue from it.

With a 1-year appropriation, no unobligated balances are being carried forward from year to year.

Under a 1-year appropriation, the Navy must request funds each year to incur new obligations to continue the programs. This can have a detrimental effect on program execution. The Navy must weigh any decisions based on what it may get appropriated in the following year. Serious disruptions in the programs can occur if funds are cut or significantly curtailed in subsequent years. Also, by incrementally funding the shipbuilding program, the Congress no longer has the control exercised over budget planning and execution which is inherent in a multiyear funded appropriation.

The resources needed to execute and manage the programs can increase. DOD, the Navy, the Office of Management and Budget, and the Congress must review ongoing programs in depth yearly to determine the funds required, rather than review the program on an exception basis--that is, when additional funds are required or major changes in the program are planned. This, in addition to the reviews of new programs, can put a significant strain on the resources needed to get the budgets prepared and approved at all levels.

Although the 1-year appropriation eliminates carryover unobligated balances, it also eliminates the current full-funding policy, can significantly reduce the ability of both the Navy and the Congress to execute and control the programs, and can require more resources than the other options.

Provide SCN transfer authority

Under this option, the Congress could provide transfer authority for the SCN appropriation. This would allow, within the SCN account, the authority to move funds forward from year to year without using the transfer authority allowed the Secretary of Defense in the appropriation acts.

The Secretary of Defense has transfer authority up to \$750 million annually; he may transfer DOD funds between

the various appropriations with the Office of Management and Budget's approval and notification to the Congress. Until FY 1979, it was possible for the Secretary of Defense to transfer funds forward from expiring appropriations to later fiscal years. However, current appropriation language allows him to transfer only the funds within a fiscal year and not from 1 year to another.

This ability to transfer funds could make it more difficult to track the total cost of the fully funded program.

We are unsure of what, if any, effect this will have on unobligated balances.

The transfer authority recognizes the generally accepted need for the Navy to have flexibility to shift some funds as circumstances demand. The SCN request, if granted, would be less restrictive in that it would allow the Navy to have the funds for an unlimited number of years if money can be moved forward. However, approval of movements would be required.

There should be little effect on the resources required to manage the shipbuilding programs.

In addition to the factors listed on page 18, we believe that if the Congress considers this proposal, attention should be directed to limiting the amount of money permitted to be transferred and to the effects on the line item appropriation.

Provide different availabilities for different types of ships

There is variability in the construction time, and hence the required SCN availability, for different ships. Making funds available for different periods of time for different ship types, would recognize this variability.

There should be no effect on the full-funding policy since each ship program would still be funded in the same manner.

The effect on unobligated balances is more difficult to determine. The balances are accumulated and shown for the total SCN account. By splitting this account into separate accounts with different availabilities, unobligated balances will be expiring at different times. However, to the extent that programs are executed as currently done,

the percent of unobligated balances for individual programs should not change.

This option recognizes the time needed to complete the different types of ships, thus allowing the Navy to manage the programs within the time frames. The Congress maintains the same control that exists with the 5-year funding availability period. Additional control can be considered to be exercised in that the "external pressure" to complete ship programs is more tailored to the specific ships.

The management and control of so many different "appropriations" could be such that any benefits derived are offset by additional resources needed to manage and control the programs.

In addition to the factors discussed above, there is a problem of how to classify the ships. One way would be according to the currently defined budget activities. However, within such a classification, there is also wide variability. Auxiliary and service craft, for example, can range from 4 years for delivery of a destroyer tender to 2 years for a large barge.

Another alternative would be to establish different availability for different ship classes, such as the FFG-7 class or the SSN-688 class. This would, we believe, not only be difficult to manage, but the tendency may exist to "over estimate" the construction time to assure sufficient time to complete the programs within the period of funds availability.

Provide separate budget line items for
test and trials, engineering services,
deferred work, and so forth

Under this option, the work that is occurring after the expiration of the 5-year period would be funded as a separate budget line item as is currently done for outfitting and post delivery. Like post delivery, test and trials and engineering services are work done in the last stages of ship construction. As such, they could be appropriated in a separate budget line item when needed.

Deferred work items are another area where SCN funds are required after the expiration of funding availability. Deferred work is not planned at the beginning of a program, but arises based on the circumstances affecting an individual ship. Therefore, to the extent that the estimated end cost originally includes costs for work later deferred, double

budgeting could occur if it were included in a budget line item to be funded later, but before the expiration of the original appropriation. Also, much of the deferred work is changes for which incorporation into the ship has been deferred. These cannot be estimated in advance. We believe that this would preclude including deferred work in a separate budget line.

By taking these cost elements out of the total ship cost and funding them separately, the inclusiveness of the full-funding concept is reduced. In addition, there may be a tendency to plan to defer work, thereby further reducing the full-funding concept.

The unobligated balances in a given fiscal year, for a given ship program, would be reduced by the amount of these funds which are to be funded at a later date. However, since these items will show up in a later fiscal year budget, the overall effect on unobligated balances should be minor.

It is uncertain what effect, if any, this option will have over the effective management of the programs or the control exercised by the Congress over the money. It does, however, provide funds for the completion of the programs when they are needed. However, how beneficial this may be is minor since deferred work is the major amount of funds involved.

Those FY 1976 funds which were extended were only about 25 percent of the 7.8 percent of the funds which expired at the end of FY 1980--that is approximately 2 percent of the total available FY 1976 resources. Relative to the amount of money involved, the administration, review, and approval of the budget line items may use more resources than warranted for both DOD and the Congress.

This option has a minimal overall effect on unobligated balances and makes the funds available when needed. However, it reduces the inclusiveness of the full-funding policy and increases in the resources required to manage the additional budget line may offset any benefits.

Grant the extension from
5 to 7 years

This option grants the extension as proposed in the appropriation language in the FY 1981 President's budget.

The ship programs would continue to be fully funded. Extending the funds lessens the necessity to transfer funds into the cost growth account to make them available for the same purposes for which they were already approved, thus maintaining the integrity of the full-funding concept and the cost growth funds.

There will be a stretchout of the unobligated balances. The balances which now expire at the end of the 5th year will remain unobligated balances at the beginning of the 6th fiscal year and those not obligated during the 6th year will remain unobligated at the beginning of the 7th fiscal year. Currently, approximately 5 percent of available resources are unobligated at the end of the 5th fiscal year. This change in the unobligated balances is basically reflected in the 2 fiscal years for which extensions have been provided. We also believe that a small change is possible in the obligation rate in the 5th year because of an "end of the year spending syndrome." In an earlier report 1/ we found that even in multiyear or no-year appropriations, there is a tendency for yearend spending surges. In our limited sample, we found one instance where an obligation was made just before the funds were to expire which probably would have been made later if the funds were not about to expire.

By granting the 2-year extension of the SCN account, the committee would be recognizing the existing average time it is taking for executing the programs and providing a fixed-term availability commensurate with program execution and giving the Navy the time to execute these programs. However, note that this is an average time required (based on our sample) and thus, there are those programs which take less time and those which take longer. This would especially be true if the number of ships authorized and appropriated in a fiscal year are increased because of lags between the individual ships at each shipyard. Also, the 7-year average is based on ship delivery from the contractor and generally an additional year after delivery is required for the completion of work using SCN funds. Earlier requests for extensions were for 8 years and in FY 1976 testimony, Navy officials stated that 8 years would be a minimum required availability for a fixed-term SCN appropriation. Seven was a compromise.

1/"Government Agencies Need Effective Planning to Curb Unnecessary Year-end Spending" (PSAD-80-67, July 28, 1980).

Six months to 1 year of the availability period is being used to get the basic construction contract awarded. By granting the proposed 2-year extension, the Congress would, in effect, be allowing 1 year to cover the time taken to get contracts awarded and 1 additional year for actual ship construction. This aids the Navy by providing for "administrative" time to get the contracts awarded. Also, to the extent that the Navy can decrease the time to get the contracts awarded, there is more available time to complete the ship programs within the fund availability period. At the same time there is still the external pressure to shorten the time taken to get the ships operational, which is a major concern to both the Congress and the Navy.

Another part of a criteria for a fixed-term appropriation is that it be short enough to force control of budget/program execution. Based on our sample, the ships have experienced 1-1/2 years delay from original estimated delivery dates. There is some concern in the Congress that an extended period of availability could lessen the pressure to get the ships delivered earlier and/or reduce the delays occurring in the ship programs. Although we cannot say that this is not a possibility, most people we talked to believe there is incentive within the Navy to get the ships on line as soon as possible. Also, including the PSA period, the average ship construction time from inception of the fiscal year approximation is approximately 7.5 years. Using original contract delivery dates, this time is approximately 6 years; thus, the 7 years is between what is planned and what is experienced.

Resources required are lessened in that time now spent on getting funds extended can be spent elsewhere.

Granting the proposed extension of the SCN account maintains the integrity of the full-funding policy and provides the Navy the time to complete the programs while simultaneously maintaining the control the Congress has through the fixed-term appropriations. There is, however, a stretch-out of the unobligated balances.

CONCLUSIONS

Although a number of optional funding approaches can be considered by the committee, there are, at the same time, a number of factors which must be considered when deciding on any of these options. These factors include the effect on full funding, unobligated balances, and the flexibility needed to manage the programs in the most efficient and effective manner while maintaining congressional control.

Although all the options have attributes which make them viable, we believe that the 7-year availability period is reasonable and represents the best option.

RECOMMENDATIONS TO THE CONGRESS

We recommend the Congress give the Navy 7 years in which to obligate shipbuilding funds and make the extension retroactive to include the FYs 1978 through 1981 appropriations.

AGENCY COMMENTS

The Office of Management and Budget and DOD agree with the conclusions that the 7-year availability period is reasonable and represents the best of the options identified. The Navy believes, however, that the 2-year extension should be made retroactive to FY 1977 instead of FY 1978. We recommended the extension be retroactive to 1978 on the assumption that any action taken on this subject would be made as part of the FY 1982 Appropriation Act. Fiscal year 1977 funds will expire on September 30, 1981. If the FY 1982 appropriation bill is not approved on time, problems could arise with the availability of the expiring FY 1977 funds. Also, there is no assurance that the extension will be approved. Therefore, we believe the Navy should plan to request an extension of all or part of the FY 1977 funds, if necessary, as they did for the FYs 1973 and 1976 funds.

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Congress of the United States
House of Representatives
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May 2, 1980

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CLERK AND STAFF DIRECT
 KATH P. MAHLMAN

TELEPHONE
 (202) 225-2771

Honorable Elmer B. Staats
 Comptroller General of the
 United States
 Washington, D. C. 20548

Dear Mr. Staats:

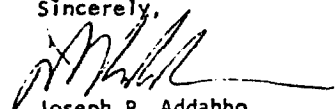
I am writing you to request that the General Accounting Office initiate, as a matter of priority, a review to determine the reasonableness and impact of the Department of the Navy's proposal to extend the availability of funds in the Shipbuilding and Conversion appropriation from five years to seven years. The General Accounting Office, over the years, has issued a number of excellent reports dealing with various aspects of the Navy's shipbuilding program. As a result of this work, your office has developed a considerable amount of expertise and I believe that it would be appropriate to have the General Accounting Office conduct a study of this nature.

The Navy's proposal probably has advantages and disadvantages associated with it and I am certain that the General Accounting Office will analyze all aspects of the proposed extension in the procurement cycle.

In requesting this study, I must point out that I am particularly concerned that the proposed extension of two additional years for the Shipbuilding and Conversion appropriations will significantly increase the Navy's unobligated balances. It might also extend what already appears to be an excessive amount of time for constructing a naval vessel.

In anticipation of utilizing this information for hearings on the FY 1982 budget, it would be appreciated if this work could be finalized no later than April 1, 1981. If time allows, official comments by the Department of Defense should be included.

Sincerely,



Joseph P. Addabbo
 Chairman
 Subcommittee on Defense

EXAMPLES OF DEFERRED WORK ITEMSFY 1976 SSN-688 Class

1. Provide Tomahawk capability.
2. Installation of expendable SSNBT AN/BQR-7.
3. AN/BQN-17 transducer installation modification for replacement topside.
4. Modify HPD piping to improve visibility of port SSTG thrust position indicator.
5. Install loop seal for main propulsion turbine, first stage pressure gage line.
6. Modify RTD wiring in propulsion turbine after bearing brackets.
7. Modify drainage of all docks Nos. 4 and 5 to permit total drainage of water.
8. Eliminate interference between ASW valve ASW 176 and the head of EAFW heat exchanger No. 2.
9. Replace fasteners in steam plant hangers suitable for high temperature.
10. Enlisted berthing improvements.

FY 1976 FFG-7 Class

1. Procurement and installation of high temperature detectors.
2. Improve magazine safety.
3. AN/SQS-56 sonar system changes.
4. Piping system changes.
5. Procurement and installation of IC/E46-6 Rodmeter.
6. ASMD/DW and SROC Installation.
7. Snap hooks for safety closures.
8. Installation of helicopter flight deck announcing system--5MC.

APPENDIX II

APPENDIX II

9. Modify distilling plant educator supply.
10. Installation of aluminum boat boom.

CONSTRUCTION PERIOD FOR SHIPS (note a)IN SCN APPROPRIATIONS

<u>FY ship programs</u>	<u>Inception of appropriation</u>	<u>Later of delivery or CFO date (note b)</u>	<u>Obligation work limiting date</u>	<u>Inception to obligate/work limiting date</u> (years)
FY 1977:				
Trident-730	10/76	11/83	10/84	8.0
SSN-718 (note c)		9/84	8/85	8.8
FFG (note c)		6/82	5/83	6.6
AD-43		12/81	11/82	6.1
AS-41		8/81	7/82	5.8
AO-179		7/81	6/82	5.7
DDG (note c)		12/81	11/82	6.1
F-PCG (note c)		4/82	3/83	6.4
FY 1978:				
Trident (note c)	10/77	3/85	2/86	8.3
SSN-719		8/84	7/85	7.8
CG-47		1/83	12/83	6.2
DD-997		2/83	1/84	6.3
FFG (note c)		6/83	5/84	6.6
AO (note c)		6/82	5/83	5.5
T-AFT (note c)		6/81	5/82	4.5
F-FFG-35		12/82	11/83	6.1
FY 1979:				
SSN-720	10/78	3/85	2/86	7.3
FFG (note c)		11/84	10/85	7.0
AD-44		9/83	8/84	5.8
T-ARC		1/83	12/83	5.2
YRBML (note c)		12/81	11/82	4.1

a/For multiship buys the delivery and obligation dates are listed only for the last ship to be delivered from that fiscal year program.

b/Completion of fitting out.

c/More than one ship appropriated in the fiscal year.

<u>FY ship programs</u>	<u>Inception of appropriation</u>	<u>Later of delivery or CFO date (note a)</u>	<u>Obligation work limiting date</u>	<u>Inception to obligate/ work limiting date</u> (years)
FY 1980:				
Trident-733	10/79	11/85	10/86	b/7.0
SSN (note c)		3/86	2/87	d/7.3
CVN-7		9/87	8/88	8.8
CG-48		7/84	6/85	5.7
FFG (note c)		9/84	8/85	5.8
TAGOS (notes c and e)		1/84	12/84	5.2
F-FFG-44		4/84	3/85	5.4
YRBML (note c)		2/83	1/84	4.0
FY 1981:				
Trident	10/80	8/86	7/87	6.8
SSN		9/86	8/87	6.8
FFG (note c)		12/85	11/85	6.1
DDG-49		9/85	8/86	6.8
ARS		9/84	8/85	5.8
T-AGOS		2/85	1/86	6.3
LSD-41		4/85	3/86	6.4

a/Completion of fitting out.

b/Based on estimated contract award of 6/80, had not been awarded as of 12/1/80.

c/More than one ship appropriated in the fiscal year.

d/Based on estimated contract award of 8/80, had not been awarded as of 12/1/80.

e/Includes FY 1979 ships which were delayed approximately 1 year because of SURTASS (Surveillance Towed Array Sensor).

SCHEDULE OF OBLIGATIONS FOR THE
FULL FUNDING BY FISCAL YEARS FOR FFG AND SSN
(note a)

<u>Program year</u>	<u>FFG program</u>						<u>Remaining</u>
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	
-----*----- (millions) -----							
FY 75:							
Budgeted	\$186.0	\$186.0	\$ 186.0	\$ 186.0	\$ 186.0	\$ 193.6	\$ -
Obligated	-	152.7	9.6	5.2	11.2	11.8	-
Cumulative	-	152.7	162.3	167.5	178.7	190.5	3.1
Percent cumulative of budget	-	82.1	87.3	90.1	96.1	98.4	1.6
FY 76:							
Budgeted	\$ -	\$802.5	\$802.5	\$ 770.7	\$ 738.8	\$ 694.8	\$ -
Obligated	-	369.1	73.0	47.6	59.0	95.9	-
Cumulative	-	369.1	442.1	489.7	548.7	644.6	50.2
Percent cumulative of budget	-	46.0	55.1	63.6	74.3	92.8	7.2
FY 77:							
Budgeted	\$ -	\$ -	\$1,147.1	\$1,105.1	\$1,064.2	\$1,064.2	\$ -
Obligated	-	-	618.1	46.0	79.1	83.0	-
Cumulative	-	-	618.1	664.1	743.2	826.2	238.0
Percent cumulative of budget	-	-	53.9	60.1	69.8	77.6	22.4
FY 78:							
Budgeted	\$ -	\$ -	\$ -	\$1,156.7	\$1,145.9	\$1,145.9	\$ -
Obligated	-	-	-	572.8	104.7	101.9	-
Cumulative	-	-	-	572.8	677.5	779.4	366.5
Percent cumulative of budget	-	-	-	49.5	59.1	68.0	32.0
FY 79:							
Budgeted	\$ -	\$ -	\$ -	\$ -	\$1,493.1	\$1,493.1	\$ -
Obligated	-	-	-	-	729.2	157.3	-
Cumulative	-	-	-	-	729.2	886.5	606.6
Percent cumulative of budget	-	-	-	-	48.8	59.4	40.6
FY 80:							
Budgeted	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,103.7	\$ -
Obligated	-	-	-	-	-	552.3	-
Cumulative	-	-	-	-	-	552.3	551.4
Percent cumulative of budget	-	-	-	-	-	50.0	50.0

a/Data obtained from NAVCOMPT Forms 2158.

APPENDIX IV

APPENDIX IV

<u>Program year</u>	<u>SSN program</u>						<u>Remaining</u>
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	
FY 75:							
Budgeted	\$502.5	\$502.5	\$502.5	\$502.5	\$490.1	\$490.1	\$ -
Obligated	73.7	328.0	40.1	12.7	15.0	3.9	-
Cumulative	73.7	401.7	441.8	454.5	469.5	473.4	16.7
Percent cumulative of budget	14.7	79.9	87.9	90.5	95.8	96.6	3.4
FY 76:							
Budgeted	\$ -	\$439.0	\$439.0	\$439.0	\$439.0	\$416.0	\$ -
Obligated	-	233.4	24.6	17.8	20.8	47.2	-
Cumulative	-	233.4	258.0	275.8	296.6	343.8	72.2
Percent cumulative of budget	-	53.2	58.8	62.8	67.6	82.6	17.4
FY 77:							
Budgeted	\$ -	\$ -	\$745.6	\$745.6	\$745.6	\$745.6	\$ -
Obligated	-	-	448.0	33.5	8.5	45.5	-
Cumulative	-	-	448.0	481.6	490.0	535.5	210.1
Percent cumulative of budget	-	-	60.1	64.6	65.7	71.8	28.2
FY 78:							
Budgeted	\$ -	\$ -	\$ -	\$278.5	\$278.5	\$278.5	\$ -
Obligated	-	-	-	10.1	142.0	9.9	-
Cumulative	-	-	-	10.1	152.1	162.0	116.6
Percent cumulative of budget	-	-	-	3.6	54.6	58.1	41.9
FY 79:							
Budgeted	\$ -	\$ -	\$ -	\$ -	\$325.6	\$315.6	\$ -
Obligated	-	-	-	-	133.6	18.6	-
Cumulative	-	-	-	-	133.6	152.2	163.4
Percent cumulative of budget	-	-	-	-	41.0	48.2	51.8
FY 80:							
Budgeted	\$ -	\$ -	\$ -	\$ -	\$ -	\$726.6	\$ -
Obligated	-	-	-	-	-	61.4	-
Cumulative	-	-	-	-	-	61.4	665.2
Percent cumulative of budget	-	-	-	-	-	8.5	91.5

SCN COST GROWTH FUNDS

(note a)

<u>Programs</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>Totals</u>
	------(millions)-----					
1963 to 1969	\$ -	\$ 1.9	\$ -	\$ -	\$ -	\$ 1.9
1970 CVN	14.0	-	-	-	-	14.0
SSN	-	4.5	-	-	-	4.5
CGN	15.4	-	-	-	-	15.4
DD	12.0	2.3	-	-	-	14.3
LHA	1.4	13.1	21.7	0.6	-	36.8
1971 SSN	4.3	7.4	-	-	-	11.7
CGN	7.8	4.3	-	-	-	12.1
DD	68.1	22.2	0.3	1.6	-	92.2
LHA	33.2	26.9	26.0	-	-	86.1
1972 AS	-	-	12.4	14.1	-	26.5
DD	68.7	17.8	13.6	2.7	-	102.8
CGN	3.2	6.3	-	-	-	9.5
SSN	5.9	7.5	2.0	-	-	15.4
1973 AS	0.7	-	13.7	4.9	-	19.3
SSN	-	-	-	23.8	-	23.8
FFG	45.3	8.2	-	-	-	53.5
1974 Trident	34.5	28.5	63.2	127.1	18.1	271.4
CVN	20.1	7.5	-	52.8	-	80.4
SSN	1.0	5.0	7.0	-	13.0	26.0
CGN	6.0	-	-	-	-	6.0
DDG	16.2	2.0	-	-	-	18.2
DD	92.7	29.4	1.5	21.6	-	145.2
SSBN	4.0	-	-	-	-	4.0
1975 Trident	58.5	-	5.1	94.9	49.8	208.3
SSN	3.3	0.8	-	17.3	-	21.4
DD	113.3	44.5	20.3	20.6	-	198.7
CGN	8.1	8.6	-	-	-	16.7
PHM	104.2	16.1	0.7	-	-	121.0
FFG	124.3	42.2	2.3	1.2	-	170.0
AD	62.7	10.7	-	-	-	73.4
TATF	0.1	-	-	-	-	0.1
SSBN	74.4	1.9	-	-	-	76.3
ARDM	4.8	0.4	-	-	-	5.2
1976 AD	-	1.7	-	-	-	1.7
Trident	-	-	-	-	57.9	57.9
1977 Trident	-	-	-	5.3	43.3	48.6
1978 Trident	-	-	-	-	11.5	11.5
	<u>\$1,008.2</u>	<u>\$321.7</u>	<u>\$189.8</u>	<u>\$388.5</u>	<u>\$193.6</u>	<u>\$2,101.8</u>

a/Cost growth funds derived from September 8, 1980, information which supported the FY 1982 budget of the Office of the Secretary of Defense/Office of Management and Budget. It does not include funds for claims or escalation.

FACTORS CONSIDERED IN DISCUSSION OF OPTIONS

In our opinion, the following factors should be considered in any discussion of the options.

- Full funding.
- Unobligated balances.
- Management flexibility and congressional control.
- Resources required to manage and execute the programs.

These factors are not independent of each other, can conflict with or influence one another, and are not necessarily of equal weight. In addition, their assessment relative to the options is subjective. For example, because of the subjective nature of when obligations are made, we can only point out possible effects on trends in the unobligated balances.

FULL FUNDING

Full funding is a policy established between DOD and congressional committees. This concept of full funding was initially applied to Navy shipbuilding. It

- apprises the Congress of the total estimated end cost of the planned procurement at the time the funds are made available, which improves the effective allocation of resources;
- provides relief from the pressure of time which the Congress has to transact its business; rather than reviewing a program each year, the Congress need only look at it when there are changes to the program either in scope or cost;
- encourages a consciousness of the importance of cost estimating and the need to include all applicable cost in the budget line item requests; and
- provides the agencies with more certainty as to what funds they have without having to contend with budget cuts or delays in the middle of a program.

The benefits accruing from the full-funding concept has been supported by us, as well as the Congress.

UNOBLIGATED BALANCED

An unobligated balance is the portion of the available funds that have not yet been obligated. In 1-year accounts, the balance expires at the end of the fiscal year. In multiyear accounts, the unobligated balance is carried forward and remains available for obligation for the specified period. In no-year accounts, the unobligated balance is carried forward until the purposes of the appropriation have been fulfilled. They shall be withdrawn whenever the head of the agency concerned shall determine that the purposes for which the appropriation was made has been fulfilled, or if no disbursements have been made against the appropriation for 2 full consecutive fiscal years.

Carryover unobligated balances result from fully funded multiyear programs. Increases in the balances do not necessarily mean there is a deficiency in carrying out the programs. Among other things, the increase can result from increasingly larger programs and more costly ships. The results of increase in these balances do not affect the amount of cash available. The Treasury does not have to make funds available until disbursements are made.

There is some congressional concern over these balances.

MANAGEMENT FLEXIBILITY AND
CONGRESSIONAL CONTROL

Once the Congress has authorized and appropriated funds for the shipbuilding programs, it is then the responsibility of DOD, specifically the Navy, to execute these programs in the most efficient and effective manner. It is recognized that it is desirable to maintain some flexibility to shift funds within a particular appropriation account so that the agencies can make necessary adjustments for such things as unforeseen developments, changing requirements, changes in cost estimates including escalation, and legislation enacted after appropriations.

While this flexibility exists, it is necessary for the Navy to apply the appropriated funds as the Congress intended (based on testimony and committee reports) in order not to lose the confidence of the Congress in its budget requests which could result in reduced appropriations.

The Congress, however, has a clear constitutional role in controlling public moneys for naval ships. In an effort to get better congressional control over the shipbuilding funds, the Congress has already reduced the flexibility in

the shipbuilding appropriation by providing funds by line item; that is, funds are appropriated specifically for FFGs, SSNs, and so forth.

In many respects, agency flexibility and congressional control are contradictory in that to have one, the other may be lessened.

RESOURCES REQUIRED TO MANAGE
AND CONTROL THE PROGRAMS

The resources, in time and personnel, needed to execute and manage the shipbuilding programs should also be considered. The resources required would be basically the same regardless of the size of the account; that is, whether one is dealing with a large or small amount of dollars. This is true whether the resources are in the Congress or in the program office.

There is a need to apply limited resources in the most effective manner.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FEB 25 1981

Mr. Morton A. Myers
Director
Program Analysis Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Myers:

Director Stockman asked that I review your draft report "Need for Extending the Period of Availability for Navy Shipbuilding Funds" and respond to you directly.

I believe your report accurately portrays the current situation and adequately addresses the range of alternative approaches for funding the Navy shipbuilding effort. I also concur with your belief that extending the availability of shipbuilding funds to seven years represents the best of these alternatives.

I cannot, however, concur that the advantages of appropriating cost growth funds by individual ship budget line item outweigh its drawbacks. In my view, there already are sufficient opportunities to review program execution and the results of the Navy's exercising management discretion in adjusting the application of cost growth funds. Extending appropriation availability should in fact significantly reduce the number of such adjustments. Appropriating cost growth by ship line item would only add another opportunity for visibility at the expense of making such management decisions unnecessarily cumbersome for those adjustments which may be required.

Thank you for the opportunity to comment on your report.

Sincerely,

A handwritten signature in cursive script, appearing to read "David Sitrin".

David Sitrin
Deputy Associate Director
for National Security

(951575)

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