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GAO

Report to Congressional Requesters

August 1997

NAVY SHIPS

Turning Over Auxiliary Ship Operations to the Military Sealift Command Could Save Millions

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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-277338

August 8, 1997

The Honorable Ernest Hollings
Ranking Minority Member
Committee on Commerce,
Science, and Transportation
United States Senate

The Honorable Trent Lott
United States Senate

As you requested, we evaluated the Navy's use of alternative crewing arrangements for Navy auxiliary ships. Our specific objectives were to (1) identify the Navy's plans for turning over the operation of military crewed auxiliary ships to its Military Sealift Command (MSC) for civil service and/or commercial crewing, (2) estimate whether cost savings would be realized if the Navy turned over the operation of the remaining military crewed auxiliary ships to MSC, and (3) analyze the relative costs of operating a Navy auxiliary ship with a civil service crew and the costs of operating the same ship with a commercial crew. Also, as you requested, we calculated the increase in the merchant mariner pool if the operation of the multiproduct ships were turned over to MSC.

Background

Navy auxiliary ships provide underway replenishment[1] to Navy combatant ships worldwide thereby allowing combatant ships to remain at sea for extended periods. These ships deliver cargo and provide services such as towing and salvage operations. Navy auxiliary ships are crewed either by active duty military personnel or civil service mariners. Those ships crewed by civil service mariners also have a small detachment of active duty Navy personnel aboard to provide communications, ordnance handling, supply support, and technical support.

As of May 1997, the Navy's auxiliary fleet consisted of 42 ships—15 oilers, 6 stores ships, 7 ammunition ships, 7 tugs, and 7 multiproduct ships. One additional multiproduct ship of a new class is currently under construction. The Navy has delegated operational control of 27 of these ships to MSC, the military's single manager for sealift, to better support Navy fleet operations. MSC crews these 27 ships with civil service mariners. The Navy's remaining 15 auxiliary ships are crewed by military personnel.

[1]A process whereby ships transfer petroleum, munitions, provisions, freight, food, and other consumable items to combatant ships while steaming along side from 80 to 300 feet apart.

Under current policy, the Navy will not permit the use of commercial crews on any auxiliary ships because it considers their mission purely military in nature.

Results in Brief

The Navy plans to turn over the operation of its remaining three ammunition ships to MSC for crewing with civil service mariners. By 1999, five military crewed oiler ships are to be decommissioned and replaced with four MSC oilers that are now either in reduced operating status or deactivated. The four replacement oilers will be crewed with civil service mariners. With these changes, 34 of the Navy's 42 auxiliary ships will be under MSC control. As of May 1997, the Navy had not decided if it would turn over the operation of the remaining seven auxiliary ships as well as the single ship under construction to MSC. All eight of these ships are multiproduct ships.

Based on Navy cost data and MSC cost estimates, the Navy could save about $139.6 million annually by turning over the operation of these eight multiproduct ships to MSC for crewing with civil service mariners. These savings are due primarily to a much smaller crew size than has been traditional on military crewed auxiliary ships. These savings would be offset by a one-time conversion cost of $30 million to $45 million per ship, or about $300 million for all eight ships, to meet Coast Guard standards. MSC might also need fewer ships to provide underway replenishment since unlike the Navy, it does not have the personnel and operating limitations on the number of operating days per ship and on days at sea per crewmember. Three other studies conducted since 1990 by the Center for Naval Analyses, the Institute for Defense Analyses, and the Naval Audit Service have also identified the potential for large cost savings if the Navy were to transfer additional ships to MSC. These studies' projected savings were also primarily due to the smaller crew sizes on MSC ships.

The Navy does not intend to divert from its current policy of not using commercial mariners to crew auxiliary ships. Its position is that these ships must be crewed by military or civil service personnel due to their military mission. However, if it were to change this policy, our analysis shows that it would cost the Navy about $321,000, or about 5 percent more a year, to operate a commonly used MSC oiler ship with commercial crews than with civil service crews. The difference in costs is primarily attributable to higher fringe benefit costs for commercial crews.

With respect to the size of the mariner pool under different crewing alternatives, we calculated that the pool of U.S. civil service mariners would increase by about 1,700 merchant mariners if the 8 remaining auxiliary ships were turned over to MSC and were crewed by civil service mariners. The pool of commercial merchant mariners would increase by about 2,700 to 3,400 mariners if these same ships were crewed by commercial mariners.

Navy's Current and Planned Efforts to Turn Over the Operation of Auxiliary Ships to MSC for Civil Service and/or Commercial Crewing

As of May 1997, the Navy had MSC operating 27 of its 42 auxiliary ships with civil service crews. The type and number of auxiliary ships operated by MSC with civil service crewing and the crew size for each ship are shown in table 1. This table also shows the size of the military detachment on these ships.

Table 1: Type, Number, and Crew Size of Auxiliary Ships Operated by MSC

		MSC crew size per ship	
Type of ships	**Number of ships**	**Civilian**	**Military detachment**
Ammunition	4	125	24
Stores	6	125	49
Oiler	10	82	23
Tug	7	16	4
Total	**27**		

Source: MSC.

Under current policy, the Navy will not permit any auxiliary ships to be crewed with commercial mariners. In an April 1995 letter to the American Maritime Officers union, the Under Secretary of the Navy stated that the mission of its auxiliary ships was purely military in nature and not considered commercial-type operations. Therefore, according to the Under Secretary, auxiliary ships would only be crewed with government employees, even if the use of commercial employees was cost-effective. In an April 1996 letter to the same union, the Assistant Secretary of the Navy

for Research, Development, and Acquisition reiterated this policy, stating that the Navy's auxiliary ships would be crewed by civil service mariners due to the special nature of the auxiliary ships' operation. As of May 1997, Navy officials confirmed that this policy was still in effect.

As of May 1997, the Navy was continuing to crew 15 auxiliary ships with military personnel. The types of ships are shown in table 2.

Table 2: Type of Auxiliary Ships Crewed With Military Personnel as of May 1997

Type of ship	Number of ships	Navy crew size per ship
Multiproduct (AOE-1)	4	600
Multiproduct (AOE-6)	3	562
Oiler	5	219
Ammunition	3	407
Total	**15**	

Source: Navy and MSC.

The Navy plans to (1) turn over the operation of the three ammunition ships to MSC for crewing with civil service mariners and (2) decommission the five oilers in fiscal year 1999, replacing them with four oilers built to commercial standards that are currently in reduced operating status or deactivated. These latter ships would also be crewed with civil service mariners.

The Navy has not decided on whether to turn over the operation of the seven multiproduct auxiliary ships to MSC. Some Navy officials believe that multiproduct ships should continue to be crewed with military crews because they are the auxiliary ships that can maintain battle group speeds and operate within the battle group formations. However, MSC officials stated that they have studied what it would take to operate the multiproduct ships and are willing to accept the transfer because they believe MSC civil service crews can operate these ships.

Potential Savings by Turning Over the Operation of Navy Auxiliary Ships to MSC

Our work and prior studies have shown that the Navy could achieve savings by using civil service crews on auxiliary ships. According to November 1996 data, the most current available, the Navy's annual cost to operate a multiproduct ship (AOE-1 class), built in the 1960s, is $54 million compared to MSC's estimated cost of $37 million to operate the ship using a civil service crew. The savings of nearly $18 million are primarily attributable to differences in crew sizes. MSC operates its ships with a smaller crew because it hires skilled mariners, whereas Navy crews are often recruits that must be trained to replace more skilled sailors. The Navy operates this ship with 600 crewmembers while MSC would use about 247 crewmembers. Similar differences apply to the multiproduct ship (AOE-6 class), built in the 1990s, which is a smaller, modified version of the earlier ship. The Navy operates this ship for $48 million annually, with 580 crewmembers. MSC's estimated cost to operate this ship is $31 million annually with 229 crewmembers. The savings of over $17 million are also primarily attributable to differences in crew sizes. The differences in annual operating costs between the Navy and MSC to operate the two classes of multiproduct ships are shown in table 3.

Table 3: Annual Operating Costs Between the Navy and MSC for Multiproduct Ships

Dollars in millions

	Ship class					
	AOE-1			AOE-6		
Cost categories	**Navy**	**MSC**	**Difference**	**Navy**	**MSC**	**Difference**
Crew related[a]	$34.1	$20.6	$-13.5	$32.0	$19.2	$-12.8
Ship fuel	6.9	6.9	0	2.9	2.9 0	
Repair parts	1.4	0.8	–0.6	1.3	0.8	–0.5
Maintenance	11.6	8.3	–3.3	11.4	8.3	–3.1
Miscellaneous costs[b]	0.4	0	–0.4	0.6	0	–0.6
Total	**$54.4**	**$36.6**	**$-17.8**	**$48.2**	**$31.1**	**$-17.1**

Note: Numbers may not add due to rounding.

[a]Includes wages, fringe benefits, training, and other personnel costs.

[b]Includes publications, engineering and technical services, and ammunition handling.

Source: Our analysis based on actual data provided by the Navy and cost estimates provided by MSC.

Using the Navy's data of the cost to operate the two classes of multiproduct ships, we estimated that if the Navy turned over the operation of the seven multiproduct ships to MSC for civil service crewing,

it could save $122.5 million annually. Table 4 shows these potential savings.

Table 4: Potential Annual Savings by Turning Over Navy Multiproduct Ships to MSC

Dollars in millions

Ship class	Number of ships	Savings per ship (from table 3)	Total annual savings
AOE-1	4	$17.8	$ 71.2
AOE-6	3	$17.1	$ 51.3
Total	**7**		**$122.5**

Source: Our analysis based on data provided by the Navy.

A fourth AOE-6 class ship is under construction at the National Steel and Shipbuilding Company in San Diego, California, and is scheduled for delivery in early 1998. If the Navy chooses to include this ship with the rest of the multiproduct ships turned over to MSC, an additional $17.1 million annually would be saved, for a total annual savings of $139.6 million.

According to MSC unofficial estimates, these savings would be offset by a one-time cost of $45 million for an AOE-1 and $30 million for an AOE-6 to convert these ships to Coast Guard standards, which differ from Navy standards, that is, $180 million for all four AOE-1 ships and $120 million for all four AOE-6 ships, or $300 million for all eight ships. However, such an investment would seem advantageous considering the annual estimated savings of $139.6 million.

Prior Studies Also Projected Savings

In a 1990 study of civilian manning of auxiliary ships, the Center for Naval Analyses found that the Navy would save $265 million annually if the Navy turned over 42 support ships and tenders to MSC. The study attributed the annual savings to much smaller crew sizes on MSC ships. It reported, for example, that civil service crews on a Navy oiler would be half the crew size the Navy used on those ships.

In 1993, the Institute for Defense Analyses found that the Navy could save considerable cost and personnel positions by operating more of its auxiliary ships with civil service mariners. The Institute reported that a civilian operation saves on cost by reducing the total crew size by about half for a similar ship. It concluded that the Navy could save $4 million to $15 million a year per ship, depending on the type, by reducing the number

of sea-going personnel positions on auxiliary ships and crewing them with civilians.

A 1994 Naval Audit Service report also found that significant cost benefits could be achieved if Navy auxiliary ships were crewed by civil service mariners. The report, which covered 45 ships, stated that by turning over the ships to MSC, crewing could be reduced 52 percent, from 19,440 crewmembers to 9,264 crewmembers. Depending on the cost method applied, the Navy could save $3.7 billion or $4.3 billion over a 5-year period. The Naval Audit Service recommended that the Navy turn over the 45 auxiliary ships to MSC for civil service crewing.

Crewing With Civil Service Personnel Has Other Advantages

Another advantage of turning over the Navy multiproduct ships to MSC is, as Navy and MSC officials pointed out, that MSC ships do not have the constraints on operating days per ship and on days at sea per crewmember that Navy ships do. It is Navy policy to assign a sailor to a ship for 3 years and not to have the sailor spend more than 6 consecutive months each year at sea, whereas MSC policy is to have MSC crews spend about 9 months out of every 12 months at sea. According to these officials, an MSC ship can operate more days per year than a comparable Navy ship—resulting in fewer MSC ships being needed to conduct underway replenishment. Further, these officials agree that additional savings could be realized because some ships could be retired, decommissioned, or deactivated.

The Navy is currently conducting a study to determine whether it is more cost-effective to continue the operation of the multiproduct auxiliary ships under Navy control or turn over the operation of these ships to MSC. The objectives of the study are to (1) determine the Navy minimum crewing level, (2) compare the proposed reduced Navy crewing level with comparable MSC crewing, and (3) recommend a course of action based on a comparison of MSC and Navy crewing levels. Navy officials estimate that this study should be completed by the end of 1997.

Analysis of Costs Related to Civil Service and Commercial Crews

Although the Navy's current policy is not to use commercial crews, we compared the cost of crewing auxiliary ships with commercial and civil service crews. Based on our analysis, we found that crewing with commercial mariners costs more. In addition, we calculated an increase in the merchant mariner pool that could be available to crew ready reserve fleet ships in time of conflict.

Historically, the United States has relied on the private sector for combat support elements in time of war or national emergency. In 1972, a joint U.S. Navy-Maritime Administration project used the SS Erna Elizabeth to test the feasibility of using commercial mariners to conduct underway replenishment. The SS Erna Elizabeth steamed about 13,000 miles and refueled 40 ships at sea. In another 1972 test, the SS Lash Italia delivered food and other consumable items to the Sixth Fleet in the Mediterranean. During Operations Desert Shield and Storm, a contract-operated tanker, the MV Lawrence H. Giannella operated by a commercial crew, provided fuel to Navy combatant ships while at sea.

To analyze the annual costs between civil service and commercial crews, we obtained crewing levels[2] and wage rates from two commercial mariner unions and MSC for the operation of a Kaiser class oiler, the most commonly used ship in the MSC fleet. We focused on labor costs and excluded other costs from the comparison because we assumed other operation costs, such as fuel, maintenance, and the small detachment of active duty Navy personnel on board ship, would continue to be incurred regardless of who operated the ship.

We estimated that the annual labor cost to operate a Kaiser class oiler with a civil service crew would be $6.562 million and the cost with a commercial crew would be $6.883 million, a difference of about $321,000, or about 5 percent. The estimate with a civil service crew was based on a crew size of 82 members, the authorized crewing level of a Kaiser class oiler. The commercial crew estimate was based on a crew size of 79 members, a size with which the two commercial mariner unions believed the mission could be accomplished. The major cost elements were wages and overtime, pension, medical, vacation, and other fringe benefits and personnel support costs. The differences between the annual labor costs of civil service and commercial crews to operate a Kaiser class oiler are shown in table 5.

[2]We did not validate the crewing information provided by MSC and the commercial mariner unions.

Table 5: Annual Labor Costs of Civil Service and Commercial Crews for a Kaiser Class Oiler

Dollars in thousands

Cost element	Civil service crew of 82	Commercial crew of 79	Difference
Base wages and overtime	$4,702	$4,116[a]	$586
Pension	841	268	573
Medical	250	668	–418
Vacation	568	840	–272
Other fringe benefits and personnel support costs	202[b]	992[c]	–790
Total	**$6,562**	**$6,883**	**$-321**

Note: Numbers may not add due to rounding.

[a]See scope and methodology for a discussion of how we arrived at this estimate.

[b]Includes training, temporary duty, and miscellaneous and administrative support provided by shore-based personnel.

[c]Includes training, employee benefit plan, drug testing, hiring hall, public affairs, and payroll taxes.

Source: Our analysis based on data provided by MSC, Seafarers International Union, and American Maritime Officers union.

Our cost comparison showed that the annual base wages and overtime for civil service crews were $586,000, or 14 percent, more than the annual wages and overtime for commercial crews. In addition,the civil service pension costs were $573,000, or 214 percent, higher than commercial pension costs.

The higher civil service wage and pension costs were offset by higher medical, vacation, and other fringe benefits and personnel support costs for commercial mariners, which resulted in a higher overall cost for commercial operations. Commercial mariner medical costs were $418,000 higher than civil service costs primarily because, according to a union official, commercial mariners have 100 percent of their medical insurance paid for (i.e., they make no contribution directly out of their paychecks). In contrast, civil service mariners pay a part of their medical insurance costs.

Commercial vacation costs were $272,000 higher than civil service costs because, according to a union official, a commercial mariner earns 1 day off for every 3 days at sea, which translates to 1 month off after 3 months at sea. By comparison, a civil service mariner earns a maximum of 26 days

a year off, which is supplemented by an additional 2 days of shore leave for 30 consecutive calendar days at sea.

The commercial costs for fringe benefits and personnel support costs were $790,000 higher than civil service costs. The two major components in the commercial costs were payroll taxes and training. The difference is partially attributable to the fact that the government equivalent to payroll taxes is included in the civil service pension costs. In addition, based on the MSC cost formula, MSC would allocate less money for training.

Merchant Mariner Pool Would Increase

We calculated that the pool of U.S. civil service mariners would increase by about 1,700 merchant mariners if the operation of the multiproduct ships were turned over to MSC (see table 6). MSC established the size of its civil service mariner workforce at a ratio of 1.25 of the shipboard positions to be filled. This crew ratio allows operations to continue while some of the mariners take vacation, undergo training, or are out sick.

Table 6: Increase in Numbers of Civil Service Mariners

Ship class	Number of ships	Crew size per ship	Total crew size per class	Crew ratio	Estimated increase in size of mariners pool
AOE-1	4	173	692	1.25	865
AOE-6	4[a]	165	660	1.25	825
Total	**8**		**1,352**	**1.25**	**1,690**

[a]There are three AOE-6s in service and one to be delivered in early 1998.

Source: Our analysis of data provided by the Navy and MSC.

We calculated that the commercial mariner pool to support shipboard positions would increase by about 2,700 to 3,400 mariners if commercial firms operated the multiproduct ships (see table 7). Each commercial mariner position is established at the ratio of from 2.0 to 2.5 of the shipboard positions. This crew ratio allows operations to continue while some of the mariners take vacation, undergo training, or are out sick.

Table 7: Increase in Numbers of Commercial Mariners

Ship class	Number of ships	Crew size per ship	Total crew size per class	Crew ratio	Estimated increase in size of mariners pool
AOE-1	4	173	692	2.0 to 2.5	1,384 to 1,730
AOE-6	4[a]	165	660	2.0 to 2.5	1,320 to 1,650
Total	**8**		**1,352**	**2.0 to 2.5**	**2,704 to 3,380**

[a]There are three AOE-6s in service and one to be delivered in early 1998.

Source: Our analysis of data provided by commercial unions.

The off duty mariners could be used for the ready reserve fleet in times of conflict.

Recommendation

Given the potential savings that could result if the Navy turned over the operation of the seven active multiproduct auxiliary ships and the one ship due for delivery in early 1998 to MSC for crewing with civil service mariners, we recommend that the Secretary of Defense direct the Secretary of the Navy to devise a detailed plan for turning over, in a timely manner, the operation of the multiproduct auxiliary ships to MSC.

Agency Comments and Our Evaluation

DOD partially concurred with our recommendation to the Secretary of Defense that the Secretary of the Navy devise a plan for turning over the operation of the remaining auxiliary ships to MSC. However, DOD noted that certain operational changes, ship retirements, and other actions affecting the fleet were under consideration and that more study should be done on this matter. Accordingly, DOD suggested that we modify our recommendation to the Secretary of Defense to direct the Navy to continue a cost-benefit analysis based on the Fleet Commanders' concept of operations, crewing alternatives, and conversion costs, including indirect and additional costs. DOD stated that based on this analysis, the Navy would then either retain or turn over the operation of the multiproduct ships to MSC.

We have retained our original recommendation in view of the substantial costs savings that are possible and the fact that our analysis is supported

by three other major studies of this issue since 1990. All of these studies have consistently concluded that substantial savings can be achieved by turning over the operation of these ships to MSC and crewing them with civil service mariners. By developing a plan for a timely transfer of these assets to MSC as our recommendation suggests, the Navy can achieve substantial savings that might then be applied to other defense priorities.

DOD's comments are presented in their entirety in appendix I. DOD also provided technical comments, which we have incorporated where appropriate.

Scope and Methodology

To provide information on the Navy's current and planned efforts to turn over the operation of military crewed auxiliary ships to MSC for civil service and/or commercial crewing, we analyzed data from and interviewed officials in the Office of the Chief of Naval Operations, MSC, the Center for Naval Analyses, commercial ship operating companies, and civilian maritime unions.

To identify the potential cost savings that would be realized by turning over the operation of the Navy's remaining military crewed auxiliary ships to MSC, we compared actual annual operating costs provided by the Navy to estimated annual operating costs provided by MSC for both classes of multiproduct ships. We then projected the savings per ship over the number of ships in each class to arrive at a total annual savings. The offsetting costs to convert the ships to Coast Guard standards were provided by MSC. We did not validate the accuracy of the cost data provided by the Navy or the cost estimates provided by MSC. However, we discussed our analysis of these costs and potential savings with the Office of the Chief of Naval Operations and MSC officials who generally agreed with the cost data used.

To analyze the costs to operate MSC's Kaiser class oiler with civil service crews and with commercial crews, we reviewed data and interviewed officials from the Maritime Administration, MSC, the American Maritime Officers union, the National Maritime Union, the Seafarers International Union, the National Marine Engineers' Beneficial Association District #1, and the International Organization of Masters, Mates, and Pilots. We obtained crew sizes based on the Navy's mission and manning requirements for Kaiser class oilers. We determined the annual labor cost of civil service crews by obtaining actual crewing levels and current wage rates, including overtime, from MSC. We obtained the overtime rate for the

crew (the Master and the Chief Engineer do not receive overtime); vacation and sick leave; compensatory time and training costs; and pension, medical, and miscellaneous costs. To determine the annual labor costs for commercial mariners, we obtained proposed crewing levels and wage rates from two unions that represented all positions on the ship. While discussing issues with us, officials from the other commercial mariner unions declined to provide wage and crewing data.

The Service Contract Act of 1965 (SCA), 41 U.S.C. §§ 351 et seq., generally provides for payment of prevailing wages when operating in U.S. territorial waters as determined by the Department of Labor for service employees under government contracts. Union officials stated that SCA was not applicable to commercial crews when operating outside U.S. territorial waters. Between May 1996 and April 1997, the Kaiser Class oilers operated in U.S. territorial waters 37 percent of the time and, thus, would come under the provisions of SCA during this period.

Because the Kaiser Class oilers have been solely operated by civil service crews, the Department of Labor has not made a wage determination under SCA. To estimate the impact of operating with commercial crews, we used wage and overtime rates provided by two commercial unions for civilian crews, which is the basis for the $4,116,000 figure.

If, on the other hand, commercial crews were paid the MSC rate while operating in U.S. territorial waters, total labor costs would be 5 percent higher than our estimate, assuming they operated as MSC does—about 37 percent of the time in U.S. territorial waters. However, union officials told us that they would probably operate differently, spending less time in U.S. territorial waters. We did not validate the cost data obtained from MSC or the unions.

We conducted our work from April 1996 to July 1997 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretaries of Defense and the Navy; the Chairman of the Senate Committee on Commerce, Science, and Transportation; and other interested congressional committees. Copies will also be made available to others upon request.

Please contact me at (202) 512-5140 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

Mark E. Gebicke

Mark E. Gebicke
Director, Military Operations
and Capabilities Issues

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Abbreviations

DOD	Department of Defense
MSC	Military Sealift Command
SCA	Service Contract Act

Comments From the Department of Defense

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION AND TECHNOLOGY

22 JUL 1997

Mr. Mark E. Gebicke
Director, Military Operations
and Capabilities Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Gebicke:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "NAVY AUXILIARY SHIPS: Turning Over Operations to the Military Sealift Command Could Save Millions," dated June 24, 1997 (GAO Code 703153/OSD Case 1393). The DoD partially concurs with the report and offers further clarification on several issues.

The General Accounting Office (GAO) draft report does not consider the impact of ongoing Navy initiatives and makes a recommendation to turn over the operation of seven active Navy multiproduct auxiliary ships to the Military Sealift Command (MSC) without determining whether such a recommendation meets requirements of the Fleet Commanders, their Concept of Operations (CONOPS) and provides the best cost-benefits to the Navy. For example, a revised instruction on Required Operational Capabilities and Projected Operational Environment (ROC/POE) is now being circulated for comment. Among other changes, the ROC/POE eliminates the requirement for active weapons systems and reduces the number of operating replenishment stations for AOEs to seven during peacetime. These changes which have been directed for execution during FY 1999, reduce the crew of each AOE-1 class vessel by 1 officer and 40 enlisted personnel and each AOE-6 class vessel by 1 officer and 27 enlisted personnel. Another initiative, the implementation of Navy's SMARTSHIP program, could reduce current AOE military crewing and associated costs by as much as another 10-to-15 percent. Another aspect of the Navy study considers CONOPS which eliminate the need to deploy military crewed auxiliary vessels, thereby obviating the benefits of MSC crewing discussed on page 11 of the draft. In this CONOPS, four AOE-6s (or the same number of T-AOE-6s) would be used in local operations along the U.S. coast eliminating long six month deployments while allowing the vessels to be available to surge with Carrier Battle Groups to meet contingency requirements. Finally, the report does not consider the near term retirement of AOE-1 vessels is being done in the Navy study. Each of these initiatives and aspects of the study reduces the cost of military crewing and each needs to be compared with the

remaining life cycle of the multiproduct ships and costs of conversion to Coast Guard standards for civilian crewing to determine the net cost benefit to the Navy. This analysis could very well determine that transfer of the AOE-1s to MSC is not cost effective due to their few remaining years or operation and that transfers of AOE-6s are dependent upon CONOPS following transfer.

Technical corrections were provided directly to the GAO staff for consideration. Detailed comments to the recommendation are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

Roy R. Willis
Principal Deputy Under Secretary
of Defense (Logistics)

Enclosure

GAO DRAFT REPORT -- DATED JUNE 24, 1997
(GAO CODE 703153) OSD CASE 1393

"NAVY AUXILIARY SHIPS: TURNING OVER OPERATIONS TO THE MILITARY SEALIFT COMMAND COULD SAVE MILLIONS"

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATION

Now on p. 11.

RECOMMENDATION: The GAO recommended that the Secretary of Defense direct the Secretary of the Navy to devise a detailed plan for the turn over, in a timely manner, of the operation of the multiproduct auxiliary ships to the Military Sealift Command (MSC). (p. 18/GAO Draft Report)

DoD RESPONSE: Partially concur. Based upon the foregoing technical corrections and clarifications, the GAO draft report should be revised to recommend that Navy continue to conduct a cost benefit analysis based upon CONOPS which consider crewing alternatives, and conversion costs including indirect and additional costs. Based upon this analysis, the Navy will either retain or turn over the AOE-6s to the Military Sealift Command.

Enclosure

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.

Sharon Cekala
Elliott Smith
Frank Bowen
Jay Willer
Charles Perdue
Sharon Sweeney

Los Angeles Field Office

Roderick Moore