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Fact Sheet for Congressional Requesters

December 1987

NAVY CONTRACTING

Status of Plans to Second Source AEGIS Weapon System

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

National Security and
International Affairs Division

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December 21, 1987

The Honorable Bill Bradley
United States Senate

The Honorable Frank R. Lautenberg
United States Senate

Based on your July 23, 1987, request and subsequent discussions with your representatives, we have updated our information on the Navy's plans to establish a second source for the AEGIS weapon system, particularly for performing system integration and testing work.[1]

On August 12, 1987, the Navy informed the Congress that its procurement strategy for the AEGIS weapon system was to establish a competitive second source, using a team approach, for manufacturing major AEGIS weapon system components, but not to compete system engineering, integration and testing, and design. This means that the Radio Corporation of America (RCA) will continue as the sole-source system design agent and production system integrator. The Navy is currently implementing this procurement strategy.

NAVY'S DECISION TO MAINTAIN ONE CONTRACTOR FOR INTEGRATION AND TESTING

The Congress, in House Report 99-718, which accompanied the Fiscal Year 1987 National Defense Authorization Act (Public Law 99-661), directed the Navy to provide information on its AEGIS procurement strategy and an analysis of whether it is cost effective to establish competitive sources. In response to this congressional direction, the Naval Center for Cost Analysis issued a study entitled "AEGIS Weapon System: Analysis of the Competitive Procurement," dated July 2, 1987. The study examined the two primary AEGIS subsystems, fire control and radar, and the conditions under which competitive versus sole-source procurement may lead to monetary savings. According to the Navy, these two subsystems represent about

[1]Navy Contracting: Navy's Plans to Second Source AEGIS Shipyard Integration and Testing (GAO/NSIAD-86-20FS, Dec. 2, 1985)

95 percent of the AEGIS weapon system's total cost. The study did not address the integration and testing functions.

Before performing the cost study, the Navy had planned to compete the procurement of most major hardware components, including system integration and testing, between two contractor teams.[2] However, after further consideration, and for reasons not associated with the outcome of the study, the Navy decided not to compete system engineering, integration and testing, and design. On August 12, 1987, the Secretary of the Navy informed the Congress that the Navy plans to retain RCA as the sole-source system design agent and integrator. According to the Secretary, the cost benefits that might be obtained from second sourcing the integration and testing would be marginal and would be more than offset by the increased costs that could occur if there were delays in delivering the systems to the shipbuilders, which are operating under fixed-price contracts. He added that it is generally not the Navy's policy to require second sourcing if doing so would adversely affect the quality, cost, or schedule of a system, as the second sourcing proposal for AEGIS might have done.

On October 26, 1987, officials in the Office of the Assistant Secretary of the Navy, Shipbuilding and Logistics, advised us that the Navy is implementing the Secretary's decision. They stated that there are no cost analyses or other economic studies supporting the decision to continue acquiring the integration and testing functions on a sole-source basis.

STATUS OF CURRENT AEGIS SECOND-SOURCE STRATEGY

Except for system engineering, integration and testing, and design, the Navy plans to qualify a second industrial team to compete for manufacturing major elements of the AEGIS weapon system. Navy officials advised us in October 1987 that they were in the final stages of implementing this second-source strategy[3] and that all major component selections had been made.

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[2]The two contractor teams are RCA, General Electric, and Raytheon (Team A) and UNISYS and Westinghouse (Team B).

[3]A request for proposal was released by the Naval Sea Systems Command on September 28, 1987, but the strategy being implemented had not yet received final approval by the Assistant Secretary of the Navy for Shipbuilding and Logistics.

According to these officials, component-level competition was successfully introduced by the January and April 1986 contract awards for the AEGIS fire control director and the transmitter qualification units. Subsequent competition for fire control director production units resulted in a split award in January 1987. The Navy plans a similar competition in fiscal year 1988 for transmitter production units.

Concurrently, the Navy is moving forward with its plans for SPY-1D radar competition through a two-team approach. Proposals were received and evaluated, with Team B selected as the source. The Navy is nearing agreement on its general approach with both teams, and it anticipates awarding SPY-1D production contracts to them before the end of this year. If Team B is ready to enter SPY-1D production in fiscal year 1989, the Navy plans to award the SPY-1D contract to this team and move to production competition between Teams A and B following completion of qualification.

CONGRESSIONAL CONCERNS

The House Committee on Armed Services has raised concerns about the completeness of the Navy's July 2, 1987, study and has questioned the Navy about its acquisition strategy. On August 4 and October 16, 1987, the Chairman, House Committee on Armed Services, informed the Assistant Secretary of the Navy, Shipbuilding and Logistics, that the Committee did not believe that the study performed by the Naval Center for Cost Analysis responded adequately to the requirement of House Report 99-718. Specifically, the Chairman expressed concern about the study's failure to provide a complete analysis comparing the costs and benefits of the Navy's proposed team-oriented approach to competition with the existing approach based on competitive selection of second sources for individual components.

Office of the Assistant Secretary of the Navy, Shipbuilding and Logistics, officials told us that they have attempted to respond to the Committee's concerns. On September 4, 1987, and again on November 19, 1987, the Navy responded to the Chairman, clarifying the Navy's second sourcing plans for the AEGIS weapon system. In this correspondence the Navy stated that it is planning to retain the team concept for introducing competition for the SPY-1D transmitter, array and signal processor production and that it plans to continue with a single source for system engineering, integration and testing, and design.

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Information for this fact sheet was developed through discussions with officials in the Office of the Assistant Secretary of the Navy, Shipbuilding and Logistics, and a review of Navy records pertaining to second-source plans for the AEGIS weapon system. We discussed the information in this fact sheet with Navy officials who agreed that it is accurate.

As agreed with your offices, we plan no further distribution of this fact sheet until 10 days after its issue date, unless you publicly announce its contents earlier. At that time, we will make this information available to other interested parties upon request. Should you need additional information, please call me on (202) 275-6504 or Mr. Fred Bigden, Group Director, (703) 557-1480.

John Landicho

John Landicho
Senior Associate Director

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