U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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Congressional Committees

Surface Ships: Status of the Navy's Phased Modernization Plan

In March 2014, as part of the President's Budget for Fiscal Year 2015, the Navy proposed a Phased Modernization Plan that included placing 11 *Ticonderoga*-class cruisers (large surface combatants) and three dock-landing ships (amphibious ships) into a phased modernization and maintenance period to reduce near-term funding requirements and as a means to extend the life of the ships.

House Report 113-446 accompanying the National Defense Authorization Act for Fiscal Year 2015 included a provision for GAO to review the costs, cost savings, benefits, and risks associated with the Navy's Phased Modernization Plan. This report (1) describes the implementation plans the Navy developed for phased modernization and (2) assesses the extent to which the Navy identified and analyzed alternatives for achieving the goals of phased modernization.

In February 2015, as part of the President's Budget for Fiscal Year 2016, the Navy proposed a revised Phased Modernization Plan that significantly altered its original proposal. However, it was not until we completed our review that the Navy provided us with a limited amount of information about their revised phased modernization plans.

We provided a briefing of our preliminary results to the House Armed Services Committee staff in March 2015. This report formally transmits an updated briefing regarding the final results of our work in response to the provision in House Report 113-446 (see the enclosure).

To conduct our work, we evaluated relevant Navy documentation, such as briefing slides and planning documents. We also interviewed Navy headquarters and fleet officials and obtained testimonial evidence regarding the process the Navy followed in developing its Phased Modernization Plan and the alternatives it considered. To the extent that documentation was available, we corroborated the testimonial evidence and discussed any conflicting evidence with Navy officials. For example, we reviewed internal briefing slides and summary papers that Navy officials provided to us. We visited and spoke with experts on cruiser maintenance and modernization at two Navy shipyards in Norfolk, Virginia, and San Diego, California, where the Navy anticipates work will be performed on the ships included in phased modernization. We also interviewed Department of Defense (DOD) and Navy officials, including officials from the Office of the Secretary of Defense, Cost Assessment and Program Evaluation; Office of the Chief of Naval Operations; Naval Sea Systems Command; Fleet Forces Command; and Naval Surface Forces.

We conducted our work from July 2014 to May 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, we found that the Navy's Phased Modernization Plan, introduced in March 2014, would have placed 11 cruisers and three dock-landing ships into a reduced operating status for maintenance and modernization. The cruisers were to be minimally manned while in phased modernization for between 5 and 12 years and then returned to the fleet. In February 2015, however, the Navy proposed a revision to its original Phased Modernization Plan. The revised plan for its cruisers placed limits on the number of ships that would be in phased modernization, and how long they would stay in that status. Specifically, the revised plan stated that each year no more than two cruisers would be placed in phased modernization; no cruiser would remain in phased modernization for more than 4 years; and no more than six cruisers would be in phased modernization at the same time. According to Navy officials, the planning efforts surrounding the dock-landing ships would not significantly differ from normal long-term maintenance planning efforts.

The Navy did not consider any formal alternatives to the original Phased Modernization Plan and revised the plan primarily to respond to congressional concerns that removing cruisers from the fleet would exacerbate existing capacity shortfalls. Navy officials stated that the primary motivation for phased modernization was to delay modernization costs and that the plans have evolved over time. Our analysis found that under the revised plan put forward by the Navy in February 2015, some of the benefits and risks the Navy identified for the original plan may increase while others may decrease. For example, the Navy expected the original plan to sustain the Air Defense Commander platform—which is the role played by cruisers in coordinating air defense for the 11 carrier strike groups—into the 2040s. We expect this benefit to be reduced under the revised plan because cruisers will be in phased modernization for a shorter period, and thus the Navy will not be able to sustain the cruisers into the 2040s as under the original plan. Similarly, the Navy identified having fewer cruisers available for independent operations as a risk of implementing its original Phased Modernization Plan. Given that fewer cruisers will be in phased modernization at one time, we expect that this risk will decrease under the revised plan.

We are not making any recommendations in this report.

Agency Comments and Our Evaluation

We provided a draft of this report to DOD for comment. DOD did not provide formal written comments on this report. The Navy provided technical comments and we incorporated these comments as appropriate.

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We are sending copies of this report to the Secretary of Defense; the Secretary of the Navy; and appropriate congressional committees. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff members have any questions about this report, please contact me at (404) 679-1816 or pendletonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report include Michael Ferren (Assistant Director), Pedro Almoguera, Matthew Jacobs, Sharon Reid, Jillena Roberts, Michael Silver, Amie Steele, Erik Wilkins-McKee, and Michael Willems.

John H. Pendleton
Director
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Enclosure

List of Committees

The Honorable John McCain
Chairman
The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Thad Cochran
Chairman
The Honorable Richard Durbin
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Mac Thornberry
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable Rodney Frelinghuysen
Chairman
The Honorable Pete Visclosky
Ranking Member
Subcommittee on Defense
Committee on Appropriations
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