

September 2004

DEPOT MAINTENANCE

DOD Needs Plan to Ensure Compliance with Public- and Private-Sector Funding Allocation



G A O

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Highlights of [GAO-04-871](#), a report to the Senate and House Committees on Armed Services

Why GAO Did This Study

Under 10 U.S.C. 2466, the military departments and defense agencies can use no more than 50 percent of annual depot maintenance funding for work performed by private-sector contractors. DOD also must submit two reports to the Congress annually on the division of depot maintenance funding between the public and private sectors—one about the percentage of funds spent in the previous 2 fiscal years (prior-years report) and one about the current and 4 succeeding fiscal years (future-years report). As required, GAO reviewed the two DOD reports submitted in early 2004 and is, with this report, submitting its views to the Congress on whether (1) the military services met the so-called “50-50 requirement” for fiscal years 2002-3 and (2) the projections for fiscal years 2004-8 are reasonable estimates. GAO also identified key limitations in the 50-50 process that affect the department’s ability to comply with the 50-50 requirement.

What GAO Recommends

GAO recommends that DOD have a plan to mitigate the potential for exceeding the 50 percent private-sector funding threshold and improve the 50-50 data collection and reporting process so that the 50-50 reports submitted to the Congress are more useful to decision makers. DOD commented on a draft of this report. DOD concurred with the recommendations and cited actions it will take to implement the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-871.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William Solis at (202) 512-8365 or solisw@gao.gov.

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What GAO Found

Recurring weaknesses in DOD’s data gathering, reporting processes, and financial systems prevented GAO from determining with precision if the military services complied with the 50-50 requirement in fiscal years 2002-3. DOD data show all the services to be below the 50 percent funding limit on private-sector work. However, as before, GAO found errors in the data that, if corrected, would overall increase funding of the private sector and move each service closer to the limit on contract maintenance. For example, for fiscal year 2003, the Navy did not include about \$410 million in private-sector maintenance work on aircraft carriers and surface ships. Correcting for these and other errors would increase the Navy’s percentage of private-sector depot maintenance funds for that year from the 44.5 percent reported to 47.9 percent. DOD reported significant increases in depot maintenance funding from 2002 to 2003, but these did not result in significant increases in the amount of work performed in DOD depots during that period.

Because some data errors and omissions in DOD’s prior-years report are carried into future years, and changing depot maintenance requirements and fluctuations in budget estimates make projecting out-year data difficult, the future-years report does not represent reasonable estimates of public- and private- sector maintenance funding for fiscal years 2004-8, thereby limiting its usefulness to congressional and DOD decision makers. GAO recommended last year that the Congress consider amending 10 U.S.C. 2466 to require only one report that would cover 50-50 data for the prior year, current year, and budget year. In 2004 the Armed Services Committees proposed changes in title 10 that would adopt GAO’s recommendation. Despite the limitations in the 50-50 data, the trend for this period shows that the services are moving close to the 50 percent threshold, yet they have no plan of action in place to prevent exceeding it. Such a plan would allow for timely actions to be taken to mitigate the potential for exceeding the 50 percent limit for private-sector funding.

Several limitations in the 50-50 process affect the quality of DOD’s 50-50 reporting. First, three of the four military services did not have an independent review and validation of their 50-50 data. Second, training for those who are responsible for collecting, aggregating, and reporting 50-50 data was limited and sporadic. Third, management emphasis regarding the need for accurate and complete 50-50 reporting was lacking.

DOD’s Reported Fiscal Year 2003 50-50 Data and GAO’s Adjustments in Percents

Service	Public work reported	Public work adjusted	Private work reported	Private work adjusted
Army	56.0	57.2	36.9	42.7
Navy/Marine Corps	54.7	51.3	44.5	47.9
Air Force	52.0	51.6	47.7	48.2

Sources: DOD (data); GAO (analysis).

Notes: Totals will not equal 100 percent because of rounding and legislatively excluded public-private partnerships.

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Abbreviations

DOD	Department of Defense
GAO	Government Accountability Office
OSD	Office of the Secretary of Defense

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United States Government Accountability Office
Washington, DC 20548

September 29, 2004

The Honorable John W. Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Duncan Hunter
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

Under 10 U.S.C. 2466, not more than 50 percent of annual depot maintenance funding provided to the military departments and defense agencies can be used for work accomplished by private-sector contractors. Section 2466 also directs the Department of Defense (DOD) to submit two annual reports to the Congress on the distribution of depot maintenance funding between the public and private sectors. The first report is to identify the percentage of funds expended by each military department and defense agency during the preceding 2 fiscal years for the performance of depot maintenance workloads by the public and private sectors (known as the “prior-years report”). The second report is to project the same information for the current and 4 succeeding fiscal years (known as the “future-years report”). For 2004, DOD issued the prior-years report on February 17, 2004, and the future-years report on April 6, 2004.

Section 2466 also requires us to submit our views to the Congress on whether DOD complied with the so-called “50-50 requirement” in the prior-years report and whether the projections in the future-years report are reasonable. Accordingly, this report discusses whether (1) the military departments met the 50-50 requirement for fiscal years 2002 and 2003 and (2) the projections for fiscal years 2004 through 2008 represent reasonable estimates. As part of our work, we also identified limitations in the 50-50 process that affect the quality of DOD’s reporting.

To accomplish these objectives, we analyzed the reported 50-50 data and each service’s procedures and internal management controls for

collecting, aggregating, and validating depot maintenance information for responding to the section 2466 requirements. We limited our analysis of future-years data because initial audit efforts identified significant recurring problem areas, similar to those found in prior audits, which are not likely to change. While DOD's data cannot be relied on to provide a precise measure of the funding between the public and private sectors, the data, along with our adjustments, provide a rough approximation of the allocations and some trends that may be useful to the Congress in exercising its oversight role and to DOD officials in managing the depot maintenance program. We conducted our review from February 2004 to July 2004 in accordance with generally accepted government auditing standards. (See app. II for the details of our scope and methodology.)

Results in Brief

Recurring weaknesses in DOD's data gathering, reporting processes, and financial systems prevented us from determining with precision whether the services were in compliance with the 50-50 requirement for fiscal years 2002 and 2003. DOD's data as submitted to the Congress show that the military departments were below the 50 percent funding limitation on private-sector work. However, as in past years, we found significant errors and omissions in the data, which, if corrected, would overall increase the percentages of funding going to the private sector and move each department closer to the limit on private-sector funding. For example, in its data for fiscal year 2003, the Navy, including the Marine Corps, reported private-sector maintenance funding at 44.5 percent, but our adjustments for errors moved the private-sector funding to 47.9 percent. Identified weaknesses indicate that the data in the prior-years report cannot be relied on to provide a precise measure of the balance of funding between the public and private sectors for the military departments. At best, DOD's reported data—even with our adjustments—provide only rough approximations of the past public-private funding allocations, with some indications of trends that may be useful information to the Congress in exercising its oversight role and to DOD officials in managing the depot maintenance program. We also observed that, even with a substantial increase in depot maintenance funding for fiscal year 2003, workload at the military departments' public depots did not significantly increase. For example, our analysis of the increased funding from fiscal year 2002 to fiscal year 2003 showed that 81 percent of the \$710.6 million increase in funding for the Army went to its public depots, but the depots' workload increased by only 6.3 percent. Navy and Air Force public depots had a similar trend.

Because some data errors and omissions in DOD's prior-years report are carried into future years and because of the difficulty in projecting out-year data because of factors such as changing depot maintenance requirements and fluctuations in budget estimates, the future-years report does not represent reasonable estimates of public- and private-sector depot maintenance funding allocations for fiscal years 2004 through 2008. These factors limit the usefulness of the future-years report to congressional and DOD decision makers. We have reported these shortcomings with the future-years report in the past, and the problems continue to occur. While limitations affect the usefulness of the future-years report as a predictor of actual funding allocations, the current future-years report shows that the Navy and the Air Force are predicting more funding for the public sector and less for the private sector. Errors and omissions could change this trend, as both services are close to the threshold for private-sector funding. For example, while the Navy projects that its funding for fiscal year 2004 for the private sector will be at 49 percent, the affect of the adjustments we made to the Navy's fiscal year 2003 data, when carried forward along with not reporting its supplemental funding for 2004, could cause the Navy to reach the limitation on 50-50. The Air Force has in prior years required a waiver of the 50 percent limitation under 10 U.S.C. 2466, and Navy officials are aware of the potential to exceed the limit for fiscal year 2004. Additionally, increasing contractor maintenance operations supporting the Army in Iraq could result in the Army's exceeding the 50 percent threshold. The extent of the percentage adjustments we find each year would indicate that DOD cannot afford to wait until the services reach the 50 percent limit before formulating a plan to avoid exceeding the threshold for private-sector funding. Because of the limitations of the future-years report, the Congress has proposed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 amending section 2466(d) to require only one annual report from DOD containing the percentage of funds expended during the preceding fiscal year and projected to be expended for the current and next fiscal years. This action would not affect the need for DOD and the services to have a plan to mitigate the potential of exceeding the 50 percent limit for private-sector funding as the military departments approach the threshold.

DOD's improvements in 50-50 guidance and operating processes have not improved significantly in recent years, and several limitations in the 50-50 process continue to affect the quality of DOD's 50-50 reporting. First, three of the four military services did not have an independent review and validation of their 50-50 data. Second, training for those who are responsible for collecting, aggregating, and reporting 50-50 data was

limited and sporadic. Third, management's emphasis regarding the need for accurate and complete 50-50 reporting was lacking.

We are making recommendations to DOD for improving the 50-50 data gathering and reporting process (1) so that the 50-50 reports submitted to the Congress are more useful to decision makers and (2) to help ensure continued compliance with 10 U.S.C. 2466. In written comments on a draft of this report, DOD concurred with our recommendations and cited actions the department will take. The department's comments are included in appendix III.

Background

In addition to the 50-50 requirement in 10 U.S.C. 2466, two other title 10 provisions directly affect the reporting of workload allocations to the public and private sectors.

- Section 2460 defines depot maintenance to encompass material maintenance or repair requiring the overhauling, upgrading, or rebuilding of parts, assemblies, or subassemblies and the testing and reclamation of equipment, regardless of the source of funds or where maintenance or repair is performed. Depot maintenance also encompasses software maintenance, interim contractor support,¹ and contractor logistics support² to the extent that work performed in these categories is for depot maintenance. The statute excludes from depot maintenance the nuclear refueling of an aircraft carrier; the procurement of major modifications or upgrades of weapon systems that are designed to improve program performance; and the procurement of parts for safety modifications, although the term does include the installation of parts for safety modifications.
- Section 2474 directs DOD to designate public depots as Centers of Industrial and Technical Excellence and to improve their operations to serve as recognized leaders in their core competencies.³ Section 342 of the

¹ Interim contractor support is designed to be an interim support arrangement in which a contractor provides depot maintenance (and sometimes other logistics support) as part of the acquisition strategy for new systems.

² Contractor logistics support is designed to be a lifetime support concept in which a contractor provides most or all elements of logistics support, including depot maintenance.

³ Core competencies are depot-level maintenance capabilities to be retained in public depots to meet DOD's strategic and contingency plans and for which the military departments believe that DOD should be a recognized leader in the national technology and industrial base.

National Defense Authorization Act for Fiscal Year 2002 (Pub. L. No. 107-107, Dec. 28, 2001) amended this statute to exclude qualifying public-private partnerships⁴ from the 50 percent funding limitation on contracting in section 2466. Section 342 provides that the funds expended for the performance of depot-level maintenance by nonfederal government personnel located at the centers shall not be counted when applying the 50 percent limitation if the personnel are provided pursuant to a public-private partnership. This exclusion initially applied to depot maintenance funding for fiscal years 2002 through 2005. Section 334 of the National Defense Authorization Act for Fiscal Year 2003 (Pub. L. No. 107-314, Dec. 2, 2002) extended this period to include all contracts entered into through fiscal year 2006. Proposed legislation (S. 2400, section 333, as reported by the Senate) would, if adopted, extend the period for the exclusion of the reporting of this contractor work through 2009.

The Office of the Secretary of Defense (OSD) has issued guidance to the military departments for reporting public-private workload allocations. The guidance is consistent with the definition of “depot-level maintenance and repair” in 10 U.S.C. 2460.⁵ The military departments have also issued internal instructions to manage the data collection and reporting process, tailored to their individual organizations and operating environments.

Pursuant to the congressional mandate regarding the DOD 50-50 requirement, this is the 7th year that we have reported on the prior-year numbers and the 5th year reporting on the future-year numbers.⁶ In past years, we have reported on continuing data errors and inconsistencies in

⁴ DOD guidance defines a “public-private partnership” for depot maintenance as an agreement between a public-sector depot maintenance activity and one or more private-industry or other entities to perform work or utilize facilities and equipment. Such an arrangement includes the use of public facilities, equipment, and employees to perform work for the private sector under certain defined circumstances; private-sector use of public-sector equipment and facilities to perform work for the public sector; and work-sharing agreements using both public- and private-sector facilities and/or employees.

⁵ Because of the difficulty of segregating installation costs for safety modifications from costs for installing other modifications (e.g., for improved performance), OSD’s guidance specifies that all modification installation costs be reported when an installation is considered to be a depot-level service.

⁶ For the two most recent reports, see GAO, *Depot Maintenance: DOD’s 50-50 Reporting Should Be Streamlined*, [GAO-03-1023](#) (Washington, D.C.: Sept. 15, 2003) and GAO, *Depot Maintenance: Change in Reporting Practices and Requirements Could Enhance Congressional Oversight*, [GAO-03-16](#) (Washington, D.C.: Oct. 18, 2002). Other related GAO products are listed at the end of this report.

reporting by the military departments and problems in documenting and independently validating 50-50 data.

Summary of Data in DOD's Most Recent 50-50 Reports

Table 1 provides a consolidated summary of DOD's 2004 prior-years and future-years reports to the Congress on public- and private-sector funding allocations for depot maintenance. The amounts shown are DOD's record of actual obligations incurred for depot maintenance work in fiscal years 2002 and 2003 and projected obligations for fiscal years 2004-8 based on the defense budget and service funding baselines.⁷ The percentages show the department's record of the relative allocations between the public and private sectors and the exempted workloads. Adding the public, private, and private-exempted percentages together provides a total picture of DOD's depot maintenance funding. Also, adding the private and private-exempted percentages shows what the private-sector amount would have been reported as, absent the recent legislation to exempt qualified partnership workload.

⁷ Although 10 U.S.C. 2466 specifies the reporting of funds expended in prior years and projected to be expended in future years, DOD's past and current 50-50 reports are based on obligation data. A DOD official explained that obligation data are considered to be more appropriate because of the statutory requirement to report funds made available in a given fiscal year and because expenditure data may not be completely recognized in the accounting records for a year or more following the funds' obligation.

Table 1: DOD's Reported Depot Maintenance Funding Allocations

Dollars in millions

Military department	Prior fiscal years		Future fiscal years				
	2002	2003	2004	2005	2006	2007	2008
Army							
Public	\$1,357	\$1,932	\$2,354	\$2,402	\$2,467	\$2,495	\$2,196
	49.6%	56.0%	53.6%	57.0%	54.9%	56.6%	56.9%
Private	\$1,304	\$1,273	\$1,919	\$1,691	\$1,912	\$1,803	\$1,574
	47.6%	36.9%	43.7%	40.1%	42.5%	40.9%	40.8%
Private exempt ^a	\$76	\$243	\$117	\$124	\$114	\$112	\$91
	2.8%	7.1%	2.7%	2.9%	2.5%	2.5%	2.4%
Total	\$2,737	\$3,448	\$4,390	\$4,217	\$4,493	\$4,410	\$3,861
Navy/Marine Corps							
Public	\$5,258	\$6,235	\$4,560	\$4,845	\$4,842	\$5,471	\$4,813
	54.2%	54.7%	50.5%	51.3%	53.2%	57.1%	56.5%
Private	\$4,206	\$5,080	\$4,434	\$4,560	\$4,235	\$4,067	\$3,664
	43.4%	44.5%	49.1%	48.3%	46.5%	42.5%	43.0%
Private exempt ^a	\$236	\$91	\$34	\$32	\$33	\$35	\$37
	2.4%	0.8%	0.4%	0.3%	0.4%	0.4%	0.4%
Total	\$9,700	\$11,406	\$9,028	\$9,437	\$9,109	\$9,572	\$8,514
Air Force							
Public	\$4,482	\$5,004	\$5,607	\$5,744	\$5,906	\$6,040	\$6,164
	54.0%	52.0%	54.9%	56.2%	56.6%	55.3%	54.5%
Private	\$3,779	\$4,583	\$4,593	\$4,458	\$4,509	\$4,860	\$5,131
	45.5%	47.7%	45.0%	43.6%	43.2%	44.5%	45.3%
Private exempt ^a	\$38	\$27	\$14	\$20	\$24	\$25	\$25
	0.5%	0.3%	0.1%	0.2%	0.2%	0.2%	0.2%
Total	\$8,299	\$9,614	\$10,213	\$10,222	\$10,438	\$10,925	\$11,320

Source: DOD.

^aThe provision in 10 U.S.C. 2474 to exempt qualified public-private partnerships from the 50 percent funding limitation began with the 2002 reporting year and is now continued for all contracts entered into through fiscal year 2006. DOD interpreted this to mean that exemptions should also be reported for fiscal years 2007 and 2008 for contracts initiated in fiscal years 2002 through 2006.

Limitations on Use of 50-50 Data As Reported by DOD

DOD's 50-50 data with GAO's adjustments provide a rough approximation of the allocation of depot maintenance funding between the public and private sectors. In this regard, it is useful information to the Congress in exercising its oversight role and to DOD officials in managing the depot maintenance program. However, our prior reports have recognized the limitations of DOD's financial systems, operations, and controls. Our audits of DOD's financial management operations have routinely identified pervasive weaknesses in financial systems, operations, and internal controls that impede the department's ability to provide useful, reliable, and timely financial information for day-to-day management and decision making. In the financial management systems area, DOD continues to struggle in its efforts to implement systems to support managerial decision making. As we have reported, DOD can ill afford to invest in systems that are not capable of providing DOD management with more accurate, timely, and reliable information on the results of the department's business operations.⁸

To date, none of the military services have passed the test of an independent financial audit. A continuing inability to capture and report the full cost of its programs represents one of the most significant impediments facing DOD. Nonetheless, the data used to develop the 50-50 report are the only data available and are accepted and used for DOD's decision making and for congressional oversight.

Recurring Weaknesses in Data Preclude Determinations of Compliance in Prior-Years Report with Precision

Recurring weaknesses in DOD's data gathering, reporting processes, and financial systems prevented us from determining with precision whether the services were in compliance with the 50-50 reporting requirement for fiscal years 2002 and 2003. DOD's prior-years report for fiscal years 2002 and 2003 as submitted to the Congress in February 2004 shows the Departments of the Army, Navy, and Air Force to be below the 50 percent funding limitation on private-sector workloads for both years. The net effects of correcting for the errors and omissions we identified would increase the percentages of workload going to the private sector and move each department closer to the contract limit. Appendix I shows the amounts and effects of our adjustments to the reported data submitted by the military departments for fiscal year 2003 and provides a description of the major deficiencies we found.

⁸ See GAO, *Department of Defense: Status of Financial Management Weaknesses and Progress toward Reform*, [GAO-03-931T](#) (Washington, D.C.: June 25, 2003).

Our analysis of DOD's reported depot maintenance funding for 2003 when compared with the previous year revealed interesting information about the mix of funding and workload. While there were significant increases in depot maintenance funding for each of the services over this period, this large funding increase did not result in significant increases in the amount of work performed in the military depots, as discussed in each of our discussions of the services' data.

Army Reported Private-Sector Funding below 50 Percent Limit

Although the Army reported that its private-sector funding was below the 50 percent limit for both fiscal years 2002 and 2003, as in prior years, we continued to find errors, omissions, and inconsistencies in the Army's data.⁹ On the basis of the specific errors we identified, these errors would add about \$408 million in total to the Army's public- and private-sector workloads in fiscal year 2003; the net effect of correcting for these errors would add 5.8 percent to the private-sector percentage allocation in fiscal year 2003. (See table 2 in app. I.)

For the prior-years report, the Army underreported funds received for depot maintenance in the supplemental appropriations for fiscal year 2003. Also, the Army continued to underreport public- and private-sector depot-level maintenance work at field locations, as it continued unfinished efforts to consolidate maintenance activities and better control the proliferation of depot-level tasks at nondepot locations. A unit from the European Command, deployed to support the war in Iraq, did not report any 50-50 data. Staff turnover continued at the reporting commands, and unfamiliarity with the 50-50 requirements contributed to increased errors. For example, the errors we found in the Training and Doctrine Command's 50-50 data were directly related to a staff change in late 2003 after the Command's longtime reporting official retired and was replaced with a new person who was unfamiliar with 50-50 reporting requirements.

Increase in Depot Maintenance Funding Did Not Result in Large Increase in Work at Army Depots

While there was an over \$700 million increase in depot maintenance funding in the Army from fiscal year 2002 to fiscal year 2003, this increase did not translate into a significant increase in the amount of work performed in Army depots.

⁹ [GAO-03-16](#).

The Army's data for fiscal year 2003 showed an increase of \$710.6 million over the amount of funding reported for fiscal year 2002. About 81 percent of this funding increase was reported as going to the Army depots, suggesting that the depots might have received a substantial workload increase. Our analysis of direct labor hours executed at the depots, including overtime, during fiscal years 2002 and 2003 showed only a 6.3 percent increase. The price charged for depot maintenance work increased 7.4 percent. Army depot managers told us that the primary factors increasing the depots' work were the Army's recapitalization program and support for the war in Iraq. However, as one Army depot manager pointed out, the supplemental appropriation for fiscal year 2003 was received too late in the year to have a significant affect on the depots' workload during that year. The additional funding late in 2003 allowed the depots to order parts for work that would be done during 2004. Army depot managers also said that factors such as increased costs for material and depot revenues that exceeded budget plans in prior years affected the price charged for depot maintenance.

Navy Reported Private-Sector Funding below 50 Percent Limit

Although the Navy (including the Marine Corps) reported that its private-sector funding was below the 50 percent limit for both fiscal years, we found errors in the Navy's and Marine Corps' data, and we found that the total dollar amount of errors affected the data for the private sector more than the public sector. Correcting for the errors we found increased the percentage share in fiscal year 2003 for the private sector from 44.5 percent to 47.9 percent—a gain of 3.4 percent. (See table 3 in app. I.)

We evaluated the Navy's and Marine Corps' data separately, since these services have different processes. For the Navy, we identified several problems that carried over from prior years' 50-50 efforts. The Navy did not report any depot maintenance work accomplished along with the nuclear refueling of its aircraft carriers, citing the exclusion of nuclear refueling from the 10 U.S.C. 2460 definition of "depot maintenance." We continue to believe that depot repairs not directly associated with refueling tasks should be reported because these kinds of repair actions are reported by other organizations and funding for these tasks is identifiable in contracts and financial systems. The Navy also continues to inconsistently report inactivation activities that involve the servicing and preservation of systems and equipment before they are placed in storage or in an inactive status. Officials report public-sector funding for inactivation activities on nuclear ships but do not report such work on nonnuclear ships, saying that the workload for the former is complex while the workload for the latter is not. However, we believe all such

depot-level work should be counted, since the statute and implementing guidance do not make a distinction based on complexity. These two examples would add about \$410 million to the private-sector funding in fiscal year 2003.

We also determined that about \$179 million of intermediate maintenance workloads was incorrectly added to the public sector and that data for both the public and private sectors contained errors in reporting along with the underreporting of workloads.

For the Navy only, correcting for the errors we found increased the private-sector percentage share in fiscal year 2003 from 45.8 percent to 49.1 percent—a gain of 3.3 percent.

Compared with the other services, the Marine Corps has a small depot program, but its reporting errors are relatively higher. For example, as in prior years, our review of the Marine Corps' 2003 data found that it understated the private-sector total for fiscal year 2003 by about \$35 million—about 50 percent. We also identified other errors, including about a \$6.7 million overstatement of the private sector when a reporting official incorrectly included obligations from fiscal year 2002 in the total for fiscal year 2003. A key contributor to this high error rate is the piecemeal reporting process that the Marine Corps follows at its command responsible for acquiring and upgrading Marine Corps weapon systems, whereas this year, weapon systems managers submitted more than 150 individual responses. Marine Corps officials responsible for the 50-50 report said that, as a major component of the Marine Corps' funding for the private sector, a consolidated report from this command would enhance its oversight of the 50-50 reporting process and help eliminate some of the errors and omissions in the Marine Corps' 50-50 data. Staff turnover at the command's focal point for the 50-50 process also continues to be an issue affecting the reporting of the 50-50 data. For example, in each of the past 3 years, the focal point has changed and, at the time of our review, another change was scheduled for next year.

Increase in Maintenance Funding Did Not Create Significant New Work in 2003 for Navy and Marine Corps Depots

The Navy's data for fiscal year 2003 showed an increase of \$1.6 billion over the amount of funding reported for fiscal year 2002. About 52 percent of this funding increase was reported as going to Navy aviation depots and shipyards and other government activities. As with the Army, this funding increase suggests that the Navy's depot maintenance activities might have received a substantial workload increase. Our analysis of direct labor hours executed at the aviation depots, including overtime, during fiscal

years 2002 and 2003 showed an increase of 4 percent. The price charged for depot maintenance work increased 9 percent. For the four Navy shipyards combined, direct labor hours decreased 2 percent, while prices for depot maintenance work increased from 5 to 9 percent at three of the four shipyards. Comparable pricing data for the Pearl Harbor shipyard were not readily available. Navy aviation depot managers told us that most of the increase in direct labor hours was due to increased demand for the production of components, mandatory-completion-date aircraft, and mission-critical engines in support of the Global War on Terrorism. The primary factors increasing the depots' price for maintenance work included the recoupment of prior years' losses caused primarily by increased costs of material. Navy shipyard managers said that a number of factors can affect direct labor hours such as the differences in the number of ship availabilities for the fiscal years and changes in the amount of work that is done on the available ships. They also said that the increased contract work at the shipyards was the primary factor for the increased price for depot maintenance work.

For fiscal year 2003, the Marine Corps reported an increase in funding of about \$150 million for the public sector and a corresponding decrease in funding of about \$22.7 million for the private sector. In analyzing the change in direct labor hours executed by its two maintenance depots during fiscal years 2002 and 2003, we observed that total hours decreased by about 0.7 percent, while the price for maintenance work increased by about 11 percent. The Marine Corps' depot managers said that the decrease in labor hours resulted from a combination of problems in obtaining some materials needed to produce the work and receiving the supplemental appropriation too late in the year to start up additional work. Also, they said that the price increase was due largely to the declining workload and increased costs of materials.

Air Force Reported Private-Sector Funding below 50 Percent Limit

The Air Force reported that its private-sector funding was below the 50 percent limit for fiscal years 2002 and 2003. While we identified errors in the amounts reported for programs supported by contractor logistics support contracts and in the amount of private work exempted, the errors were smaller than those for the other services. In total, the net effect of the errors we found would increase the private-sector percentage share in fiscal year 2003 from 47.7 percent to 48.2 percent—a gain of 0.5 percent. (See table 4 in app. I.)

The errors we found in this year's assessment resulted from a disconnect between the reporting centers and the Air Force's 50-50 coordinator in

transposing reported data from an old automated database to a new one for compiling the final report. Also, as with past reviews, the Air Force continues to adjust its reporting for contract administration and oversight costs. The adjustment increases the reported funding for the public-sector funding and decreases the funding for the private sector. The total adjustment was \$44 million for fiscal year 2003. Consistent with the 50-50 guidance, which states that costs should be associated with the end product (i.e., the repaired item), we think these costs should instead be treated as contracting expenses. Accordingly, we reversed this adjustment in our analysis.

Depot Maintenance Funding Increase Resulted in Little Additional Work for Air Force Depots

The Air Force reported a funding increase of \$1.3 billion from fiscal year 2002 to fiscal year 2003. About 40 percent of this funding increase went to Air Force depots, but the number of direct labor hours executed at the depots, including overtime, during fiscal years 2002 and 2003 increased only about 0.5 percent. At the same time, the prices charged for depot maintenance work increased 14 percent. An Air Force official told us that supplemental funds received in July 2003 were used to pay for costs already incurred, not for new work. We reported recently that the price of depot maintenance work performed in Air Force depots increased by 98 percent from fiscal year 2000 to fiscal year 2004. We also reported that the increased cost of material accounted for about 67 percent of the total cost increase.¹⁰

Future-Year Projections Do Not Provide Reasonable Estimates of Public- and Private-Sector Funding

As in the past, DOD's latest future-years report does not provide reasonable estimates of public- and private-sector depot maintenance funding allocations for fiscal years 2004 through 2008 because the future-year projections were based on (1) incorrect data and questionable assumptions and (2) internal and external factors, which create fluctuations in reported data. As a result, the future-years report provides limited usefulness to the Congress or to DOD decision makers. Despite these limitations, our analysis shows that the Navy and Air Force are moving closer to the threshold for private-sector funding and increased contractor maintenance to support ongoing combat operations and that reconstitution efforts in the Army could cause the Army to exceed the threshold. A plan to identify actions that would be taken to avoid

¹⁰ See GAO, *Air Force Depot Maintenance: Improved Pricing and Cost Reduction Practices Needed*, [GAO-04-498](#) (Washington, D.C.: June 17, 2004).

breaching the 50-50 threshold for private-sector funding would help the military departments better manage their compliance with the 50-50 requirement. The Congress is considering amending the 50-50 legislation to require a single report that would include data for years for which data are more reliable and potential affects more immediate.

Projections Based on Incorrect Data and Questionable Assumptions

For this year's future-years report, the projections are based, in part, on incorrect data and questionable assumptions regarding future plans for depot support. The net effect of the problems we found generally increases the percentage of funding for projected private-sector work. Some of the same problems identified in the data for prior-years were continued in the future-years projections. For example, the Army did not include the \$1.2 billion for its supplemental appropriation for depot maintenance in fiscal year 2004 and could not explain why projected funding for the National Guard dropped for fiscal year 2008 to about \$20 million while steadily increasing from \$315 million for fiscal year 2005 to \$371 million for fiscal year 2007. Similarly, in its respective projections, the Navy continued not to report depot maintenance accomplished with, but not directly related to, nuclear refueling and the Marine Corps' adjustments to its future-year projections were based on "best guess" estimates with no supporting documentation. As we have reported in the past, the services tend to place less emphasis and priority on collecting and validating the future-years data compared with their efforts with the prior-years data.

Internal and External Factors Can Create Fluctuations in Reported Data

Besides errors in reporting, other internal and external factors can create fluctuations with reported data, which in turn can provide a distorted and misleading view to outside observers about efforts to remain compliant with the 50-50 requirement. For example, in the current future-years report, the Air Force's projected public-sector work financed through the working capital fund is about \$1.2 billion higher for fiscal year 2008 than the amount reported for fiscal year 2003—about a 23 percent increase. For the same time period, projections are that funding for the private sector would increase about \$547.5 million, for an increase of only 11.9 percent. Although this would appear to indicate a shifting of work to the public depots, an Air Force official responsible for the future-years report said that, in reality, the increased projections for the public sector were due to price increases for depot maintenance work affected primarily by the increased costs for materials.

Errors and Omissions in Future-Years Report Limit Its Usefulness

The uncertainty and instability of budget estimates combined with the errors and omissions we found result in a future-years report that is not very reasonable or useful to congressional and DOD decision makers, particularly, the further that the estimates are in the future. The future-years estimates are not reasonable because they represent budget and planning data that change over time, incorporate the same errors found in prior-years data, and also have other problems. The budget and planning data used to project the share of depot maintenance work to be performed in the public and private sectors in the future are estimates. At best, they provide only rough estimates of future funding allocations, and these estimates change over time. While we have identified these shortcomings in the past, the problems continue and show no signs of improving.

Services Moving Closer to Threshold for Private-Sector Funding

While the reported data have limitations that affect their usefulness as a predictor of actual funding allocations, our analysis of DOD's 50-50 data for fiscal years 2004-8 shows that the services are predicting that they would not reach the threshold for private-sector funding. However, for each year that we have reviewed the services' 50-50 data, our adjustments to the data have moved the military departments closer to the 50 percent limitation than had been reported.¹¹

This year, with our adjustments to their 50-50 data for fiscal year 2003, the Navy's, including the Marine Corps', and the Air Force's funding for the private sector was about 48 percent for fiscal year 2003. Both services' future-years projections are for a steady decrease in funding for the private sector with a general increase in funding for the public sector. But changes, errors, or omissions could change this trend. For instance, the Navy, including the Marine Corps, is projecting that its fiscal year 2004 funding for the private sector will be at 49 percent, but its projection does not consider the affect of the adjustments we made to the Navy's data for fiscal year 2003, or \$493 million in supplemental funds that were not included in the Navy's fiscal year 2004 projection. These errors, when carried forward, plus the unrecognized supplemental funding would cause the Navy to reach the 50-50 limitation. The Air Force has in prior years exceeded the 50 percent threshold for private-sector funding, and Navy officials are aware of the potential to exceed the threshold for fiscal year

¹¹ Except that for 2 years, the Air Force reported that it exceeded the 50 percent limit and obtained a waiver, as permitted by 10 U.S.C. 2466.

2004.¹² Reported future-year data for the Army show the Army with adequate headroom. Although the Army believes it will not exceed statutory limitations over the next few years, increased contractor depot maintenance operations on U.S. military bases, in contractor plants, and overseas bases to support ongoing Army military operations as well as reconstitution activities could cause the Army to exceed statutory limits in the future. Looking back, since 1998—the first year we reported on DOD’s 50-50 data—our adjustments to DOD’s 50-50 data have consistently shown that the amount of private-sector funding has been underreported by the services.

To help monitor compliance with the 50-50 requirement, the Air Force has a process to track and manage its depot maintenance workload distribution. As the Air Force found in exceeding the 50 percent threshold, the amount of work going to public depots cannot be easily increased by a significant amount in a short amount of time. Thus, since it exceeded the threshold in 2000 and 2001, the Air Force has used a buffer of 2 percent prior to reaching the 50 percent limitation as a point where it would begin identifying actions that are needed to influence maintenance sourcing decisions to help ensure continued compliance. According to the Air Force’s 50-50 coordinator, 2 percent represents a buffer of about \$160 million and allows sufficient time to make maintenance sourcing decisions to move workloads or assign new workloads appropriately to support continued compliance. An OSD representative responsible for the 50-50 guidance agreed that 2 percent appears to be a practicable point to trigger action from the services to avoid exceeding the 50 percent threshold.

With regard to having a point that the services would use to identify actions to help them remain compliant, OSD does not require the services to formally establish a plan of action or to notify OSD of the specific actions and decisions that they would undertake to remain compliant with the 50 percent threshold for private-sector funding. Thus, OSD has no formal means for (1) knowing whether the services have recognized the need to develop plans to remain compliant with the 50 percent limitation on private-sector funding or (2) encouraging the services to take timely actions to avoid being noncompliant. The issue of having the services undertake timely planning and prompt actions to avoid being

¹² The Air Force reported itself as exceeding the 50 percent limit in fiscal years 2000 and 2001, and a notice of waiver was duly issued to the Congress.

noncompliant becomes even more essential, considering that our analyses historically have generally shown that the services underreported the percentage of private-sector funding—indicating that the services are closer to the threshold than they have been reporting.

Proposed Legislation Would Require a Single Report

Because of the limitations of the future-years report as an accurate predictor of depot maintenance funding allocation, we recommended last year that the Congress consider amending 10 U.S.C. 2466 to require only one 50-50 report.¹³ The single report would cover a 3-year period (prior year, current year, and budget year), for which data are more reliable and the potential affects more immediate. In the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, the Congress has proposed amending section 2466(d) to require only one annual report from DOD containing the percentage of funds expended during the preceding fiscal year and projected to be expended for the current and next fiscal years.¹⁴ Both the House and Senate versions of the 2005 Defense Authorization Bill contain versions of this proposal. The adoption of a variation of this proposal would not affect DOD's and the services' need for planning to mitigate the potential of exceeding the 50 percent threshold for private-sector funding.

Several Key Limitations Affect the Quality of DOD's 50-50 Reporting

DOD's improvements in 50-50 guidance and operating processes have not advanced significantly in recent years, and key limitations remain in the 50-50 process that affect the quality of DOD's 50-50 reporting. First, three of the four military services did not have an independent review and validation of their 50-50 data prior to submission to the Office of the Secretary of Defense, while the fourth had only a limited review. Second, training for those who are responsible for collecting and aggregating 50-50 data was limited and sporadic. Third, management emphasis regarding the need for accurate and complete reporting was lacking.

¹³ [GAO-03-1023](#).

¹⁴ S. 2400, section 331 and H.R. 4200, section 321.

Lack of Independent Review and Validation of 50-50 Data Contributes to Data Quality Problems

Without independent review and validation, DOD's 50-50 quality problems continue. As we noted in our 50-50 report for 2003, the overall quality of DOD's reporting in terms of accuracy and completeness has not improved significantly in recent years.¹⁵ We recommended that, to further enhance data verification and validation, the Secretary of Defense require the Secretaries of the military departments to direct the use of service audit agencies, or an agreed-upon alternate method, for third-party review and validation of 50-50 data and to ensure that auditor-identified errors in the data are rectified before reports are submitted to the Congress. While DOD's 50-50 guidance for this year's 50-50 reports directed the military departments to implement this recommendation, only the Navy took action for an independent review and validation of its 50-50 data.

As we previously reported, we believe that independent review and validation of the 50-50 data could help the military departments improve their 50-50 reporting. For example, service audit agencies' involvement typically identified and corrected substantial errors in the data before the 50-50 reports went to the Congress. However, this year the Air Force Audit Agency and the Army Audit Agency did not participate. Although the Naval Audit Service suspended its 50-50 audit because of higher-priority work, its work resulted in changes to the 50-50 data submitted to the Congress. For example, in January 2004 the Naval Audit Service identified over \$90 million in errors and inconsistencies in the prior-year 50-50 data for selected activities at three major Navy commands, resulting in changes to the reported data. Clearly independent review and validation helps the military services improve the quality and completeness of the 50-50 data that are reported to the Congress. The Air Force's audit service has opted out of the 50-50 review process, citing recent changes to government auditing standards regarding auditor independence when performing both audit and nonaudit management assistance services for the same client.¹⁶ The Army Audit Agency said it was not asked to review the Army's 2003 50-50 data. An Army Audit Agency official said that the agency reviewed the Army's 50-50 data from 1998 to 2002, and there were open recommendations from those audits that had not been implemented at the time the Army's 2003 50-50 data were developed.

¹⁵ [GAO-03-1023](#).

¹⁶ See revised standards in GAO, *Government Auditing Standards: 2003 Revision*, [GAO-03-673G](#) (Washington, D.C.: June 1, 2003).

As we have noted, we recognize that recent changes in government auditing standards have been made to better address and specify independence issues arising when an audit organization undertakes both audit and nonaudit services for the same client. Nonetheless, the new auditing standards do not preclude auditors from verifying the accuracy of data; providing other technical assistance for the 50-50 process; and accomplishing other audits of the depot maintenance process, programs, and activities. Improved planning, management involvement, and documentation of roles and responsibilities may be required, but a process can be developed to ensure that independence will not be compromised. This has already been done so that the services' audit agencies can perform similar functions—evaluating validity and consistency of data as they are being developed for subsequent decision making—in support of the base realignment and closure process.

Inadequate Staff Training Contributes to Errors and Inconsistencies in 50-50 Data

During our review of the 50-50 reporting process, we observed that staff training on 50-50 data gathering and reporting was limited and sporadic. While three of the four military services provided some training, not all staff responsible for 50-50 reporting had received this training.

We reported last year that, to ensure consistent and complete reporting, the Secretary of Defense should require the Secretaries of the military departments to ensure that 50-50 reporting guidance is appropriately disseminated to reporting organizations and individuals and that staff are properly and promptly trained in the application of the guidance.¹⁷ DOD's 50-50 guidance for this year's 50-50 reports directed the military departments to implement this recommendation.

During our review of the 50-50 reporting process for this year, we observed that, for the most part, reporting commands did receive the guidance and that training was made available to staff with responsibility for identifying and reporting 50-50 data. However, as previously discussed, the services continue to experience turnover of personnel who have responsibilities for developing and reporting 50-50 data, and new staff were not always familiar with the data gathering and reporting requirements. Examples follow:

¹⁷ [GAO-03-1023](#).

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- Army officials conduct an annual workshop on 50-50 requirements for its reporting commands. However, at one command we visited, the reporting official had not attended the workshop because she was assigned reporting responsibility in October 2003—2 months after the annual workshop had been conducted. She pointed out that her predecessor had retired shortly after attending the workshop and she received very little training for her 50-50 data gathering and reporting requirements.
 - Navy officials do not provide training conferences or workshops on procedural requirements for the Navy's guidance to develop and report the 50-50 data. Primarily, reporting command coordinators are expected to provide guidance on the requirements as they arise from the reporting activities. During our review, we observed that several program offices did not report 50-50 data accurately because reporting requirements were not clearly understood and no inquiries were made to the reporting command coordinators for clarification.
 - Marine Corps officials facilitated a 1-day training conference in August 2003 and January 2004 on the procedural requirements for its 2003 guidance to develop and report the 50-50 data. We found that, while the number of reports regarding depot support increased, confusion still existed regarding what should be reported. For instance, funds sent to another service for depot maintenance support were not being reported in accordance with OSD's 50-50 guidance because personnel responsible for reporting thought the service receiving the funds should be the reporting entity. The new 50-50 focal point for one reporting command said that the August 2003 training might not have filtered down to the logisticians and program managers who had direct responsibility for data development and reporting and that he requested another session. He pointed out that the January 2004 session was beneficial but was not timely, as the command's reporting date for the 50-50 data was in January 2004.
 - Air Force officials hold annual conferences primarily for the 50-50 points of contact at each center to learn from the previous reporting cycle and to prepare for the next. These conferences are held at different centers each year. However, not all personnel responsible for reporting 50-50 data at the program level are able to attend the conference because of a lack of travel funds. Also, in discussing training needs at one program office we visited, personnel said that they were not aware of the annual conference and that training would be very helpful in understanding the 50-50 reporting requirements.

Lack of Management Emphasis Contributes to an Inaccurate, Incomplete 50-50 Reporting Process

Management's emphasis at all levels in DOD is not sufficient to ensure that the data are as complete and accurate as they can be. Our review identified examples where management's emphasis on the 50-50 reporting process was inadequate to promote accurate and complete reporting, including the following:

- Army officials who compiled the Army's private work exemption for the 2003 prior-years report did not question the amount reported even though the amount for 2003 varied from the amount reported in 2002 by more than 200 percent. In examining the supporting documentation, we found that the correct amount for the exemption was \$5.8 million—not the \$243.2 million that was reported—an error that possibly would have been corrected with an emphasis on questioning significant variances from 1 year to the next. An Army official told us that there is no management emphasis for questioning data sources or amounts being reported.
- Navy officials rely primarily on command reporting coordinators to review the program offices' data for accuracy. In conducting our review, we found that, in some cases, the coordinators made inquiries to determine whether the program offices understood the 50-50 reporting requirements, depending on whether the data were suspect. In other instances, the coordinators either answered questions as they arose from the program offices or, if no questions were asked, accepted the 50-50 data without further review. For instance, Navy officials generally accepted funds from performance-based logistics contracts without determining whether all the funds were used for depot-level maintenance. We found that some services provided by these types of contracts were not for depot-level maintenance, such as shipping, storage, and transportation, and should have been excluded from the Navy's 50-50 data.
- Marine Corps officials responsible for compiling and submitting the final report performed no examination to test the completeness or accuracy of the reported data. In examining the final report along with the supporting documentation, we observed a number of mechanical errors, such as simple mathematical or transposition mistakes that probably would have been corrected if management emphasized such an examination prior to final submission to OSD.
- Air Force officials at reporting centers responsible for data gathering and reporting and at headquarters responsible for submitting the final report did no testing of the 50-50 data beyond that done by the Air Force's 50-50 coordinator's examination for accuracy and completeness. Our review showed that the errors we found might have been corrected if

management had required a review of the data for completeness and accuracy before the final report was submitted to OSD.

Conclusions

As the military departments are moving closer to the 50 percent threshold for depot maintenance funding performed by the private sector, special emphasis is required for DOD and the services to undertake timely planning and prompt action to help them remain compliant. The Air Force's determination that special emphasis on depot maintenance sourcing decisions is required whenever projections show that the Air Force is within 2 percent of the 50 percent threshold for private sector funding is a step in the right direction. Timely planning is necessary for DOD and the services to take prompt actions such as identifying appropriate workloads to be shifted to military depots and acquiring the capability to perform them as a measure to prevent exceeding the 50 percent limit of 10 U.S.C. 2466. We believe that a 2 percent buffer is a reasonable point to raise a flag of caution whenever the services are approaching the 50 percent threshold and to initiate plans that would help DOD and the services avoid exceeding the threshold. Furthermore, as part of any initiative to have the services better manage their distribution of depot maintenance funding, we believe that the Office of the Secretary of Defense should be fully aware of the services' potential to exceed the threshold of 10 U.S.C. 2466 and be aware of the actions and decisions that are being planned to mitigate this potential. A plan from each service whenever it is within 2 percent of the 50 percent threshold would help OSD monitor compliance and encourage the services to take prompt actions to reduce the potential for exceeding the threshold.

Continuing errors and omissions in the data for both the prior- and future-years reports indicate that some level of error will always occur in DOD's 50-50 data. Although our adjustments improved the quality of the 50-50 data, our review did not identify all the errors and omissions in DOD's data. While recognizing this limitation, the data can be useful to the Congress and DOD in overseeing and managing the DOD depot maintenance system. Enhanced data verification and validation are possible through the use of third-party review and validation before the reports are submitted to the Congress. The services' audit agencies, that have done the services' third-party review and validation in the past, or an agreed upon alternate could be used for this purpose.

Limited and sporadic training for those responsible for collecting, aggregating, and reporting 50-50 data and the lack of management attention regarding the need for accurate and complete reporting present

continued challenges to the services in their ability to make significant improvements to their collection, documentation, and reporting processes. Unless all staff members are promptly and properly trained on the 50-50 requirements, systems, and processes and management's attention is focused on the reporting process, the 50-50 reports generated by the services will continue to have incomplete and inaccurate data.

Compared with the other services, the Marine Corps has a small depot program, yet its reporting errors are relatively higher. A key contributor to this high error rate is the piecemeal reporting process the Marine Corps follows at its command responsible for acquiring and upgrading weapon systems. Preparing a consolidated report from this command would help the Marine Corps eliminate some of the errors and omissions in its 50-50 data.

Recommendations for Executive Action

We recommend that the Secretary of Defense take the following four actions:

- Direct the Secretaries of the military departments, within 30 days of reporting 50-50 data indicating that past, current, or budget year data are within 2 percent of exceeding the 50 percent threshold, to submit a plan to the Office of the Secretary of Defense that identifies actions the military department shall take to ensure continued compliance, including the identification of decisions on candidate maintenance workload sourcing that could be made to support remaining within the 50 percent threshold.
- Require the Secretaries of the military departments to direct the use of the services' audit agencies or an agreed-upon alternate method for third-party review and validation of 50-50 data and to ensure that auditor-identified errors in the data are corrected before the data are sent to the Congress.
- Direct the Secretaries of the military departments to emphasize that individuals and staff receive proper and prompt training for 50-50 data gathering and reporting and that management at all levels afford the 50-50 process the level of attention necessary to produce an accurate and complete 50-50 report.
- Direct the Commandant of the Marine Corps to require the Marine Corps' command responsible for weapon systems management to compile a consolidated report on its depot maintenance funding allocation between the public and private sectors.

Agency Comments and Our Evaluation

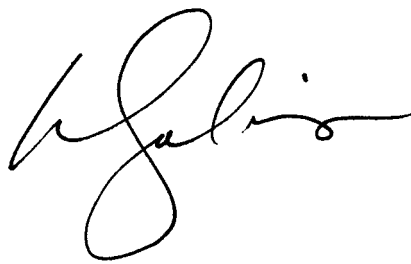
The Deputy Under Secretary of Defense for Logistics and Materiel Readiness provided written comments to a draft of this report. DOD generally concurred with our recommendations and cited corrective actions it plans to take. The department concurred in part with our first recommendation and fully concurred with the other three.

Regarding its partial concurrence with our recommendation that would require the military departments, within 30 days of reporting 50-50 data within 2 percent of exceeding the 50 percent threshold, to submit a plan to the Office of the Secretary of Defense identifying actions the military departments shall take to ensure continued compliance with the 50-50 reporting requirements, DOD agreed that the 2 percent threshold is a reasonable trigger point for additional oversight and management to ensure compliance with the 50 percent threshold. According to the DOD response, these measures are appropriately applied to current and budget year reporting, but not to past year data, and the department will implement the recommendation for current and budget year data. While we recognize that past year data cannot be changed by any initiatives undertaken as a result of reporting, the past year data can be an indicator of the future unless actions are taken to change future workload assignments. The past year data reflect the only actual 50-50 reporting results, with projections used for both the current and budget year data. We have had significant problems with 50-50 projections in the past. It is conceivable that the past year data would indicate that a military department is over the threshold in the prior year while the current and budget year projections indicate that the military department is below the threshold. Under this circumstance, it would appear reasonable to initiate actions to make appropriate workload assignments that could help the military department remain within the threshold for the current and budget years. Thus, we continue to believe that the past, current, and budget year data should be used as a trigger point to initiate additional oversight and management.

DOD's written comments are reprinted in appendix III.

We are sending copies of this report to appropriate congressional committees; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have questions regarding this report, please contact me at (202) 512-8365 or Solisw@gao.gov or Julia Denman, Assistant Director, at (202) 512-4290 or denmanj@gao.gov. Other major contributors to this report were Vijaykumar Barnabas, Thomas Barger, Larry Junek, Robert Malpass, Andy Marek, Renee McElveen, Enemencio Sanchez, John Strong, Pamela Valentine, and Bobby Worrell.

A handwritten signature in black ink, appearing to read 'W. Solis', with a large, stylized initial 'W' and a long, sweeping underline.

William M. Solis
Director, Defense Capabilities
and Management

Appendix I: GAO Adjustments for Errors, Omissions, and Inconsistencies in Military Departments' 50-50 Data for Fiscal Year 2003

Our review of the data supporting the Department of Defense's (DOD) prior-years report identified errors, omissions, and inconsistencies that, if corrected, would revise the total workloads and increase the private-sector allocations for each of the military departments. Brief descriptions of the larger and more extensive problems we found follow the adjusted tables (2-4).

Department of the Army

Our review of data for fiscal year 2003 reported by the Army and our review of supporting documentation for selected activities identified errors, omissions, and inconsistencies that, if corrected, would result in greater adjustments in the public- and private-sector percentages reported to the Congress, as shown in table 2.

Table 2: GAO's Changes to the Army's FY 2003 50-50 Data

Dollars in millions		
Category	Allocation	Percent
Public work reported	\$1,932.1	56.0%
Net adjustments	136.5	
Public work adjusted	\$2,068.6	57.2%
Private work reported	1,272.7	36.9%
Net adjustments	271.7	
Private work adjusted	\$1,544.4	42.7%
Private work exempted	243.2	7.1%
Net adjustments	(237.4)	
Exempted private work adjusted	\$5.8	0.2%

Sources: DOD (data); GAO (analysis).

Note: Numbers in parentheses are negative. See limitation on data's reliability, page 31.

Errors we found included the following examples:

- Unreported depot-level work by the Soldier, Biological and Chemical Command; FOX vehicle program office; and Aviation and Missile Command.
- Overreported depot-level work by the Training and Doctrine Command.
- Reporting contract depot-level work as private work by National Guard Bureau Aviation Classification Repair Activity Depots.

- Incorrect exemption for private work by the Aviation and Missile Command.

No data were available to quantify errors for the following:

- Unreported depot-level work associated with the Army's ongoing efforts to consolidate maintenance activities and craft a national maintenance program. Our prior 50-50 reports have documented recurring problems and shortcomings in accurately and consistently reporting depot maintenance accomplished by both public- and private-sector sources at nondepot locations.
- Unreported depot-level work for a deployed unit from the European V Corps.
- Unreported depot-level work from the Forces Command due to problems with the Command's data collection systems and units that were deployed.
- Unreported special repair work by nondepot locations following an organization's request and approval to do this work.

Department of the Navy

Our review of fiscal year 2003 data reported by the Navy and Marine Corps and our review of supporting documentation for selected activities identified errors, omissions, and inconsistencies that, if corrected, would result in significant adjustments in the public- and private-sector percentages reported to the Congress, as shown table 3.

Table 3: GAO's Changes to the Navy's and Marine Corps' FY 2003 50-50 Data

Dollars in millions		
Category	Allocation	Percent
Public work reported	\$6,234.7	54.7%
Net adjustments	(252.6)	
Public work adjusted	\$5,982.1	51.3%
Private work reported	5,079.6	44.5%
Net adjustments	513.6	
Private work adjusted	\$5,593.2	47.9%
Private work exempted	91.3	0.8%

Sources: DOD (data); GAO (analysis).

Note: Numbers in parentheses are negative. See limitation on data reliability, page 31.

Errors we found included the following examples:

- Unreported depot work on nuclear aircraft carriers. As reported last year, Navy officials cite the definition in 10 U.S.C. 2460, which excludes from depot maintenance the nuclear refueling of aircraft carriers, in justifying why they do not report any of the depot work accomplished at the same time as refueling. We believe that depot work that is reportable elsewhere and separate from the refueling tasks should be reported.
- Inconsistent reporting of ship inactivations, which include depot tasks for servicing and preserving equipment before it is placed in storage or in an inactive status. Navy officials report for 50-50 purposes the nuclear ship inactivation work performed in the public sector but do not report surface ship inactivation work performed by the private sector.
- Underreporting of depot-level work for the installation of modifications to shipboard equipment, for repair of components and systems for the T-45 aircraft, and the F-100 engine.
- Reporting intermediate-level maintenance as depot-level maintenance.
- Underreporting of maintenance work by the command responsible for acquiring and upgrading Marine Corps weapon systems. The failure to report this work has several causes, including the misunderstanding of what should be reported and inadequate management and oversight of the collection process to identify and resolve reporting deficiencies.
- Other errors included (1) work subcontracted by the public shipyards to the private sector reported as public-sector work and (2) misreporting by the Marine Corps of work obligated in fiscal year 2002 rather than fiscal year 2003.

Department of the Air Force

Our review of fiscal year 2003 data reported by the Air Force and of supporting documentation for selected activities identified errors, omissions, and inconsistencies that, if corrected, would result in significant adjustments in the public- and private-sector percentages reported to the Congress, as shown in table 4.

Table 4: GAO's Changes to the Air Force's FY 2003 50-50 Data

Dollars in millions		
Category	Allocation	Percent
Public work reported	\$5,003.8	52.0%
Net adjustments	(40.9)	
Public work adjusted	\$4,962.9	51.6%
Private work reported	4,583.3	47.7%
Net adjustments	53.3	
Private work adjusted	\$4,636.6	48.2%
Private work exempted	26.6	0.3%
Net adjustments	(3.5)	
Exempted private work adjusted	\$23.1	0.2%

Sources: DOD (data); GAO (analysis).

Note: Numbers in parentheses are negative. See limitation on data's reliability, page 31.

Errors we found included the following examples:

- As in past years, Air Force officials continue to adjust the 50-50 data for the salaries and overhead expenses of government employees administering depot maintenance contracts funded through the working capital fund. Officials subtract these amounts from the reported private-sector amount—where they are accounted for within the working capital fund—and add them to the public-sector funding for 50-50 reporting. Consistent with the 50-50 guidance that states that costs should be associated with the end product, we think these costs should be treated as contracting expenses.
- Underreporting depot-level work for contractor logistics support.
- Errors in reporting exempted private work.

Appendix II: Scope and Methodology

To determine whether the military departments met the 50-50 requirement in the prior-years report, we analyzed each service's procedures and internal management controls for collecting and reporting depot maintenance information for the purpose of responding to the 10 U.S.C. 2466 requirement. We reviewed supporting details (summary records, accounting reports, budget submissions, and contract documents) at departmental headquarters, major commands, selected maintenance activities, and reporting centers. We compared processes to determine consistency and compliance with legislative provisions, Office of the Secretary of Defense (OSD) guidance, and military service instructions. We selected certain programs, reporting centers, and maintenance activities for a more-detailed review.¹ We particularly examined reporting categories that Department of Defense (DOD) personnel and we had identified as problem areas in current and past reviews. These areas included interserviced workloads,² contractor logistics support, warranties, software maintenance, and depot maintenance at nondepot locations. We evaluated processes for collecting and aggregating data to ensure accurate and complete reporting and to identify errors, omissions, and inconsistencies.

To determine whether the future-year projections were based on accurate data, valid assumptions, and existing plans and represented reasonable estimates, we followed the same general approach and methodology we used to review the prior-years report. Although the future-years report is a budget-based projection of obligations, the definitions, guidance, organization, and processes used to report future-years data are much the same as those for the prior-years report of actual obligations. We discussed with DOD officials the main differences between the two processes and the manner in which the data were derived from budgets and planning requirements and key assumptions made in the out-year data.

For reviews of both 50-50 reports, we performed certain checks and tests, including variance analyses, to judge the consistency of this information with data from prior years and with the future-years budgeting and

¹ We selected the programs reviewed on the basis of size and importance and any previously identified areas of concern. Given the nature of our sample, the results are not projectible to the universe of depot maintenance activities. We also did not audit the integrity of the Department of Defense's financial systems and accounting data used to prepare the 50-50 reports.

² "Interserviced" workload is maintenance that one military service performs on equipment owned and funded by another service.

programming data used in DOD's budget submissions and reports to the Congress. For example, we compared each service's 50-50 data reported in February and April 2004 for fiscal years 2002 through 2008 with data reported for these same years in the 50-50 reports submitted in fiscal year 2003. We found repeated and significant changes, even though the estimates were prepared only about 1 year apart. We used this analysis to further discuss with officials and analyze reasons for changes in reported data and percentage allocations between the 2003 and 2004 reports submitted to the Congress.

Our work has shown that DOD's 50-50 data cannot be relied upon as a precise measure of the allocation of depot maintenance funds between the public and private sectors. However, the mandate in 10 U.S.C. 2466 requires (1) DOD to report the data, which are the only data available and accepted and used for DOD decision making and for congressional oversight, and (2) GAO to submit its views to the Congress on whether DOD has complied with the 50-50 requirement. While DOD's data cannot be relied on to provide a precise measure of the funding between the public and private sectors, the data, along with our adjustments, provide a rough approximation of the allocations and some trends that may be useful to the Congress in exercising its oversight role and to DOD officials in managing the depot maintenance program. Several factors concerning the validity and completeness of data were considered in our methodology and approach to reviewing the prior- and future-years reports. One key factor is the continuing deficiencies we have noted in DOD's financial systems and reports that preclude a clean opinion on its financial statements and that result in limited accuracy of budget and cost information. Another factor is that documenting depot maintenance workload allocations between the public and private sectors is becoming more complicated by the consolidation of maintenance activities and the performance of depot-level maintenance at field locations. These complicating factors (1) make it more difficult to identify work that meets the statutory definition of "depot maintenance," (2) complicate workload reporting, and (3) result in the underreporting of depot maintenance for both the public and private sectors. In addition, changes in business philosophy and approach can make analysis more difficult. For example, many new contracts are performance-based and may not discretely identify maintenance activities or account separately for their costs. This can result in the under- and overreporting of depot maintenance work performed in the private sector. It also forces more reliance on the contractor for providing information needed in 50-50 reporting and may result in DOD's officials using more assumptions and estimating methodologies in lieu of contract data. Finally, given all the limitations to

DOD's data and the time frame for our review, our analysis cannot be relied on to identify all the errors, inconsistencies, and omissions in DOD's data.

As part of our efforts to identify areas for improvement, we reviewed DOD's efforts to improve the accuracy and completeness of reports. We discussed with officials managing and coordinating the reporting process their efforts to address known problem areas and respond to recommendations by the audit agencies and us. We compared this year's sets of instructions with last year's to identify changes and additions. We reviewed efforts to identify reporting sources and to distribute guidance and taskings to develop and report the 50-50 data. We asked primary data collectors to provide their opinions on how well efforts were managed and data verified and to identify "pain points" and ideas they had to improve reporting. We reviewed prior recommendations to determine whether known problem areas were being addressed and resolved. We applied this knowledge to identify additional areas for improving the reporting process and management controls.

We interviewed officials, examined documents, and obtained data at OSD, Army, Navy, Marine Corps, and Air Force headquarters in the Washington, D.C., area; Army Materiel Command in Alexandria, Virginia; Naval Sea Systems Command in Washington, D.C.; Naval Air Systems Command in Patuxent River, Maryland; Naval Inventory Control Point in Philadelphia, Pennsylvania; Atlantic Fleet Command in Norfolk, Virginia; Pacific Fleet Command in Honolulu, Hawaii; Marine Corps Systems Command in Quantico, Virginia; Marine Corps Logistics Command in Albany, Georgia; Air Force Materiel Command in Dayton, Ohio; Naval Audit Service in Crystal City, Virginia; several public depots managed by the military departments' materiel commands; and selected operating bases. We conducted our review from February through July 2004 in accordance with generally accepted government auditing standards.

Appendix III: Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

10 SEP 2004

Mr. William M. Solis
Director, Defense Capabilities and Management
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Solis:

This is the Department of Defense (DoD) response to the GAO draft report, GAO 04-871, "DEPOT MAINTENANCE: DoD Needs Plan to Ensure Compliance with Public- and Private-Sector Funding Allocation," dated August 17, 2004 (GAO Code 350537).

The Department concurs in part with the recommendation 1 and concurs with recommendation 2, 3 and 4. Detailed comments on the GAO recommendations and report are enclosed.

Sincerely,


Bradley Berkson
Principal Assistant

Enclosure:
As stated



GAO-04-871/GAO CODE 350537
“DEPOT MAINTENANCE: DOD NEEDS PLAN TO ENSURE
COMPLIANCE WITH PUBLIC-AND PRIVATE-SECTOR
FUNDING ALLOCATION”

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Secretaries of the Military Departments, within 30 days of reporting 50-50 data indicating that the past, current or budget year data is within two percent of exceeding the 50-percent threshold, to submit a plan to the Office of the Secretary of Defense that identifies actions the Military Department shall take to ensure continued compliance, including the identification of candidate maintenance workload sourcing decisions that could be made to support remaining within the 50 percent threshold. (Page 23/Draft Report)

DoD RESPONSE: Concur in part. The Department agrees the two percent threshold is a reasonable trigger point for additional oversight and management to ensure compliance with the 50 percent limitation on contracting. These measures are appropriately applied to current and budget year reporting, but not to past year data. The Department will implement this recommendation for current and budget year data.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense require the Secretaries of the Military Departments to direct the use of the Services’ audit agencies, or an agreed-upon alternative method, for third-party review and validation of 50-50 data and to ensure that auditor-identified errors in the data are corrected before the data are sent to the Congress. (Page 23/Draft Report)

DoD RESPONSE: Concur. In our implementing guidance for the fiscal year 2003 data call, the Department directed the military departments to use Service audit agencies, or an agreed upon alternate method, for third-party review and validation of data. Citing either higher priority requirements or recent changes to government auditing standards regarding auditor independence, this guidance was not followed. The Department continues to agree that third-party review is beneficial and intends to direct implementation of this recommendation for the next report.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct the Secretaries of the Military Departments to emphasize that individuals and staff receive proper and prompt training for 50-50 data gathering and reporting and that management at all levels afford the 50-50 process the level of attention necessary to produce an accurate and complete 50-50 report. (Page 23/Draft Report)

DoD RESPONSE: Concur. The Department will incorporate this recommendation in our implementing guidance for the next report.

Note: Page numbers in the draft report may differ from those in this report.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense direct the Commandant of the Marine Corps' to require the Marine Corps' command responsible for weapon systems management to compile a consolidated report on its depot maintenance funding allocation between the public and private sectors. (Page 23/Draft Report)

DoD RESPONSE: Concur. The Department agrees that consolidation of reporting within the Marine Corps command responsible for weapon system acquisition prior to release to Headquarters Marine Corps will enhance accountability and reduce errors and omissions in 50-50 data within that command.

Related GAO Products

Depot Maintenance: Army Needs Plan to Implement Depot Maintenance Report's Recommendations. [GAO-04-220](#). Washington, D.C.: January 8, 2004.

Depot Maintenance: DOD's 50-50 Reporting Should Be Streamlined. [GAO-03-1023](#). Washington, D.C.: September 15, 2003.

Depot Maintenance: Key Unresolved Issues Affect the Army Depot System's Viability. [GAO-03-682](#). Washington, D.C.: July 7, 2003.

Department of Defense: Status of Financial Management Weaknesses and Progress toward Reform. [GAO-03-931T](#). Washington, D.C.: June 25, 2003.

Depot Maintenance: Change in Reporting Practices and Requirements Could Enhance Congressional Oversight. [GAO-03-16](#). Washington D.C.: October 18, 2002.

Depot Maintenance: Management Attention Needed to Further Improve Workload Allocation Data. [GAO-02-95](#). Washington, D.C.: November 9, 2001.

Defense Logistics: Actions Needed to Overcome Capability Gaps in the Public Depot System. [GAO-02-105](#). Washington, D.C.: October 12, 2001.

Defense Maintenance: Sustaining Readiness Support Capabilities Requires a Comprehensive Plan. [GAO-01-533T](#). Washington, D.C.: March 23, 2001.

Depot Maintenance: Key Financial Issues for Consolidations at Pearl Harbor and Elsewhere Are Still Unresolved. [GAO-01-19](#). Washington, D.C.: January 22, 2001.

Depot Maintenance: Action Needed to Avoid Exceeding Threshold on Contract Workloads. [GAO/NSIAD-00-193](#). Washington, D.C.: August 24, 2000.

Depot Maintenance: Air Force Waiver to 10 U.S.C. 2466. [GAO/NSIAD-00-152R](#). Washington, D.C.: May 22, 2000.

Depot Maintenance: Air Force Faces Challenges in Managing to 50-50 Threshold. [GAO/T-NSIAD-00-112](#). Washington, D.C.: March 3, 2000.

Depot Maintenance: Future Year Estimates of Public and Private Workloads Are Likely to Change. [GAO/NSIAD-00-69](#). Washington, D.C.: March 1, 2000.

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Depot Maintenance: Status of the Navy's Pearl Harbor Project. [GAO/NSIAD-99-199](#). Washington, D.C.: September 10, 1999.

Depot Maintenance: Workload Allocation Reporting Improved, but Lingering Problems Remain. [GAO/NSIAD-99-154](#). Washington, D.C.: July 13, 1999.

Navy Ship Maintenance: Allocation of Ship Maintenance Work in the Norfolk, Virginia, Area. [GAO/NSIAD-99-54](#). Washington, D.C.: February 24, 1999.

Defense Depot Maintenance: Public and Private Sector Workload Distribution Reporting Can Be Further Improved. [GAO/NSIAD-98-175](#). Washington, D.C.: July 23, 1998.

Defense Depot Maintenance: DOD Shifting More Workload for New Weapon Systems to the Private Sector. [GAO/NSIAD-98-8](#). Washington, D.C.: March 31, 1998.

Defense Depot Maintenance: Information on Public and Private Sector Workload Allocations. [GAO/NSIAD-98-41](#). Washington, D.C.: January 20, 1998.

Defense Depot Maintenance: Uncertainties and Challenges DOD Faces in Restructuring Its Depot Maintenance Program. [GAO/T-NSIAD-97-112](#). Washington, D.C.: May 1, 1997. Also [GAO/T-NSIAD-97-111](#). Washington, D.C.: March 18, 1997.

Defense Depot Maintenance: More Comprehensive and Consistent Workload Data Needed for Decisionmakers. [GAO/NSIAD-96-166](#). Washington, D.C.: May 21, 1996.

Defense Depot Maintenance: DOD's Policy Report Leaves Future Role of Depot System Uncertain. [GAO/NSIAD-96-165](#). Washington, D.C.: May 21, 1996.

Related GAO Products

Defense Depot Maintenance: Privatization and the Debate over the Public-Private Mix. [GAO/T-NSIAD-96-148](#). Washington, D.C.: April 17, 1996. Also [GAO/T-NSIAD-96-146](#). Washington, D.C.: April 16, 1996.

Depot Maintenance: Issues in Allocating Workload between the Public and Private Sectors. [GAO/T-NSIAD-94-161](#). Washington, D.C.: April 12, 1994.

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