United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Defense, Committee on Appropriations, House of Representatives

October 2002

DEFENSE INVENTORY

Better Reporting on Spare Parts Spending Will Enhance Congressional Oversight

G A O

Accountability * Integrity * Reliability

GAO-03-18

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Abbreviations

DOD	Department of Defense
GAO	General Accounting Office

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

October 24, 2002

The Honorable Jerry Lewis
Chairman
Subcommittee on Defense
Committee on Appropriations
House of Representatives

This is the first in a series of reports that respond to your January 31, 2002, request that we identify ways to improve the Department of Defense's (DOD) availability of high-quality spare parts for aircraft, ships, vehicles, and weapons systems. It follows up on our June 2001 recommendation that the Secretary of Defense routinely provide Congress with reliable and timely spare parts information as an integral part of DOD's operations and maintenance budget submission.[1] In concurring with the recommendation, DOD stated that it would revise its financial management regulation and begin routinely providing Congress with detailed spare and repair parts funding information in a report entitled *Exhibit OP-31*, *Spares and Repair Parts* as part of the President's annual budget submission. As agreed with your office, this report specifically addresses the accuracy and completeness of DOD's June 2001 and February 2002 reports to Congress on the services' programmed and actual spending of operations and maintenance funds for spare parts to support active forces.[2] Also as agreed, it does not address spending for spare parts from other sources, such as procurement appropriations and working capital funds.[3]

To accomplish this review, we interviewed DOD and service officials responsible for providing the funding data for their June 2001 and February 2002 oversight reports and assessed the adequacy of the data supporting these reports. We also visited the logistics commands and a major operating command for each service to ascertain the funding data

[1] See U.S. General Accounting Office, *Defense Inventory: Information on the Use of Spare Parts Funding Is Lacking*, GAO-01-472 (Washington, D.C.: June 11, 2001).

[2] For the purpose of this report, "spending" means an administrative "obligation" of appropriated funds to purchase spare parts, rather than the expenditure of funds to purchase spare parts.

[3] A working capital fund is a revolving fund. Revolving funds create permanent authorization for a program to be financed, in whole or in part, through the use of its collections to carry out future operations, such as to finance inventories of supplies and other stores or to provide working capital for industrial-type activities.

available at that level. We did not attempt to validate the accuracy of the commands' funding data.

Results in Brief

The Department of Defense's recent reports do not provide an accurate and complete picture of spare parts funding as required by financial management regulation. As a result, the reports do not provide Congress with reasonable assurance about the amount of funds being spent on spare parts. Furthermore, the reports are of limited use to Congress as it makes decisions on how best to spend resources to reduce spare parts shortages and improve military readiness. The reports' related guidance states that the services are to provide programmed and actual funding data for all spare parts in total and for such specific commodities as ships, aircraft engines, and combat vehicles. However, the reports did not always contain actual data. Instead of citing actual amounts of annual operations and maintenance appropriations spent for spare parts for the past fiscal year, all of the Army's amounts and most of the services' commodity amounts were estimates. The Department presented these estimates, which were derived from various service computations, modeling, and historical data, because the services do not have a reliable system to account for and track the needed information on their actual spending by commodity. According to comptroller officials in the Office of the Secretary of Defense, these estimates are all they have access to, given the absence of a comprehensive financial management system that reports accurate cost accounting information. The officials said that developing better estimates would be expensive and potentially difficult, factors that should be considered in deciding whether the current information, although not accurate, is acceptable. Our work shows, however, that, while unaudited, detailed information on spending is routinely available at the major commands.[4] In addition to not citing available data on actual spending, the services' reports were not complete. Two of the services omitted information on the supplemental operations and maintenance appropriations, two services did not include information on the quantities of spare parts purchased, and none of them explained the deviations between programmed and actual spending. According to service officials, the reporting deficiencies resulted from either the absence of clear departmental guidance or uncertainties about how to comply with the guidance that was available.

[4] We did not verify the accuracy of the data at the major commands.

Given the importance of accurate and complete information on spare parts funding, we are recommending that the Secretary of Defense (1) improve the guidance for preparing its Exhibit OP-31 reports to ensure that the services provide actual and complete data on spare parts spending and (2) require the services to fully comply with the Secretary's reporting guidance.

The Department of Defense partially concurred with our recommendations. Its primary concern was that our first recommendation focused exclusively on the adequacy of the Department's reporting on operations and maintenance spending for spare parts without emphasizing the funds being spent on spare parts from all sources, such as working capital and investment accounts. Regarding the second recommendation, the Department also did not believe that reporting information on the quantities of spare parts purchased as currently required by its guidance added significant value to its report. As discussed in the agency comments section of this report, we continue to believe that our recommendations would enhance the Department's reporting on spare parts spending from operations and maintenance funds. We also support the Department's plans to provide additional budget information and analyses of actual spare parts spending from all funds sources in support of the budget.

Background

Congress appropriates operations and maintenance funds for DOD, in part, for the purchase of spare and repair parts.[5] DOD distributes operations and maintenance funding to major commands and military units. The latter use operations and maintenance funding to buy spare parts from the Department's central supply system. By the end of fiscal year 2001, DOD reported in its supply system inventory report that it had an inventory of spare parts valued at about $63.3 billion.[6] Prior GAO reports have identified major risks associated with DOD's ability to manage spare parts inventories and prompted a need for reporting on

[5]Spare parts are the repair parts and components, including kits, assemblies, and subassemblies (both repairable and nonrepairable) required for the maintenance of DOD's weapons systems. Repairable items are those that are returned to the supply system to be repaired when they are no longer in working condition. Nonrepairable items are called "consumables," which means they are consumed in use or cannot be economically repaired.

[6]DOD's Supply System Inventory Report indicates that the cost of inventory is calculated under the DOD Comptroller's acquisition cost methodology mandated for all DOD annual reports and financial statements.

spare parts spending and the impact of spare parts shortages on military weapon systems' readiness.[7]

In recent years, Congress has provided increased funding for DOD's spare parts budget to enable military units to purchase spare parts from the supply system as needed. In addition, beginning with fiscal year 1999, Congress provided supplemental funding totaling $1.5 billion, in part, to address spare parts shortages that were adversely affecting readiness. However, in making supplemental appropriations for fiscal year 2001, the Senate Committee on Appropriations voiced concerns about the Department's inability to articulate funding levels for spare parts needed to support the training and deployment requirements of the armed services and provide any meaningful history of funds spent for spare parts.[8]

In June 2001, we reported that DOD lacked the detailed information needed to document how much the military units were spending to purchase new and repaired spare parts from the central supply system. To increase accountability and visibility over spare parts funding, we recommended that DOD provide Congress with detailed reports on its past and planned spending for spare parts. In making the recommendation, we anticipated that such information, when developed through reliable and consistent data collection methods, would help Congress oversee DOD's progress in addressing spare parts shortages.

In response to our recommendation, in June 2001 and February 2002, DOD provided Congress with Exhibit OP-31 reports as an integral part of the fiscal year 2002 and 2003 budget requests for operations and maintenance funding. These reports, which the services had previously submitted to DOD for internal use only, were to summarize the amounts each military service and reserve component planned to spend on spare parts in the future and the actual amount spent the previous fiscal year. Figure 1 shows the Exhibit OP-31 template as it appears in DOD's Financial Management Regulation. The regulation requires the military services to report the quantity and dollar values of actual and programmed spending for spare parts in total and by specific commodity groups, such as ships,

[7] See U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Defense*, GAO-01-244 (Washington, D.C.: Jan. 1, 2001).

[8] Senate Committee on Appropriations, *Making Supplemental Appropriations, for the Fiscal Year Ending September 30, 2001, and for Other Purposes*, 107th Cong., 1st sess., 2001, S. Rept. 107-33, 6.

aircraft engines, and combat vehicles and explain any changes from year to year as well as between actual and programmed amounts. (See apps. I through VI for each service's June 2001 and February 2002 exhibits.)

Figure 1: DOD's Exhibit OP-31 Template

DEPARTMENT OF _____
OPERATION AND MAINTENANCE, _____
SPARES AND REPAIR PARTS
(Dollars in Millions)

	FY PY		FY CY		FY BY1		FY BY2		CY-BY1 CHANGE		BY1-BY2 CHANGE	
	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)
DEPOT LEVEL REPARABLES (DLRs)												
COMMODITY: (As appropriate for each Component)												
SHIPS												
AIRFRAMES												
AIRCRAFT ENGINES												
COMBAT VEHICLES												
OTHER												
MISSILES												
COMMUNICATIONS EQUIPMENT												
OTHER MISC.												
TOTAL												
CONSUMABLES												
COMMODITY: (As appropriate for each Component)												
SHIPS												
AIRFRAMES												
AIRCRAFT ENGINES												
COMBAT VEHICLES												
OTHER												
MISSILES												
COMMUNICATIONS EQUIPMENT												
OTHER MISC.												
TOTAL												

The FY PB estimate column of the OSD submit should reflect actual data through the first three quarters plus a realistic projection for the remaining quarter. For the PB submit, the FY PY column will reflect actuals as of September 30th. Include an explanation of changes in quantity and funding between years and deviations between actual and program data.

Provide the quantity and funding for each commodity group within each O&M appropriation used to purchase depot level reparables and consumable supplies from the Defense Working Capital Fund.

Exhibit OP-31 Spares and Repair Parts

Legend

BY1 = budget year 1

BY2 = budget year 2

CY = current year

FY = fiscal year

M = millions

MISC. = miscellaneous

O&M = operations and maintenance

OSD = Office of the Secretary of Defense

PY = prior year

PB = President's budget

Qty = quantity

Source: DOD Financial Management Regulation, Volume 2A, Chapter 3.

Reports Do Not Provide Congress with Actual and Complete Information on Spare Parts Spending

DOD's June 2001 and February 2002 reports did not provide Congress with an actual and complete picture of spare parts spending. The actual amounts reported as spent by the Army in total on spare parts and by all services for most of the commodities were estimates. The services' budget offices had computed these estimates using various methods because they do not have a reliable system to account for and track such information.[9] In addition, all the services did not include information on the supplemental operations and maintenance funding they received in their totals, include the quantities of parts purchased, or explain deviations between planned and actual spending as required on the template. These deficiencies limit the potential value of DOD's reports to Congress and other decision makers.

Services Reported Estimates—Not Actual Spending

Some of DOD's purported actual spending data were estimates. All of the Army's spending amounts and most of the other services' commodity amounts for prior years were estimates derived from various service methods—not actual obligations to purchase spare parts. The services' headquarters budget offices provided these estimates because they did not have a process for tracking and accumulating information on actual spending by commodity in their accounting and logistics data systems.

The services' budget offices were to develop the Exhibit OP-31 data using the guidance shown on the template as published in DOD's Financial Management Regulation. The Department did not provide the services with any other guidance on how to develop information required for Exhibit OP-31 reports. The guidance directed the services to prepare reports showing planned and actual funding and quantities of repairable and consumable spare parts purchases by commodity for multiple fiscal years. Each service employed its own methodology to estimate the amount of money spent for spare parts as described below:

- The Army used estimates to report its total spending for spare parts and the breakout of spare parts spending for all commodity groups. The Army based its estimates on computer-generated forecasts of the spare parts needed to support the current and planned operations. Information from

[9] As discussed in our recent testimony concerning DOD's financial management operations, the Department has long-standing problems in ensuring basic accountability and maintaining funds control. See U.S. General Accounting Office, *DOD Financial Management: Integrated Approach, Accountability, Transparency, and Incentives Are Keys to Effective Reform*, GAO-02-537T (Washington, D.C.: Mar. 20, 2002).

cost data files, logistics files, and the Operating and Support Management Information System was used to develop a consumption rate for spare parts on the basis of anticipated usage, considering such factors as miles driven and hours flown. The consumption factor was entered in the Army's Training Resources Model, which contains force structure, planned training events, and the projected operating tempo. The model used the consumption factor to estimate the total cost and quantities of spare parts that would be consumed. The model also provided the estimated spending for each of the commodities cited in the exhibit.

- The Navy Department used unaudited actual obligation data from the major commands as its basis for reporting total spending for spare parts and for some commodity groups. However, the breakout of actual spending data for the aircraft engine and airframe commodities were estimates. The Navy Department's headquarters budget office developed its reports on the basis of information contained in price and program change reports submitted by the major commands. The Navy Department's accounting system tracked obligations and developed pricing information for spare parts purchased under numerous subactivity groupings, some of which were tied to the categories listed on the OP-31 Exhibit. For example, codes have been established to track obligations for consumable and repairable spare parts purchased to support ship operations. The budget office prepared summary schedules accumulating these obligations from each command and transferred this information to the appropriate line of the OP-31 Exhibit. While the system provided accounting codes to summarize spare parts spending to support air operations and air training exercises, separate codes had not been established to distinguish spare parts purchased for aircraft engines and airframes—two separate and distinct commodity groupings on the exhibit. Lacking a separate breakout for aircraft engines and airframes, the budget office estimated the amounts for each commodity from historical trends.
- The Air Force used unaudited actual obligation data from its accounting system to identify and report its total spending, but its breakout of spending for the commodity groupings used estimates. The Air Force calculated estimates for each commodity by applying budget factors to the total actual obligation data shown in its accounting system. The accounting system provided these data by expense code, which designated depot-level repairables and consumables by "fly" and "non-fly" obligations.[10] The Air Force allocated all "fly" obligations to airframes and

[10] "Fly" refers to items directly attached or related to an aircraft. "Non-fly" refers to items not directly attached or related to an aircraft.

left the engine commodity blank, even though some of the obligations were for engines. The Air Force selected this approach because spare parts for airframes and engines are budgeted together. To estimate the amount spent on the missiles, communications equipment, and other miscellaneous commodities, the Air Force allocated the total "non-fly" obligations on the basis of ratios derived from the amounts previously budgeted for these categories.

While DOD had no reliable system to account for and track all of the needed information on actual spending, some of the services' major commands have data that can be compiled for this purpose. Our visits to selected major operating commands for each military service revealed that they maintain automated accounting and logistics support data systems that could be used to provide unaudited data on spare parts funding allocations and actual obligations to purchase repairable and consumable spare parts in significant detail. For example, at the Army's Training and Doctrine Command, we found that the Integrated Logistics Analysis Program provided information to monitor and track obligation authority by individual stock number and federal supply class. Personnel at that location used these data to develop a sample report documenting spending in the format requested by Exhibit OP-31. The Air Force's Air Combat Command and the Navy's Commander in Chief Atlantic Fleet each had systems that also could be used to provide information on spending.

We discussed these reporting deficiencies with Office of the Secretary of Defense comptroller officials, who concurred that some figures on the service's Exhibit OP-31 reports were estimates and that DOD did not have a comprehensive financial management system that would routinely provide actual spending information. They said that estimates are all they have access to, given the absence of a comprehensive financial management system that reports accurate cost-accounting information. Furthermore, they stated that even though detailed information on such spending is available at the major commands, developing better estimates would entail an expensive and potentially difficult reporting requirement that should be considered in deciding whether the current information is acceptable.

Some Key Management Information Omitted from Services' Exhibits

DOD's exhibits were also not complete in that they did not show all of the key information required by the template. DOD's guidance directed the services to report total operations and maintenance spare parts funding, the spare parts quantities bought, and the reasons for deviations between actual and programmed funding. However, two of the services did not

provide information on the quantities of spare parts they had purchased, and none of the services explained variances between actual and initially programmed funding. Service officials commented that these reporting omissions were generally due to DOD's vague data collection guidance on the template and uncertainties about how to comply.

The Army was the only service that reported spare parts quantity purchases each fiscal year. However, the Army's quantities were estimates that were based on applying historical usage rates to such factors as miles driven and hours flown, even when actual quantities were required. The Navy and Air Force did not report quantities because, according to service officials, such information was not readily available to them. Furthermore, they said that DOD's data collection guidance did not adequately explain how this information was to be developed.

None of the services explained changes between actual and programmed spending in the exhibits as required. In comparing the June 2001 and February 2002 exhibits, we noted that each service's fiscal year 2001 actual spending deviated from the amount programmed and that some differences were significant. For example, in the February 2002 exhibits, the Navy showed an increase for fiscal year 2001 of approximately $400 million, and the Air Force showed a decrease of approximately $93 million in the actual amounts spent for spare parts versus the amount programmed in the June 2001 exhibits. Neither service provided a reason for the change.

While DOD guidance requires the services to report total programmed and actual spending amounts, the services do not identify and report pending supplemental funding requests in their programmed spending totals until after the supplemental funds are received. For example, the Navy's June 2001 exhibit did not include supplemental funding of about $299 million in its reported fiscal year 2001 programmed funding estimate, which totaled approximately $3.5 billion. However, the Navy's February 2002 exhibit included the additional funding in the actual fiscal year 2001 actual spending totals. Similarly, the Army's June 2001 exhibit, which reported programmed funding of approximately $2.1 billion for fiscal year 2002, did not include $250 million in supplemental funding for the purchase of additional spare parts to improve readiness. The supplemental funding was later included in the spending estimates reflected on the February 2002 exhibit. Service officials commented that these reporting omissions were generally due to uncertainties about requirements for reporting changes to spare parts spending estimates that result from supplemental funding.

Conclusions

Weaknesses in DOD's accounting and reporting practices hinder the usefulness of the data to decision makers. Providing actual data on spare parts spending is important to Congress and decision makers because, when linked to factors such as spare parts shortages and readiness, it can help serve as a baseline for evaluating the impact of funding decisions. Because the reports have not cited actual spending and have not been complete, they do not provide Congress with reasonable assurance about the amount of funds being spent on spares. As a result, they have less value to Congress and other decision makers in the Department during their annual deliberations about (1) how best to allocate future operations and maintenance resources to reduce spare parts shortages and improve military readiness and (2) when to make future resource allocation decisions about modernizing the force.

Recommendations for Executive Action

Given the importance of spare parts to maintaining force readiness, and as justification for future budget requests, actual and complete information would be important to DOD as well as Congress. Therefore, we recommend that the Secretary of Defense

- issue additional guidance on how the services are to identify, compile, and report on actual and complete spare parts spending information, including supplemental funding, in total and by commodity, as specified by Exhibit OP-31 and
- direct the Secretaries of the military departments to comply with Exhibit OP-31 reporting guidance to ensure that complete information is provided to Congress on the quantities of spare parts purchased and explanations of deviations between programmed and actual spending.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD partially concurred with both recommendations. DOD's written comments are reprinted in their entirety in appendix VII. DOD expressed concern that the first recommendation focused only on improving the reporting of operations and maintenance appropriations spending for spare parts but did not address other appropriations used for these purposes or working capital fund purchases. DOD stated that in order to have a comprehensive picture of spare parts spending, information on spare parts purchased with working capital funds and other investment accounts needs to be reported. The Department offered to work with Congress to facilitate this kind of analysis. As our report makes clear, we focused our analysis on the information the Department reported—operations and maintenance

funding—and our recommendation was directed at improving the accuracy of the information. We continue to believe it is important that the Congress receive accurate actual spending data for these appropriations. Furthermore, as we point out in the report, operations and maintenance funding is the principal source of funds used by the military services to purchase new or repaired spare parts from the working capital funds, and as such, is a key indicator of the priority being placed on spares needs. Lastly, our report recognizes that there are other sources of funds for spare parts purchases, and we support DOD's statement that it will work with Congress to provide more comprehensive reporting on actual and programmed spending from all sources.

In partially concurring with the second recommendation, the Department agreed that the services need to explain deviations between programmed and actual spending but believed that reporting spare parts quantities purchased as required by the financial management regulation does not add significant value to the information being provided to Congress because of the wide range in the unit costs for parts. While we recognize that the costs of parts vary significantly, continuing to include such information by commodity provides some basis for identifying parts procurement trends over time and provides valuable information about why shortages may exist for certain parts. Therefore, we continue to believe that our recommendation is appropriate.

Scope and Methodology

To determine the accuracy, completeness, and consistency of the oversight reports to Congress on spare parts spending for the active forces under the operations and maintenance appropriation, we obtained copies of and analyzed data reflected on OP-31 exhibits submitted by the Departments of the Army, Navy, and Air Force for the June 2001 and February 2002 budget submissions. We compared data and narrative explanations on the reports with reporting guidelines and templates contained in the DOD Financial Management Regulation. We analyzed and documented the data collection and reporting processes followed by each of the military departments through interviews with officials and reviews of available documentation at DOD's Office of the Comptroller and budget offices within the Departments of the Army, Navy, and the Air Force. To determine the availability of alternative systems for tracking and documenting information on actual obligations for spare parts purchases, we visited selected major commands in each of the military departments. These major commands included the Army's Training and Doctrine Command; the Navy's Commander in Chief, Atlantic Fleet; and the Air Force's Air Combat Command. However, we did not attempt to validate

the commands' detailed funding data. We also reviewed our prior reports outlining expectations for enhanced oversight reporting on the use of spare funds and high-risk operations within the Department of Defense.

We performed our review from February through August 2002 in accordance with generally accepted government auditing standards.

We are sending copies of this report to John P. Murtha, the Ranking Minority Member of the Subcommittee on Defense, House Committee on Appropriations; other interested congressional committees; the Secretary of Defense; Secretaries of the Army, Air Force, and Navy; and the Director, Office of Management and Budget. We will also 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.

Please contact me on (202) 512-8412 if you or your staff have any questions concerning this report. Staff acknowledgments are listed in appendix VIII.

David R. Warren, Director
Defense Management Issues

Appendix I: Army Exhibit OP-31 Report on Spares and Repair Parts Submitted to Congress in June 2001

DEPARTMENT OF THE ARMY
FY 2002 AMENDED BUDGET SUBMISSION
Operation and Maintenance, Army
Spares and Repair Parts
(Dollars in Millions and Qty in Thousands)

	FY 2000		FY 2001		FY 2002		FY 01-FY02 CHANGE	
	Qty (In 000)	($In M)	Qty (In 000)	($In M)	Qty (In 000)	($In M)	Qty (In 000)	($In M)
DEPOT LEVEL REPARABLES (DLRs)								
COMMODITY:								
SHIPS								
AIRFRAMES	37.7	248.7	38.8	258.9	37.5	245.6	-1.3	-13.3
AIRCRAFT ENGINES	12.1	180.7	12.4	180.7	12.3	174.5	-0.1	-6.2
COMBAT VEHICLES	648.2	432.7	607.1	402.9	567.9	368.9	-39.2	-34.0
OTHER								
MISSILES	23.6	184.7	20.9	175.8	20.1	160.7	-0.8	-15.1
COMMUNICATIONS EQUIPMENT	82.9	153.6	80.4	157.0	80.1	151.7	-0.3	-5.3
OTHER MISC.	84.6	231.7	84.1	231.8	79.0	208.7	-5.1	-23.1
TOTAL	889.1	1,432.1	843.7	1,407.1	796.9	1,310.1	-46.8	-97.0
CONSUMABLES								
COMMODITY:								
SHIPS								
AIRFRAMES	1,498.2	157.1	1,507.2	175.9	1,485.7	155.2	-21.5	-20.7
AIRCRAFT ENGINES	134.6	60.2	134.8	67.5	134.5	60.4	-0.3	-7.1
COMBAT VEHICLES	1,599.0	179.8	1,599.0	226.1	1,454.3	169.2	-144.7	-56.9
OTHER								
MISSILES	115.0	48.2	112.3	58.4	111.2	47.5	-1.1	-10.9
COMMUNICATIONS EQUIPMENT	1,131.2	190.4	1,114.5	199.4	1,134.1	194.1	19.6	-5.3
OTHER MISC.	8,286.0	187.9	8,731.0	234.9	8,764.0	202.4	33.0	-32.5
TOTAL	12,764.0	823.6	13,198.8	962.2	13,083.8	828.8	-115.0	-133.4

Legend

FY = fiscal year

M = millions

MISC. = miscellaneous

Qty = quantity

Source: Department of the Army Fiscal Year 2002 Amended Budget Submission.

Appendix II: Army Exhibit OP-31 Report on Spares and Repair Parts Submitted to Congress in February 2002

DEPARTMENT OF THE ARMY
FY 2003 PRESIDENT'S BUDGET SUBMISSION
Operation and Maintenance, Army
Spares and Repair Parts
(Dollars in Millions and Qty in Thousands)

	FY 2001		FY 2002		FY 2003		FY 02-FY03 CHANGE	
	Qty (In 000)	($In M)	Qty (In 000)	($In M)	Qty (In 000)	($In M)	Qty (In 000)	($In M)
DEPOT LEVEL REPARABLES (DLRs)								
COMMODITY:								
SHIPS								
AIRFRAMES	37.6	250.9	44.8	290.6	41.1	292.9	-3.7	2.3
AIRCRAFT ENGINES	12.3	174.7	18.0	261.5	12.9	204.4	-5.1	-57.1
COMBAT VEHICLES	595.0	390.9	780.8	493.9	655.9	481.2	-124.9	-12.7
OTHER								
MISSILES	21.7	172.3	20.2	160.7	21.5	200.1	1.3	39.4
COMMUNICATIONS EQUIPMENT	81.9	155.0	93.5	176.7	89.3	190.4	-4.2	13.7
OTHER MISC.	83.8	225.8	81.2	208.7	88.6	270.3	7.4	61.6
TOTAL	832.3	1,369.6	1,038.5	1,592.1	909.3	1,639.2	-129.2	47.2
CONSUMABLES								
COMMODITY:								
SHIPS								
AIRFRAMES	1,430.1	150.9	1,412.7	170.2	1,491.2	184.6	78.5	14.4
AIRCRAFT ENGINES	125.8	59.5	135.5	62.0	146.9	74.4	11.4	12.4
COMBAT VEHICLES	1,634.0	221.1	1,570.6	176.0	1,740.2	206.2	169.6	30.2
OTHER								
MISSILES	118.3	58.4	106.3	48.7	126.3	59.9	20.0	11.2
COMMUNICATIONS EQUIPMENT	1,124.5	199.4	1,130.9	198.0	1,235.8	237.9	104.9	39.9
OTHER MISC.	8,660.0	314.4	8,363.6	302.6	8,657.9	355.9	294.3	53.3
TOTAL	13,092.7	1,003.7	12,719.6	957.4	13,398.3	1,118.9	678.7	161.5

Legend

FY = fiscal year

M = millions

MISC. = miscellaneous

Qty = quantity

Source: Department of the Army Fiscal Year 2003 Budget Estimates Submitted to Congress, February 2002.

Appendix III: Air Force Exhibit OP-31 Report on Spares and Repair Parts Submitted to Congress in June 2001

DEPARTMENT OF THE AIR FORCE
OPERATION AND MAINTENANCE, AIR FORCE
SPARES AND REPAIR PARTS
(Dollars in Millions)

	FY2000		FY2001		FY2002		FY2001-FY2002 CHANGE	
	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)
DEPOT LEVEL REPAIRABLES								
Airframes	NA	$2,051.4	NA	$2,083.3	NA	$2,933.5	NA	$850.2
Aircraft Engines	NA	NA	NA	NA	NA	NA	NA	NA
Other								
Missiles	NA	19.5	NA	31.1	NA	42.6	NA	11.5
Communications Equipment	NA	49.0	NA	81.2	NA	106.6	NA	25.4
Other Misc.	NA	33.3	NA	55.2	NA	71.9	NA	16.6
Total		$2,153.2		$2,250.8		$3,154.6		$903.8
CONSUMABLES								
Airframes	NA	$459.6	NA	$404.4	NA	$516.8	NA	$112.4
Aircraft Engines	NA	NA	NA	NA	NA	NA	NA	NA
Other								
Missles	NA	14.6	NA	11.6	NA	10.6	NA	-$1.0
Communications Equipment	NA	10.2	NA	24.4	NA	25.1	NA	$0.8
Other Misc.	NA	160.5	NA	311.6	NA	415.8	NA	$104.2
Total		$644.9		$751.9		$968.3		$216.4

The FY 2002 Flying Hour Program was repriced to reflect the latest (CY 2001) AF Cost Analysis Improvement Group (AFCAIG) approved cost factors which are based on the FY2000 consumption, adjusted for a 5 year historical pattern of cost growth in spares and consumables that reflect an aging fleet. Included in this reprice are AVPOL, Depot Level Reparables (DLRs), and consumable supplies purchased through General Support Division of the AF Working Capital Fund and by IMPAC card. The most significant changes have occurred in the costs of Depot Level Reparables and General Support supplies. In addition to consumption changes, non-fly consumables and DLRs had an average price rate of change of 2.3% and 10.6% respectivly.

Note: Quantities and the breakout between Airframes and Aircraft Engines is not available. Currently, there is no system or process in place that provides this specific information.

Legend

AF = Air Force

AVPOL = aviation petroleum oils lubricants

CY = calendar year

FY = fiscal year

IMPAC = international merchant purchase authorization card

Misc. = miscellaneous

NA = not available

Qty = quantity

Source: Department of the Air Force Fiscal Year 2002 Amended Budget Submissions to Congress, June 2001.

Appendix IV: Air Force Exhibit OP-31 Report on Spares and Repair Parts Submitted to Congress in February 2002

DEPARTMENT OF THE AIR FORCE
OPERATION AND MAINTENANCE, AIR FORCE
SPARES AND REPAIR PARTS
(Dollars in Millions)

	FY2000		FY2001		FY2002		FY2003		FY2001-FY2002 CHANGE		FY2002-FY2003 CHANGE	
	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)	Qty	($ in M)
DEPOT LEVEL REPAIRABLES												
Airframes	NA	$2,051.4	NA	$2,168.1	NA	$2,929.0	NA	$3,107.2	NA	$760.9	NA	$178.2
Aircraft Engines	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Other												
Missiles	NA	20.8	NA	16.5	NA	30.2	NA	26.5	NA	13.7	NA	-$3.7
Communications Equipment	NA	13.0	NA	24.0	NA	43.9	NA	39.5	NA	19.9	NA	-$4.4
Other Misc.	NA	68.2	NA	65.6	NA	120.1	NA	116.7	NA	54.5	NA	-$3.4
Total		$2,153.4		$2,274.1		$3,123.2		$3,289.9		$849.1		$166.7
CONSUMABLES												
Airframes	NA	$412.0	NA	$471.4	NA	$495.9	NA	$434.3	NA	$24.5	NA	-$61.6
Aircraft Engines	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Other												
Missiles	NA	14.6	NA	15.9	NA	10.2	NA	19.9	NA	-$5.7	NA	$9.7
Communications Equipment	NA	10.2	NA	8.6	NA	24.1	NA	25.1	NA	$15.5	NA	$1.0
Other Misc.	NA	160.6	NA	139.9	NA	416.4	NA	462.8	NA	$276.5	NA	$46.4
Total		$597.35		$635.80		$946.60		$942.10		$310.80		-$4.5

The FY 2002 Flying Hour Program was repriced to reflect the latest (CY 2001) AF Cost Analysis Improvement Grou (AFCAIG) approved cost factors which are based on the FY2000 consumption, adjusted for a 5 year historical pattern of cost spares and consumables that reflect an aging fleet. Included in this reprice are AVPOL, Depot Level Reparables (DLRs), a consumable supplies purchased through General Support Division of the AF Working Capital Fund and by IMPAC card. addition to consumption changes, non-fly consumables and DLRs had an average price rate of change of 2.3% and 10.6% respectively.

The FY 2003 Flying Hour Program was reprice at a level consistent with FY2002 to include a 10.32% price change for DLRs and .69% for Consumables

Legend

AF = Air Force

AVPOL = aviation petroleum oils lubricants

CY = calendar year

FY = fiscal year

IMPAC = international merchant purchase authorization card

M = millions

Misc. = miscellaneous

NA = not available

Qty = quantity

Source: Department of the Air Force Fiscal Year 2003 Budget Estimates to Congress, February 2002.

Appendix V: Navy Department Exhibit OP-31 Report on Spares and Repair Parts Submitted to Congress in June 2001

OP-31 Exhibit

Spares and Repair Parts
(Dollars in Millions)

DEPOT LEVEL REPAIRABLES (DLRs)	FY 2000	FY 2001	FY 2002	FY01/FY02 Change
Commodity				
Ships	306.9	310.6	305.4	-5.2
Aircraft Airframes/Engines	1,661.5	1,743.6	2,116.3	372.7
Combat Vehicles	0.0	0.0	0.0	0.0
Other				
Missiles	13.8	9.5	9.5	0.0
Communications Equipment	4.2	2.4	4.7	2.3
Other Miscellaneous	55.3	53.5	51.6	-1.9
TOTAL	2,041.7	2,119.6	2,487.5	367.9
CONSUMABLES				
Commodity				
Ships	281.4	360.3	372.4	12.1
Aircraft Airframes/Engines	721.3	719.5	829.5	110.0
Combat Vehicles	0.0	0.0	0.0	0.0
Other				
Missiles	10.0	10.2	17.1	6.9
Communications Equipment	10.4	9.9	14.9	5.0
Other Miscellaneous	292.8	324.5	339.8	15.3
TOTAL	1,315.9	1,424.4	1,573.7	149.3

Increase in Aviation DLRs (AVDLRs) and Consumables is due primarily to increased usage of AVDLRs related to aging aircraft and an increase in Primary Mission Readiness (PMR) from 68 percent to 83 percent. Transfer from the Overseas Contingency Operations Transfer Fund (OCOTF) for all contingency operations costs also contributes to the increase.

Increase in Shipboard Consumables is due primarily to the transfer from OCOTF for Southwest Asia (SWA) contingency costs.

Consumables in the Missiles program increase is due to TRIDENT Extended Refit Periods (ERPs) required as a result of converting Trident I (C4) submarines weapons sysetms to Trident II (D5).

Communications DLRs and Consumables increase due primarily to transfer of the Naval Reserve Information System Office from O&M, Navy Reserve appropriation, and transfer of INMARSAT program from Other Procurement, Navy and Research, Development, Test, and Evaluation, Navy appropriations.

Other changes between FY 2001 and FY 2002 are due primarily to decreases in Working Capital Fund rates.

Legend

FY = fiscal year

O&M = operations and maintenance

Source: Department of the Navy Fiscal Year 2002 Amended Budget Submission Justification of Estimates, June 2001.

Appendix VI: Navy Department Exhibit OP-31 Report on Spares and Repair Parts Submitted to Congress in February 2002

OP-31 Exhibit

Funding for Spares and Repair Parts

DEPOT LEVEL REPAIRABLES (DLRs)	FY 2001	FY 2002	FY 2003	FY02/FY03 Change
Commodity				
Ships	353.2	301.0	354.2	53.2
Aircraft Airframes	1,153.3	1,223.2	1,364.2	141.1
Aircraft Engines	768.9	815.4	909.5	94.0
Combat Vehicles	0.0	0.0	0.0	0.0
Other				
Missiles	8.5	9.9	9.2	-0.7
Communications Equipment	2.5	2.0	2.2	0.2
Other Miscellaneous	54.6	59.6	66.7	7.1
TOTAL	2,341.0	2,411.1	2,706.0	294.9
CONSUMABLES				
Commodity				
Ships	386.2	330.1	371.0	40.9
Aircraft Airframes	527.6	516.1	525.6	9.5
Aircraft Engines	351.7	344.1	350.4	6.3
Combat Vehicles	0.0	0.0	0.0	0.0
Other				
Missiles	7.5	14.1	13.1	-1.0
Communications Equipment	9.1	7.4	16.7	9.3
Other Miscellaneous	321.3	301.9	313.3	11.4
TOTAL	1,603.4	1,513.7	1,590.1	76.4

Increases in Aviation DLRs (AVDLRs) and Aviation Consumables are due primarily to increased usage of AVDLRs and consumables related to aging aircraft and increases in Working Capital Fund rates.

Other changes between FY 2002 and FY 2003 are due primarily to decreases in Working Capital Fund rates.

Legend

FY = fiscal year

Source: Department of the Navy Fiscal Year 2003 Budget Estimates Justification of Estimates, February 2002.

Appendix VII: Comments from the Under Secretary of Defense

COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

SEP 30 2002

Mr. David R. Warren
Director, Defense Capabilities and
Management
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE INVENTORY: Better Reporting on Spare Parts Spending Will Enhance Congressional Oversight," dated August 30, 2002 (GAO Code 350153).

I reiterate the Department's commitment to providing the Congress with information that facilitates the thorough analysis of spares funding. In addition to the OP-31 exhibit, which the GAO analyzes in their report, the Department also provides in the President's Budget submission, supplemental material on spares and repair parts purchased in the Supply Management Business Area of the Defense Working Capital Fund (DWCF). The draft report, by focusing as it does on the Operation and Maintenance funding for spares, does not adequately emphasize the Working Capital Fund side of the total spares equation. The Department stands ready to work with the Congress to provide additional budget information and analyses that support the budget request. Detailed comments on the draft report recommendations are included in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Dov S. Zakheim

Enclosure

GAO-03-18/GAO CODE 350153

"DEFENSE INVENTORY: BETTER REPORTING ON SPARE PARTS SPENDING WILL ENHANCE CONGRESSIONAL OVERSIGHT"

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense issue additional guidance on how the Services are to identify, compile and report on actual and complete spare parts spending information, including supplemental funding, in total and by commodity as specified by the Exhibit OP-31. (Page 13/Draft Report).

DoD RESPONSE: Partially concur. In making the case that the Services should provide "real actuals" in their budget exhibits rather than estimates, this recommendation ignores the fact that there is more to the question of what the Department is spending on spares than just the Operation & Maintenance (O&M) account purchases. The DoD procures spares and repair parts in many appropriations. The OP-31 exhibit was designed as an internal DoD working document to just track customer O&M expenditures for spares and repair parts. Since the OP-31 exhibit does not include Working Capital Fund or Investment account purchases, it does not present comprehensive information on spare and repair parts purchases. The Department's position is that a superior way to get to the heart of the question of "what does the Department spend on spares?" is to review both WCF funding and customer account (i.e., O&M and investment account) purchases. The Department will work with the Congress to facilitate this kind of analysis.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Secretaries of the Military Departments to comply with Exhibit OP-31 reporting guidance to ensure that complete information is provided to the Congress on the quantities of spare parts purchased and explanations of deviations between programmed and actual spending. (Page 13/Draft Report).

DoD RESPONSE: Partially concur. The DoD Financial Management Regulation (DoDFMR) directs the Components to provide an explanation for deviations between the amount presented as Prior Year Actuals and program requests. The Department, however, does not share the belief that inclusion of quantities in the OP-31 exhibit adds significant value to the information provided. Spare and repair parts range in value from a few hundred dollars to tens of thousands of dollars. Because of this wide-range of unit costs, including quantities, the exhibit does not provide useful information for analytical purposes.

Enclosure

Appendix VIII: Staff Acknowledgments

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