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United States Government Accountability Office
Washington, DC 20548

June 14, 2010

Congressional Requesters

Subject: *Defense Infrastructure: Observations on the Department of the Navy's Depot Capital Investment Program*

This letter formally transmits the enclosed briefing slides in response to your request. We were asked to determine to what extent the Department of the Navy complied with the requirement in Section 2476 of Title 10 of the United States Code to invest a total amount equal to not less than 6 percent of the average total combined workload funded at all the depots of the Department of the Navy for the preceding 3 fiscal years in the capital budgets of covered depots listed in the law. We presented this briefing to your staff on May 5, 2010, in which we concluded that the Department of the Navy complied with the minimum required depot capital investment. More details on our findings are provided in enclosure I. In addition, we have a related ongoing review of the condition of the public Naval shipyards, which are included under the Navy depots that receive capital investment funding.

We provided a draft of the enclosed report to the Department of Defense for review and comment. The Department agreed with our findings and its oral comments are included as part of the briefing.

We are sending copies of this report to the appropriate congressional committees and senators. We are also sending copies to the Secretary of Defense, the Secretary of the Navy, and the Commandant of the Marine Corps. The report will also be available at no charge on the GAO Web site at <http://www.gao.gov>.

Should you or your staff have any questions concerning this report, please contact me at (202) 512-5257 or MerrittZ@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report include Laura Durland, Assistant Director; Leslie Bharadwaja; Larry Bridges; and Gina Hoffman.

Zina D. Merritt
Acting Director
Defense Capabilities and Management

Enclosure

List of Requesters

The Honorable Evan Bayh
Chairman
Subcommittee on Readiness and Management Support
Committee on Armed Services
United States Senate

The Honorable Daniel K. Akaka
United States Senate

The Honorable Maria Cantwell
United States Senate

The Honorable Susan M. Collins
United States Senate

The Honorable Patty Murray
United States Senate

The Honorable Mark R. Warner
United States Senate

The Honorable Jim Webb
United States Senate



Observations on the Department of the Navy's Depot Capital Investment Program

**Briefing for Senate Armed Services Committee Staff
May 5, 2010**



Agenda

- Briefing Objective
- Background
- Scope and Methodology
- Observations
- Agency Comments



Briefing Objective

- GAO was requested to determine:
 - To what extent the Department of the Navy complied with the requirement in 10 U.S.C. § 2476, to invest a total amount equal to not less than 6 percent of the average total combined workload funded at all the depots of the Department of the Navy for the preceding 3 fiscal years in the capital budgets of covered depots listed in the law.



Background

- For purposes of the law, overall Department of the Navy capital investment includes funding for Navy shipyards, Navy fleet readiness centers, and Marine Corps depots listed in 10 U.S.C. § 2476(e).
- The law allowed the Navy 2 years to phase up its depot capital investment level, requiring at least 4 percent investment in fiscal year (FY) 2007, at least 5 percent in FY 2008, and eventually 6 percent in FY 2009.
- Under § 2476, the capital budget of a depot includes investment funds spent on depot infrastructure, equipment, and process improvements in direct support of depot operations.



Scope and Methodology

- We reviewed the 10 U.S.C. § 2476 requirement for depot capital investment, obtained depot capital investment data for FYs 2007 through 2010, and discussed the Navy's implementation of the requirement with officials from the Office of the Under Secretary of Defense (Comptroller) and Office of the Assistant Secretary of the Navy (Financial Management and Comptroller).
- We reviewed and analyzed the Navy's depot capital investment funding data to determine if the Navy complied with the minimum capital investment percentage required under 10 U.S.C. § 2476.
- We analyzed a breakout of the Navy capital investment funding distributed to depots in the Navy shipyards, Navy fleet readiness centers, and Marine Corps depots.



Scope and Methodology (cont.)

- To determine the reliability of the Navy's depot capital investment funding data, we interviewed officials and analyzed responses regarding the accuracy and completeness of the data. We determined that the funding data used were sufficiently reliable for our purposes.
- We conducted this performance audit from February 2010 through May 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.



Observations

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- Our analysis indicates that the Navy complied with the minimum capital investment requirement mandated by 10 U.S.C. § 2476 for FYs 2007 through 2009 and is projected to meet the requirement for FY 2010.



Observations: Total Navy Capital Investment for FY 2007 to FY 2010

- As illustrated in table 1, data reported by the Navy shows that the Department exceeded the required capital investment for FYs 2007 through 2009, and is projected to exceed the requirement in FY 2010.

Table 1: Navy Depots' Reported Capital Investment Compared to Prior 3-Year Funding (\$ in millions)

	FY 2007 (Actual)		FY 2008 (Actual)		FY 2009 (Actual)		FY 2010 (Estimate)	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Preceding 3-year Average Total of Navy Depot Funding	\$5,964.0	N/A	\$5,794.3	N/A	\$5,696.9	N/A	\$5,956.9	N/A
Congressionally Required Minimum Capital Investment	238.6	4.0%	289.7	5.0%	341.8	6.0%	357.4	6.0%
Reported Total Investment Navy Wide	306.5	5.1%	436.2	7.5%	442.5	7.8%	620.1	10.4%
Difference Between Requirement and Investment	\$67.9	1.1%	\$146.5	2.5%	\$100.7	1.8%	\$262.7	4.4%

Source: GAO analysis of Navy data as of March 2010.



Observations: Navy Capital Investment for FY 2007 to FY 2010

- As illustrated in table 2, the shipyards received most of the Navy’s capital investment funding for FYs 2007 to 2009, and are projected to receive most of the capital investment funding in FY 2010.

Table 2: Reported Capital Investment to the Navy and Marine Corps (\$ in millions)

	FY 2007 (Actual)	FY 2008 (Actual)	FY 2009 (Actual)	FY 2010 (Estimate)
Navy Shipyards	\$218.2	\$318.4	\$306.9	\$499.4
Navy Fleet Readiness Centers	78.7	104.9	114.3	102.5
Marine Corps Depots	9.7	13.0	21.3	18.3
Total Navy Wide	\$306.5	\$436.2	\$442.5	\$620.1

Source: GAO analysis of Navy data as of March 2010. Numbers may not add due to rounding.



Observations: Breakout of Navy Depot Capital Investment by Individual Depots for FY 2007 to FY 2010

- A breakout of each depot's capital investment FYs 2007-2010 shows that the Norfolk Naval Shipyard generally received the highest amount of funding.
- The amount of capital investment for the fleet readiness centers, while considerably less than the shipyards, is generally consistent among the fleet readiness centers.
- The amount of capital investment for the Marine Corps depots is less than the investment for Navy shipyards and Navy fleet readiness centers.

Table 3: Navy Depots' Reported Capital Investment for FY 2007 to FY 2010 (\$ in millions)

	FY 2007 (Actual)	FY 2008 (Actual)	FY 2009 (Actual)	FY 2010 (Estimate)
Navy Shipyards	\$218.2	\$318.4	\$306.9	\$499.4
Norfolk Naval Shipyard, VA	99.0	44.1	106.1	305.8
Pearl Harbor Naval Shipyard, HI	47.1	71.9	49.2	31.7
Portsmouth Naval Shipyard, ME	28.9	46.2	58.2	45.5
Puget Sound Naval Shipyard, WA	43.1	156.3	93.5	116.3
Navy Fleet Readiness Centers (FRC)	\$78.7	\$104.9	\$114.3	\$102.5
FRC East Site, Cherry Point, NC	28.6	27.8	50.3	33.6
FRC Southeast Site, Jacksonville, FL	32.9	36.1	35.8	34.8
FRC Southwest Site, North Island, CA	17.1	41.0	28.1	34.1
Marine Corps Depots	\$9.7	\$13.0	\$21.3	\$18.3
Marine Corps Logistics Base, Albany, GA	4.7	7.9	12.5	7.7
Marine Corps Logistics Base, Barstow, CA	5.0	5.1	8.8	10.6
Total Navy Investment	\$306.5	\$436.2	\$442.5	\$620.1

Source: GAO analysis of Navy data as of March 2010. Numbers may not add up due to rounding.



Agency Oral Comments

- Officials from the Office of the Under Secretary of Defense (Comptroller) and Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) reviewed the briefing and orally commented that they concurred with our findings.
- Officials noted that while the Marine Corps depots received less capital investment funds than the Navy shipyards and fleet readiness centers, according to the officials, this is because the Marine Corps depots have a smaller business base, with a less technically demanding workload (e.g., no nuclear work).



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Web site: <http://www.gao.gov/>

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