DEPOT MAINTENANCE

Actions Needed to Provide More Consistent Funding Allocation Data to Congress

November 2006
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What GAO Found

Although DOD reported to Congress that it complied with the 50-50 requirement for fiscal year 2005, GAO could not validate compliance due to weaknesses in DOD’s financial management systems and the processes used to collect and report 50-50 data. DOD’s April 2006 report provides an approximation of the depot maintenance funding allocation between the public and private sectors for fiscal year 2005. GAO identified errors in the reported data which, if adjusted, would increase the Army’s private-sector funding allocation percentage from 49.4 percent to 50 percent. GAO found that 50-50 funding allocation data were not being consistently reported because some maintenance depots were reporting expenditures rather than obligations. Combining obligations and expenditures produces an inaccurate accounting of 50-50 funding allocations. GAO also found amounts associated with interservice depot maintenance work may not accurately reflect the actual allocation of private- and public-sector funds because visibility over the allocation of these funds is limited. OSD guidance requires that the military departments establish measures to ensure correct accounting of interservice workloads. In prior years’ reports on DOD’s compliance with the 50-50 requirement, GAO discussed deficiencies limiting data accuracy and recommended specific corrective actions. While DOD has taken some additional actions to improve the quality of reported data for fiscal year 2005, it has not fully addressed the persistent deficiencies that have limited 50-50 data accuracy.

Reported projections do not represent reasonable estimates of public- and private-sector depot maintenance funding allocations for fiscal years 2006 and 2007 due to data inaccuracies. Errors GAO identified for fiscal year 2005 could affect these projections. If the adjustments GAO made to the Army’s fiscal year 2005 data—increasing the private-sector percentage by about 0.6 percentage points—are carried forward, it could move the Army’s projection to within 2 percent of the 50 percent limitation for fiscal year 2007. GAO also found that the projected numbers often did not include supplemental funds, which could change the allocation percentages. These errors and omissions affect the reasonableness and accuracy of the reported projections. To avoid breaching the 50 percent threshold in future years, the Air Force is implementing its plan to ensure compliance with the 50-50 requirement until fiscal year 2010. The plan involves moving some maintenance workload, including the F-100 engine, from the private sector to the public sector.

What GAO Recommends

GAO recommends that DOD improve the consistency and accuracy of depot maintenance workload allocation funding data in its 50-50 report to Congress. DOD should ensure that obligations rather than expenditures are reported, and that measures are established to ensure proper accounting of interservice workloads between the public and private sectors. DOD concurred with the recommendations.


To view the full product, including the scope and methodology, click on the link above. For more information, contact William M. Solis (202) 512-8365 or solisw@gao.gov.
November 30, 2006

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

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

Each year the Department of Defense (DOD) spends billions of dollars for depot maintenance of its ships, aircraft, tanks, and other weapons systems.¹ DOD reported total depot maintenance funding of more than $26 billion for fiscal year 2005. This maintenance is accomplished by both federal government workers in the public sector and contractor personnel in the private sector. Under 10 U.S.C. § 2466(a), not more than 50 percent of funds made available in a fiscal year to a military department or defense agency for depot-level maintenance and repair may be used to contract for the performance by nonfederal government personnel of such workload.³ Section 2466(b) states that the Secretary of Defense may waive the 50 percent limitation if he determines the waiver is necessary for national security and submits to Congress a notice of the waiver and the reasons for the waiver. Section 2466(d)(1) directs the Secretary of Defense to submit an annual report to Congress identifying, for each of the armed forces and defense agencies, the percentage of the funds referred to in Section 2466(a) that was

¹ Depot maintenance is the highest level of maintenance within DOD and generally refers to major maintenance and repair actions such as the overhauling, upgrading, or rebuilding of parts, assemblies, or subassemblies.

² This limitation is sometimes referred to as the “50-50” requirement, although the limitation applies only to the allocation of funds for work that may be performed by nonfederal government personnel.
expended during the preceding fiscal year, and are projected to be expended during the current fiscal year and the ensuing fiscal year, for performance of depot-level maintenance and repair workloads by the public and private sectors. In its most recent annual report, dated April 6, 2006, DOD reported that depot maintenance allocations by the Departments of the Army, Navy, and Air Force were below the 50 percent threshold in fiscal year 2005, and all the departments except for the Air Force projected that they will remain below the threshold for fiscal years 2006 and 2007. According to DOD’s report, the Air Force projected that it would exceed the 50 percent limit in fiscal year 2007.

Section 2466(d)(2) also requires us to submit to Congress our views on whether DOD complied with Section 2466(a) during the preceding fiscal year and whether the expenditure projections for the current and ensuing fiscal years are reasonable. This is the ninth year that we have evaluated and reported on DOD’s annual 50-50 report to Congress. Specifically, our objectives were to determine whether (1) the military departments complied with the 50-50 requirement for fiscal year 2005 and (2) the projections for fiscal years 2006 and 2007 represent reasonable estimates.

To accomplish these objectives, we reviewed guidance for reporting 50-50 workload funding data and analyzed the military services’ procedures and internal controls for collecting data and ensuring the accuracy and completeness of data included in the report. To determine whether the military departments complied with the 50-50 requirement, we obtained service data used to develop DOD’s April 2006 report, conducted site visits at reporting commands and depots, interviewed officials involved in the 50-50 process, and reviewed documentation supporting reported funding data. Our work covered all four military services, but we placed greater emphasis on reviewing Army data because that service was close to the 50 percent threshold for fiscal year 2005. We reviewed a total of $2.7 billion of reported depot maintenance funding. We based our sample on previously identified areas of concern, varying program amounts, and selected locations for our site visits. Because we selected a nonprobability sample of data for our review, our results cannot be projected. To determine the reasonableness of fiscal year 2006 and 2007 projections, we discussed with service officials how they developed their projections and whether historical funding information and known increases in funding were

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3 The Marine Corps is part of the Department of the Navy.

4 A list of related GAO products is provided at the end of this report.
included in their projections. As discussed below, we have found that reported depot maintenance funding allocation data are not reliable because of weaknesses in DOD’s financial systems and 50-50 data gathering and reporting processes. For the past several years, we have reported that DOD’s report on the use of these funds cannot be relied upon as an accurate reflection of the distribution of these funds. We conducted our review from March 2006 to September 2006 in accordance with generally accepted government auditing standards. See appendix I for a more detailed discussion of our scope and methodology.

Results in Brief

Although DOD reported to Congress that it complied with the 50-50 requirement for fiscal year 2005, we could not validate compliance due to weaknesses in DOD’s financial management systems and the processes used to collect and report 50-50 data. On the basis of our evaluation of selected 50-50 data, DOD’s April 2006 report provides an approximation of the depot maintenance funding allocation between the public and private sectors for fiscal year 2005. However, we identified errors in the reported data which, if adjusted, would increase the Army’s private-sector funding allocation percentage from 49.4 percent to 50 percent. During our current review, we determined that 50-50 funding allocation data were not being consistently reported because some maintenance depots were reporting expenditures rather than following Office of the Secretary of Defense (OSD) guidance on reporting obligations. Combining obligations and expenditures produces an inaccurate accounting of 50-50 funding allocations, including accounting for workload that is carried over from one fiscal year to the next. For example, an Army depot official estimated that almost $1.5 million was expended in fiscal year 2006 on a fiscal year 2005 contract obligation. The official stated that this obligation would not be reported in fiscal year 2005 because it was not yet expended, and it would not be reported in fiscal year 2006 because it was expended on a fiscal year 2005 obligation. Until reporting organizations consistently identify and report depot maintenance funding obligations, rather than a combination of expenditures and obligations, inaccurate allocation of depot maintenance funding between the public and private sectors will

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5 DOD has had long-standing weaknesses in its financial management that affect its ability to produce auditable financial information as well as provide accurate and timely information for management and Congress to use in making informed decisions. We have previously reported on these problems and have identified DOD financial management as one of the federal government’s high-risk programs. See GAO, High-Risk Series: An Update, GAO-05-207 (Washington, D.C.: January 2005).
continue to be reported. We also found that amounts associated with interservice depot maintenance work may not accurately reflect the actual allocation of private- and public-sector funds because visibility over the allocation of these funds is limited. For example, we found instances where a military service awarded public depot maintenance work to another military service, which then contracted out a portion of that workload to the private sector. The military service awarding the work inaccurately reported this as public workload because it had not inquired whether all the awarded work was performed at the public depot. OSD guidance requires that the military departments establish measures to ensure correct accounting of interservice workloads, but the services have not established sufficient measures for complying with this guidance. Until the military services accurately account for and report their distribution of depot maintenance workload performed under interservice agreements, the 50-50 data reported by DOD will continue to be inaccurate. We also found several other errors that resulted in inaccuracies in reported 50-50 data for the Navy and Army. In prior years’ reports on DOD’s compliance with the 50-50 requirement, we have discussed deficiencies that have limited data accuracy and recommended specific corrective actions. While we found that DOD has taken some additional actions to improve the quality of reported data for fiscal year 2005, it has not fully addressed the persistent deficiencies that have limited 50-50 data accuracy.

Reported projections do not represent reasonable estimates of public- and private-sector depot maintenance funding allocations for fiscal years 2006 and 2007 due to data inaccuracies. In the April 2006 report, the Army and Navy projected that they would remain below the 50-50 threshold in fiscal years 2006 and 2007; while the Air Force projected that it would be below the threshold in fiscal year 2006 but would exceed the threshold in fiscal year 2007. However, data errors similar to those we identified for fiscal year 2005 could affect these projections. For example, some errors in DOD’s fiscal year 2005 data are carried into the projected years. If the adjustments we made to the Army’s fiscal year 2005 data—increasing the private-sector percentage by about 0.6 percentage points—are carried forward, it could move the Army’s projection to within 2 percent of the 50 percent limitation for fiscal year 2007. Under OSD guidance, the 2 percent threshold triggers certain planning requirements to avoid breaching the 50 percent limitation. In addition, we found $1.6 million in errors in the Army’s 2006 projections, and the projected numbers do not include supplemental funds, which can change the allocation percentages. These errors and omissions affect the reasonableness and accuracy of the reported projections. To avoid breaching the 50 percent threshold in future years, the Air Force is implementing its plan to ensure compliance.
with the 50-50 requirement through fiscal year 2010. The plan involves moving some maintenance workload, including the F-100 engine, from the private sector to the public sector.

To improve the consistency and accuracy of depot maintenance funding allocation data submitted to Congress, we are recommending that the components report obligations rather than expenditures, and establish measures to properly account for the allocation of interservice workloads. In commenting on the draft of this report, DOD concurred with our recommendations and cited actions it planned to take to implement them.

Background

In addition to the 50-50 requirement in 10 U.S.C. § 2466, the following provisions directly affect the reporting of workload funding allocations to the public and private sectors:

- Section 2460(a) of Title 10 defines “depot-level maintenance and repair” as material maintenance or repair requiring the overhaul, upgrading, or rebuilding of parts, assemblies, or subassemblies and the testing and reclamation of equipment as necessary, regardless of the source of funds for the maintenance or repair, or the location at which the maintenance or repair is performed. This term also includes: (1) all aspects of software maintenance classified by DOD as of July 1, 1995 as depot-level maintenance and repair; and (2) interim contractor support or contractor logistics support (or any similar contractor support) to the extent that such support is for the performance of services described in the preceding sentence. Section 2460(b)(1) excludes from the definition of depot maintenance the nuclear refueling of an aircraft carrier, and the procurement of major modifications or upgrades of weapon systems that are designed to improve program performance, although a major upgrade program covered by this exception could continue to be performed by private- or public-sector entities. Section 2460(b)(2) also excludes from the definition of depot-level maintenance the procurement of parts for safety modifications, although the term does include the installation of parts for safety modifications.

- Depot maintenance funding involving certain public-private partnerships is exempt from the 50 percent limitation. Section 2474(f) of Title 10 provides that amounts expended for the performance of depot-level maintenance and repair by nonfederal government personnel at Centers of Industrial
and Technical Excellence under any contract entered into during fiscal years 2003 through 2009 shall not be counted when applying the 50 percent limitation in Section 2466(a) if the personnel are provided by entities outside DOD pursuant to a public-private partnership. In its annual 50-50 report to Congress, DOD identifies this funding as a separate category called “exempt.”

- Section 2466(b) allows the Secretary of Defense to waive the 50 percent limitation if he determines the waiver is necessary for national security, and he submits the notification of waiver together with the reasons for the waiver to Congress. Waivers were previously submitted for the Air Force for fiscal years 2000 and 2001.

OSD issues guidance to the military departments for reporting public-private workload funding allocations. The guidance’s definition of “depot level maintenance and repair” is consistent with the definition of “depot-level maintenance and repair” in 10 U.S.C. § 2460. The military services have also issued internal instructions to manage the data collection and reporting process, tailored to their individual organizations and operating environments.

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6 Section 2474(a) states that the Secretary concerned (or the Secretary of Defense in the case of a defense agency) shall designate depot-level activities of the military departments and defense agencies (other than facilities approved for closure or major realignment under the Defense Base Closure and Realignment Act of 1990) as Centers of Industrial and Technical Excellence in their recognized core competencies. The Secretary of Defense was also directed to establish a policy to encourage the secretary of each military department and the head of each defense agency to reengineer industrial processes and adopt best business practices at the Centers of Industrial and Technical Excellence in connection with their core competency requirements so as to serve as recognized leaders in their core competencies.
Although DOD reported that the military departments complied with the 50-50 requirement for fiscal year 2005, we could not validate compliance because of systemic weaknesses in DOD’s financial management systems and persistent deficiencies in the processes used to collect and report 50-50 data. DOD’s report provides an approximation of the depot maintenance funding allocation between the public and private sectors but contains some inaccuracies. Our current review showed that 50-50 funding data were not being consistently reported because some maintenance depots were reporting expenditures rather than obligations as directed by OSD guidance. We also found that amounts associated with interservice depot maintenance work and certain contract agreements between depots and private contractors may not accurately reflect the distribution reported for private- and public-sector funds because visibility over the allocation of these funds is limited. In addition, we found several other errors that resulted in inaccuracies in reported 50-50 data for the Navy and Army. DOD took some actions this year to improve 50-50 reporting. However, our work over the last several years has identified a number of persistent deficiencies, such as inadequate management attention and review, which have affected the quality of reported 50-50 data. While DOD took actions to improve 50-50 reporting this year, DOD has not implemented recommendations we made last year to address these deficiencies.

In DOD’s April 2006 report to Congress on funding allocations for depot maintenance, all three military departments reported that their private-sector depot maintenance allocation was below the 50 percent limitation for fiscal year 2005. However, we found that the reported data contained inaccuracies. Table 1 shows the reported allocation between the public and private sectors and the exempted workload funding.

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Table 1: DOD’s Reported Depot Maintenance Funding Allocations for Fiscal Year 2005

<table>
<thead>
<tr>
<th>Category</th>
<th>Army</th>
<th>Navy</th>
<th>Air Force</th>
<th>Total</th>
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<tbody>
<tr>
<td>Private</td>
<td>2,861</td>
<td>4,709</td>
<td>4,592</td>
<td>12,162</td>
</tr>
<tr>
<td></td>
<td>(49.4%)</td>
<td>(43.2%)</td>
<td>(47.3%)</td>
<td>(46.1%)</td>
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<tr>
<td>Public</td>
<td>2,908</td>
<td>5,936</td>
<td>5,106</td>
<td>13,950</td>
</tr>
<tr>
<td></td>
<td>(50.2%)</td>
<td>(54.5%)</td>
<td>(52.6%)</td>
<td>(52.9%)</td>
</tr>
<tr>
<td>Exempt</td>
<td>28</td>
<td>245</td>
<td>8</td>
<td>281</td>
</tr>
<tr>
<td></td>
<td>(0.5%)</td>
<td>(2.3%)</td>
<td>(0.1%)</td>
<td>(1.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>5,796</td>
<td>10,890</td>
<td>9,706</td>
<td>26,393</td>
</tr>
<tr>
<td></td>
<td>(100%)</td>
<td>(100%)</td>
<td>(100%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

Sources: GAO analysis of DOD data.

Notes: Based on data and analysis of DOD’s April 6, 2006, reported 50-50 data. The numbers in the table may not add due to rounding. The Department of the Navy includes the Marine Corps.

On the basis of our evaluation of selected 50-50 data, DOD’s April 2006 report provides an approximation of depot maintenance funding allocations between the public and private sectors for fiscal year 2005. However, we identified errors in reported workload funding data. The net effects of correcting the data inaccuracies we identified would increase the Army’s private-sector funding allocation from 49.4 percent to 50 percent. Identified errors in the Army’s data resulted in a total decrease in public-sector funding of $5.9 million and a total increase in private-sector funding of $68.1 million. Appendix II provides additional information on these adjustments. We could not quantify the errors that we identified for the Air Force regarding direct sales agreements. We continue to identify areas that continue to be excluded from the Navy’s 50-50 reporting. While we found an error in the Marine Corps data, correcting this inaccuracy would not result in changes to the Department of the Navy’s funding allocation percentages. We did not conduct a review of all reported 50-50 data; therefore, there may be additional errors, omissions, and inconsistencies that were not identified.

DOD’s 50-50 Report Included Both Expenditures and Obligations

Depot maintenance funding data for fiscal year 2005 were not being consistently reported because some maintenance depots were reporting expenditures, rather than obligations as directed by OSD guidance. The reporting of expenditures instead of obligations by some depots presents an inaccurate picture of depot maintenance allocations since the amounts...
may differ. For the most part, the allocation percentages for public funds represent obligation amounts obtained from the military department’s financial accounting systems. However, in reporting the amount of depot maintenance funds allocated to the private sector, some reporting organizations used expenditures rather than obligations as required by OSD guidance.\(^8\) For example, three depots we visited reported their subcontracted depot-level maintenance work as expenditures rather than obligations. Reasons given by depot officials for reporting expenditures rather than obligations include the following: (1) the workload against obligated funds may not have been fully performed during the fiscal year, and therefore they believed reporting expenditures was a better reflection of the actual workload; (2) they did not know that obligations were to be reported instead of expenditures; and (3) many work orders can be associated with a multiyear contract, so they believed that reporting expenditures would be a better representation of the costs associated with multiyear contracts for the fiscal year in question.

Accurately reporting carryover work is a problem when the services’ data contain both expenditures and obligations. Carryover is work that a depot may “carry over” from one fiscal year to another to ensure a smooth flow of work during the transition between fiscal years. This means that while the funds are obligated in one fiscal year, a certain portion may not be expended until the next fiscal year. When expenditures rather than obligations are reported, we found that the carryover work that is performed in the following year may not be included in either year’s 50-50 report. For example, an Army depot official provided us with an estimate of almost $1.5 million that was expended in fiscal year 2006 on a fiscal year 2005 contract obligation. The official stated that this portion of the obligation was not reported in fiscal year 2005 because it was not yet expended, and it would not be reported in fiscal year 2006 because it was expended on a fiscal year 2005 obligation. As a result, the private portion of the service’s depot maintenance funds was underreported in the year of the obligation, while the public portion was overreported. Until depot maintenance funding obligations are consistently reported, rather than a

\(^8\) Although 10 U.S.C. § 2466(d) specifies that the Secretary of Defense report the percentage of funds referred to in § 2466(a) that were expended in the preceding fiscal year and projected to be expended in the current and ensuing fiscal years, DOD’s past and current 50-50 reports are generally 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.
combination of expenditures and obligations, inaccurate reporting of the allocation of depot maintenance funding between the public and private sectors will continue.

Depot Maintenance Allocations Involving Some Interservice and Direct Sales Agreements May Not Be Properly Reported

Because DOD has limited visibility over the allocation of private- and public-sector funds in some interservice agreements and direct sales agreements, inaccurate reporting of the depot maintenance workload allocation may result. Interservice workload agreements refer to work that is performed by one component for another. OSD guidance requires that the military departments establish measures to ensure correct accounting of interservice workloads; however the allocation of these funds may not always be accurately reported. We found instances where a military service awarded public depot maintenance work to another military service, which then contracted out a portion of that workload to the private sector. The military service awarding the work, as principal owner of the funds, inaccurately reported this as public workload because it had not inquired whether all the awarded work was performed at the public depot. For example, we identified approximately $172,000 of private-sector work that may have been inaccurately reported as public-sector work because the principal owner of the funds did not follow up to determine whether all of the work was performed by the public depot. While we were unable to fully evaluate the extent of inaccurate reporting associated with interservice agreements, until the military departments establish sufficient measures to accurately account for and report their distribution of depot maintenance workload, the 50-50 data reported by DOD may continue to be inaccurate.

The limited visibility over direct sales agreements is another reason why the depot maintenance workload allocation may be inaccurately reported to Congress. A direct sales agreement involves private vendors contracting back to a DOD maintenance facility for labor to be performed by DOD employees. OSD guidance requires that sales of articles and services by DOD maintenance depots to entities outside of DOD, when work is accomplished by DOD employees, shall be reported as public-sector work. However, we found that the reporting of the distribution of private- and public-sector workload for direct sales agreements may not be accurate. With a direct sales agreement, there is no requirement for the private vendor to identify and break out the contract costs, such as materials and other factors of production, and allocate them to expenses performed by the private vendor or the public depot. We found the use of direct sales agreements by the Air Force may have resulted in an overstatement of private-sector funds, with a corresponding understatement of public-
sector funds. In addition, we found similar instances in the Army where work performed by the public sector under a direct sales agreement with a private vendor may have been misreported as being performed by the private sector. Although we were unable to fully evaluate the extent to which costs associated with these types of contract agreements were misreported, until private vendors break out direct sales agreement costs by the private and public sectors, DOD’s reporting of 50-50 funding allocation may remain inaccurate.

We identified several other errors that resulted in inaccurate reported 50-50 data for the Navy and Army. As we reported in previous years, we identified two areas that continue to be excluded from the Navy’s 50-50 reporting. First, the Navy did not report any depot maintenance work on aircraft carriers performed while nuclear refueling. Navy officials cited the exclusion of nuclear refueling in 10 U.S.C. § 2460(b)(1) and guidance from the General Counsel’s office in the Department of the Navy as reasons for not including $115 million in depot maintenance work performed on aircraft carriers while nuclear refueling. However, we continue to believe that depot repairs not directly associated with the task of nuclear refueling should be reported. Second, the Navy, as in prior years, continues to inconsistently report ship-inactivation activities related to the servicing and preservation of systems and equipment before ships are placed in storage or in an inactive status. The Navy did not report $14.4 million of private-sector allocations for inactivation work on nonnuclear ships, even though it reported inactivation activities on nuclear ships. The Navy contends that the work for nuclear ship inactivation is complex while the work for nonnuclear ships is not. We continue to maintain that all such depot-level work should be reported, since the statute and implementing guidance do not make a distinction based on complexity. In addition, our review of the Marine Corps data found that it underreported the private-sector total and overreported the public-sector total by about $1.5 million. This amount was for depot-level maintenance that was performed in a public depot by contractor personnel, which was misreported as public sector rather than private sector.

We also identified several data inaccuracies in the Army’s 50-50 data. For example, one Army depot failed to include approximately $31 million of private contract work it had outsourced for depot maintenance in its 50-50 report. An Army official said that they had not known that this type of contract work should be included in 50-50 reporting, but they now plan to include it in future submissions. Our review also determined that several Army omissions, totaling approximately $53 million, were due to misinterpretation of the guidance regarding modifications and remanufacturing. The OSD guidance provides information about what to include and not to include in reporting depot maintenance with regard to upgrades, modifications, and remanufacturing. An Army official acknowledged that there has been confusion over what to report for 50-50 depot maintenance and stated the Army is in the draft stages of updating the Army’s Depot Maintenance Workload Distribution Reporting Procedures. In addition, the Army’s 50-50 data contained errors totaling approximately $4 million due to changes in program costs. Finally, our review of the Army’s data found miscellaneous errors, including one instance of double counting and the transposition of numbers in some entries.

DOD Took Actions to Improve 50-50 Reporting, but Deficiencies Affecting Data Accuracy Have Persisted

During our review we noted actions taken by OSD and the military services that, while not fully implemented, provided some improvement in the 50-50 reporting process. For example, OSD, in its 50-50 guidance, added a new requirement that the military services include variance analyses in their submissions of 50-50 data. The services performed variance analyses; however, these were at a very high level and provided little detail on how the fiscal year 2005 allocations differed from the prior year’s data. OSD guidance also included a new requirement that the services maintain records and reports for 50-50 data for at least 2 years, although we did find two instances where reporting locations could not provide backup documentation for their 50-50 data. In addition, as in previous years, OSD instructed the services to use a third-party reviewer, such as a service audit agency, to validate their data prior to submission. However, due to time constraints, each service audit agency performed only a limited review of the service’s data. For example, the Air Force directed its audit service to perform a limited review that focused on two issues. Additionally, each service headquarters continued to provide some form of training for its 50-50 reporting activities, although no service required attendance by all individuals involved in 50-50 data gathering and reporting. Guidance issued by OSD emphasized, but did not require, training for individuals involved in the 50-50 process. In one instance, an official who was responsible for querying the 50-50 information from the
service’s data systems was unaware that any training was ever offered for 50-50 reporting.

Our work over the last several years has identified a number of persistent deficiencies, such as inadequate management attention and review, which have affected the quality of reported 50-50 data. DOD has not implemented recommendations we made last year to address these deficiencies. In prior years’ reports, we have identified problems in 50-50 data accuracy attributable to deficiencies in management attention, controls, and oversight; documentation of procedures and retention of records; independent validation of data; training for staff involved in the 50-50 process; and guidance. DOD has taken steps over the years to improve 50-50 reporting in response to our recommendations, but we have found that some deficiencies have persisted, including inadequate management attention and review, limited review and validation of data by independent third parties, and inadequate staff training. In our November 2005 report, we concluded that the recurring nature of deficiencies in 50-50 reporting indicates a management control weakness that DOD should disclose in its annual performance and accountability report to Congress.\(^\text{10}\) By doing so, DOD would increase the level of management attention and help focus improvement efforts so that the data provided to Congress are accurate and complete. DOD partially concurred with this recommendation, stating that systemic changes to the 50-50 reporting process had already been made in response to previous recommendations. DOD did not disclose 50-50 reporting as a management control weakness in its most recent performance and accountability report. An OSD official responsible for developing the annual 50-50 report to Congress noted that completion of the department’s Enterprise Transition Plan\(^\text{11}\) would result in more accurate 50-50 reporting.

As we have previously reported, DOD’s April 2006 report satisfies the annual mandate as required by 10 U.S.C. § 2466(d). In our November 2005 report, we stated that DOD could enhance the usefulness of its report for congressional oversight by providing additional information. For example, we recommended that DOD add information such as variance analyses

\(^{10}\) For a discussion of this issue, see GAO, Depot Maintenance: Persistent Deficiencies Limit Accuracy and Usefulness of DOD’s Funding Allocation Data Reported to Congress, GAO-06-88 (Washington, D.C.: Nov. 18, 2005).

\(^{11}\) In September 2005, DOD issued the Enterprise Transition Plan as part of its program to modernize business systems.
that identify significant changes from the prior year’s report and the
reasons for these variances, longer term trend analyses, an explanation of
methodologies used to estimate workload allocation projections for the
current and ensuing fiscal years, and plans to ensure continued
compliance with the 50-50 requirement, including decisions on new
weapon systems maintenance workload sourcing that could be made to
support remaining within the 50 percent threshold. DOD partially
concorded with this recommendation and stated that producing the types
of information we suggested would require a massive undertaking and
may be of limited value. We disagreed and, on the basis of DOD’s
response, added a matter for congressional consideration suggesting that
Congress require the Secretary of Defense to enhance the department’s
annual 50-50 report as stated in our recommendations. In the April 2006
report, DOD did not make changes consistent with our recommendations,
nor has Congress acted.

Fiscal Year 2006 and
2007 Projections Are
Not Reasonable Due
to Data Inaccuracies

DOD’s reported projections for fiscal years 2006 through 2007 do not
represent reasonable estimates of public- and private-sector depot
maintenance funding allocations, in part because some errors in DOD’s
fiscal year 2005 data are carried into the projected years. As shown in table
2, the Army and the Navy projected that their private-sector depot
maintenance allocations will remain below the 50 percent limitation for
fiscal years 2006 and 2007. The Air Force projected that it will remain
below the limitation for fiscal year 2006, but will exceed the limitation for
fiscal year 2007.

<table>
<thead>
<tr>
<th>Private sector</th>
<th>Public sector</th>
<th>Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Army</td>
<td>40.3%</td>
<td>47.5%</td>
</tr>
<tr>
<td>Navy</td>
<td>45.1%</td>
<td>41.2%</td>
</tr>
<tr>
<td>Air Force</td>
<td>48.4%</td>
<td>50.2%</td>
</tr>
</tbody>
</table>

Source: DOD.

Notes: Based on data from DOD’s April 6, 2006, reported 50-50 data. The Department of the Navy
includes the Marine Corps.

Errors similar to those we identified in fiscal year 2005 reported data
could affect these projections, as the Air Force is moving closer to the
threshold for private-sector funding in fiscal year 2006 (48.4 percent) and
beyond the threshold in fiscal year 2007 (50.2 percent). If the adjustments
we made to the Army’s fiscal year 2005 data—increasing the private-sector percentage by about 0.6 percentage points—are carried forward into fiscal year 2007 projections, it could cause the Army to come within 2 percent of the 50 percent limitation on contracting for depot-level maintenance and repair. When spending projections reflect data within 2 percent of the 50 percent limitation in a fiscal year, OSD guidance directs the components to submit a plan that identifies actions to be taken to ensure continued compliance. This plan shall include identification of decisions on candidate maintenance workload sourcing that could be made to support remaining within compliance with the 50 percent limitation. In addition, we found an error of approximately $1.6 million in the Army’s fiscal year 2006 projections, which further limits the accuracy of reported projections. Furthermore, DOD’s projected fiscal year 2006 and fiscal year 2007 allocations are based on the President’s budget numbers and often did not include supplemental funds, which can change the percentage allocations. However, in the case of some Air Force depot projections, supplemental funds are included in the projections if the amounts are already known. These limitations affect the reasonableness of the data reported as projections of future funding allocations.

While the Army and Navy project compliance with the 50-50 requirement through fiscal year 2007, the Air Force’s fiscal year 2006 projections are within 2 percent of the 50 percent limitation and its fiscal year 2007 projections exceed the 50 percent limitation by 0.2 percent. To avoid breaching the 50 percent threshold, the Air Force is implementing a plan to ensure compliance in fiscal years 2007 through 2010. Under this plan, the Air Force is identifying and evaluating candidate weapon system programs for shifting maintenance workload from the private sector to the public sector. The Air Force has committed resources and approved shifting some maintenance associated with the F-100 engine beginning in fiscal year 2006. The Air Force plan shows that a total workload of $68 million associated with the F-100 engine could be shifted to the public sector, enabling the Air Force to achieve compliance with the 50-50 requirement in fiscal year 2007. The Air Force is also evaluating workload associated with the KC-135 aircraft, the C-17 aircraft, the B-2 aircraft, the F-119 engine, and the F-117 engine that may be shifted to the public sector.

Conclusions

The errors we identified in DOD’s April 2006 50-50 report—while not extensive—are indicative of the long-standing problems DOD has encountered in providing accurate depot maintenance funding allocation data to Congress. We have previously observed that the usefulness of the annual 50-50 report to Congress is limited because of data reliability
concerns. Our prior reports identified data inaccuracies and recommended corrective actions aimed at addressing deficiencies that limited the accuracy of 50-50 reporting. In addition, we have recommended actions that Congress could take to improve the reliability and usefulness of DOD’s annual report. Our current review shows that while DOD has taken some additional actions to improve the quality of reported data for fiscal year 2005, it has not fully addressed the persistent deficiencies that have limited 50-50 data accuracy in the past. DOD’s report presented an inaccurate measure of the balance of funding between the public and private sectors due to inconsistencies in reporting expenditures rather than obligations, and inaccurate distribution of reporting of allocations from interservice and direct sales agreements. Without consistent reporting of depot maintenance funding obligations, rather than a combination of expenditures and obligations, inaccurate reporting of the funding allocation between the public and private sectors will continue. Moreover, without accurate reporting of the allocation of depot maintenance workload performed by the private and public sectors under interservice and direct sales agreements, the 50-50 data reported by DOD will continue to be inaccurate.

Recommendations for Executive Action

To improve the consistency and accuracy of depot maintenance funding allocation data in DOD’s annual 50-50 report to Congress, we recommend that the Secretary of Defense take the following two actions:

- Direct the Secretaries of the Army, Navy, and Air Force and the Commandant of the Marine Corps to follow OSD guidance and report funding obligations rather than expenditures.
- Direct the Under Secretary of Defense for Acquisition, Technology, and Logistics, in conjunction with the Secretaries of the Army, Navy, and Air Force, and the Commandant of the Marine Corps, to establish measures to ensure proper accounting of the allocation of interservice workloads between the public and private sectors.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD concurred with our recommendations. Regarding our recommendation that the military services follow guidance and report funding obligations rather than expenditures, DOD stated that it will be specific in its guidance on 50-50 reporting and require organizations to report obligations rather than expenditures. Also, DOD stated that Army guidance and training will address our findings. Consistent with our recommendation, we believe that the Air Force, Navy, and Marine Corps also should take appropriate
steps to ensure that obligations are reported. Regarding our recommendation that measures be established to ensure proper accounting of the allocation of interservice workloads, DOD said that its guidance will require component audit agencies to specifically validate interservice data prior to submitting the 50-50 report to the department. Validation of interservice data would meet the intent of our recommendation.

DOD also stated that it did not agree with our adjustments to the work accomplished during the nuclear refueling of aircraft carriers and for inactivation work on nonnuclear ships. DOD stated that all costs during nuclear aircraft carrier refueling are properly excluded and conventional ship inactivation workload is not considered depot-level maintenance. We have had a long-standing disagreement with DOD on including funding for these two areas in its 50-50 report. For the past several years we have maintained that DOD should include these funds, while DOD has disagreed. Our reasons for including these adjustments are discussed in this report.

DOD's written comments are reprinted in appendix III. DOD also provided technical comments which we have incorporated as appropriate.

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 staffs have any questions on the matters discussed in this report, please contact me at (202) 512-8365 or solisw@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 are listed in appendix IV.

William M. Solis
Director, Defense Capabilities and Management
To determine whether the military departments provided accurate data in reporting depot maintenance funding allocations and whether they met the 50-50 requirement for fiscal year 2005, we reviewed military services’ procedures and internal management controls for collecting and reporting their depot maintenance allocations. We discussed with key officials the process used to identify and report depot maintenance workload allocation between the public and private sectors. We selected a nonprobability sample of reported 50-50 obligations totaling $2.7 billion of the reported $26.4 billion reported in the Department of Defense’s (DOD) report to Congress on depot maintenance funding allocation. We based our sample on previously identified areas of concern, varying program amounts, and selected locations for our site visits. We also contacted service audit agencies and third-party officials at service headquarters to discuss their verification review of the fiscal year 2005 50-50 obligation data. We did not conduct a review of all reported 50-50 data; therefore, there may be additional errors, omissions, and inconsistencies that were not identified. Because we used a nonprobability sample, our results cannot be projected.

We visited departmental headquarters, major commands, and selected maintenance activities. We interviewed service officials responsible for data collection, and we reviewed the reported data for accuracy and completeness. We compared reported amounts to funding documents, contracts, and accounting reports for selected programs for all the military services, but we placed greater emphasis on the Army data because the Army was close to the 50 percent threshold for fiscal year 2005.

To determine the actions taken by the Office of the Secretary of Defense (OSD) and military departments to improve the quality of the reported 50-50 data and implementation of GAO’s prior year’s recommendations, we reviewed the results of studies conducted by the service audit agencies and reconciled areas of concern identified during prior years’ audits. We also reviewed prior years’ recommendations to find out whether known problem areas were being addressed and resolved. We discussed with officials actions they took to improve 50-50 data gathering and reporting processes.

To determine the reasonableness of fiscal year 2006 and 2007 projections, we discussed with service officials how they developed their projections and whether historical funding information and known increases in funding were included in their projections. Our analysis of the data for fiscal years 2006 and 2007 was limited because our current and past work on this issue has shown that DOD’s 50-50 data cannot be relied upon as a
Appendix I: Scope and Methodology

precise measure of allocation of depot maintenance funds between the public and private sectors. We discussed with Air Force officials reasons for the increase in their fiscal year 2007 projection and their plans to avoid breaching the 50 percent limitation.

Appendix II: GAO Adjustments to Army Fiscal Year 2005 Reported Data

Our review of the Army’s data supporting the Department of Defense’s (DOD) fiscal year 2005 50-50 report identified the following adjustments.

Table 3: Adjustments to Army Fiscal Year 2005 Reported Data

<table>
<thead>
<tr>
<th>Site</th>
<th>Public adjustment (+/-)</th>
<th>Private adjustment (+/-)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anniston Army Depot</td>
<td>$35,779.00</td>
<td>-$35,779.00</td>
<td>Contract amount overreported</td>
</tr>
<tr>
<td></td>
<td>$33,212.93</td>
<td>-$33,212.93</td>
<td>Contract amount overreported</td>
</tr>
<tr>
<td>Red River Army Depot</td>
<td>-$1,482,178.10</td>
<td>$1,482,178.10</td>
<td>Private carryover work misreported</td>
</tr>
<tr>
<td></td>
<td>-$30,823,990.55</td>
<td>$30,823,990.55</td>
<td>Outsourced contract work misreported</td>
</tr>
<tr>
<td></td>
<td>$245,011.00</td>
<td>-$245,011.00</td>
<td>Miscellaneous math errors in report</td>
</tr>
<tr>
<td>U.S. Army Tank-automotive and Armaments Command (TACOM)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Cycle Management Command</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$742,490.00</td>
<td></td>
<td>Reset work underreported due to changes in program costs</td>
</tr>
<tr>
<td></td>
<td>-$5,156,575.00</td>
<td></td>
<td>Reset work overreported due to double counting</td>
</tr>
<tr>
<td></td>
<td>$11,170,845.00</td>
<td></td>
<td>M9 Armored Combat Earthmover (M9 ACE) work unreported due to not reporting all applicable amounts</td>
</tr>
<tr>
<td></td>
<td>$39,445,735.53</td>
<td></td>
<td>Heavy Expanded Mobility Tactical Truck (HEMTT) work unreported due to guidance misinterpretation</td>
</tr>
<tr>
<td></td>
<td>-$127,738.97</td>
<td></td>
<td>High Mobility Multipurpose Wheeled Vehicle (HMMWV) work overreported due to changes in program costs</td>
</tr>
<tr>
<td></td>
<td>$1,848,952.51</td>
<td></td>
<td>High Mobility Multipurpose Wheeled Vehicle (HMMWV) work underreported due to changes in program costs</td>
</tr>
<tr>
<td></td>
<td>$13,953,000.00</td>
<td></td>
<td>Bradley work unreported due to guidance misinterpretation</td>
</tr>
<tr>
<td></td>
<td>-$500,580.00</td>
<td></td>
<td>Abrams work overreported due to changes in program costs</td>
</tr>
<tr>
<td></td>
<td>$504,278.50</td>
<td></td>
<td>Bradley work underreported due to changes in program costs</td>
</tr>
<tr>
<td></td>
<td>$302,546.90</td>
<td></td>
<td>Bradley work underreported due to changes in program costs</td>
</tr>
<tr>
<td>Total Army adjustments</td>
<td>-$5,947,324.19</td>
<td>$68,130,278.66</td>
<td></td>
</tr>
</tbody>
</table>

Source: GAO analysis of DOD data.
Appendix III: Comments from the Department of Defense

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-07-126, ‘DEPOT MAINTENANCE: Actions Needed to Provide More Consistent Funding Allocation Data to Congress,’ dated October 13, 2006 (GAO Code 350818).

The Department is committed to providing accurate data in its annual report on depot maintenance funding allocation and has made significant improvements over the last several years. Many of those improvements are as a result of GAO recommendations. These improvements include:

- Performance of variance analyses at each reporting activity level to preclude report omissions, data transcription errors, and correct over-reported data.
- Third party review of Service data prior to submission to OSD.

As in previous years, the DoD does not agree with the two GAO adjustments to the work accomplished during the nuclear refueling of aircraft carriers, and private-sector allocations for inactivation work on non-nuclear ships. As reported in previous years, DoD states that all costs during nuclear aircraft carrier refueling are properly excluded, and conventional ship inactivation workload is not considered depot level maintenance, therefore properly excluded, and not omitted.

The Department’s comments on the GAO recommendations are enclosed.

Sincerely,

[Signature]

Jack Bell

Enclosure:
As stated
Appendix III: Comments from the Department of Defense

GAO DRAFT REPORT – DATED October 13, 2006
GAO CODE 350818/GAO-07-126

"DEPOT MAINTENANCE: Actions Needed to Provide More Consistent Funding Allocation Data to Congress"

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Secretaries of the Army, Navy, Air Force and the Commandant of the Marine Corps to follow OSD guidance and report funding obligations rather than expenditures.

DOD RESPONSE: Concur. The DoD has made steady progress over the years in improving the 50-50 reporting process and quality of data reported to the Congress. To further improve this quality the data call guidance from the Secretary of Defense for Distribution of DoD Depot Maintenance Workloads will be specific to require obligations rather than expenditures, and the Army guidance and training will specifically address the GAO findings.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics in conjunction with the Secretaries of the Army, Navy, Air Force, and the Commandant of the Marine Corps, to establish measures to ensure proper accounting of the allocation of interservice workloads between the public and private sectors.

DOD RESPONSE: Concur. The data call guidance from the Secretary of Defense for Distribution of DoD Depot Maintenance Workloads will require DoD component audit agencies to specifically validate interservice data prior to submission to the department for the next 50/50 report to Congress.
## Appendix IV: GAO Contacts and Staff

### Acknowledgments

Key contributors to this report include Thomas Gosling, Assistant Director; Connie W. Sawyer, Jr.; Janine Cantin; Clara Mejstrik; Stephanie Moriarty; and Renee Brown.

<table>
<thead>
<tr>
<th>GAO Contact</th>
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