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

Defense Logistics: Marine Corps and Army Reset Liability Estimates

Since 2001, the Marine Corps and Army have spent billions of dollars to reset equipment, including equipment returning from operations in Iraq and Afghanistan. Reset refers to the repair, recapitalization, or replacement of equipment.[1] Reset can include depot (sustainment) and field-level maintenance and supply activities that restore and enhance combat capability to equipment used in combat operations. The Marine Corps and Army have identified a multibillion dollar reset liability as they seek to complete their reset efforts.[2] In April 2014, Marine Corps leadership stated that the Marine Corps' reset liability declined from an estimated $3.2 billion to a remaining $1.0 billion as the Marine Corps makes progress in completing reset.[3] At that time, the Army projected a need for just over $6.0 billion for reset.[4] As of February 2015, Marine Corps officials anticipate they will complete their reset efforts in fiscal year 2017. Army reset is expected to continue 2 to 3 years after the end of major overseas operations; consequently, there is not a specific end date for Army reset.

Service officials have stated that inadequate reset funding can directly decrease military readiness. For example, in April 2014, a senior Army official described a fully funded Army reset program as critical to ensuring that equipment worn and damaged by prolonged conflict is

[1]A January 2007 Department of Defense (DOD) memorandum regarding the use of consistent terms in congressional testimony defined reset, in part, as actions taken to restore units to a desired level of combat capability commensurate with the units' future mission. Deputy Under Secretary of Defense for Logistics and Materiel Readiness memorandum, *Resetting the Force (RESET) and Depot Maintenance Capacity and Utilization* (Jan. 26, 2007).

[2]For the purposes of this report, reset liability estimates are the amount of funding that may be required by a service to return its equipment to combat-ready condition.

[3]This is the most recent Marine Corps reset liability estimate that is available. Statement of General John M. Paxton Jr., Assistant Commandant, United States Marine Corps, before the House Committee on Armed Services, Subcommittee on Readiness, 113th Cong., 2nd sess., April 10, 2014. Marine Corps officials explained to us that the $3.2 billion reset liability estimate was for fiscal years 2013 through 2016 and that the revised $1.0 billion reset liability estimate was for the fiscal years 2015 and 2016 timeframe.

[4]This is the most recent Army reset liability estimate that is available. Statement of General John F. Campbell, Vice Chief of Staff, United States Army, before the House Committee on Armed Services, Subcommittee on Readiness, 113th Cong., 2nd sess., April 10, 2014.

recovered and restored for future Army requirements.[5] The official testified that the Army had deferred equipment reset amounting to more than $700 million and that in the event of a crisis the Army would deploy units at a significantly lower readiness level.[6] We have previously reported on challenges affecting the reset of Marine Corps and Army equipment. For example, in 2007 we reported about the importance of detailed information on reset expenditures and obligations, and concluded that Congress needed visibility to exercise effective oversight of reset programs.[7] Specifically, we found that Marine Corps and Army reset liability estimates are used to inform the services' budgetary submissions and are part of the information decision makers need for effective management.

Senate Committee Report 113-176, accompanying S.2410, a bill for the National Defense Authorization Act for Fiscal Year 2015, included a provision for GAO to provide the Senate Armed Services Committee with an assessment of the Marine Corps' and Army's reset liability estimates.[8] This report describes the processes that the Marine Corps and Army use in producing reset liability estimates, including the extent to which the services use a consistent definition of reset in producing reset liability estimates and use similar cost factors and assumptions in producing those estimates. We provided a briefing of our results to your staff on March 27, 2015. This report transmits the updated briefing regarding the final results of our work in response to the provision in Senate Committee Report 113-176 (see enc).

To conduct our work, we reviewed Marine Corps and Army guidance such as the Marine Corps Operation Enduring Freedom Ground Equipment Reset Strategy and the Army Materiel Maintenance Policy. We also reviewed documentation of reset activities such as the Marine Corps Ground Equipment Reset Playbook; the Office of the Under Secretary of Defense (Comptroller) budget documentation; and testimonies and statements of senior Department of Defense (DOD) officials before congressional committees concerning reset activities. To obtain information about the production of reset liability estimates, we interviewed officials from the Marine Corps Logistics Command; Systems Command; Headquarters, Installations and Logistics; and Headquarters, Programs and Resources. We also interviewed officials from the Army Headquarters G-4 (Office of the Deputy Chief of Staff of the Army, Logistics); the G-8 (Office of the Deputy Chief of Staff of the Army, Force Development); and the Deputy Assistant Secretary of the Army for Budget. Finally, we interviewed officials from the Office of the Secretary of Defense, Office of Cost Assessment and Program Evaluation. To illustrate similarities and differences between how the Marine Corps and Army produce their reset liability estimates, we selected an equipment item used by the two services. Specifically, we selected the 155 millimeter (MM) towed howitzer after considering major ground equipment items that are common to both services and that are being reset as they return from Afghanistan.[9]

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[5]Statement of General John F. Campbell, April 10, 2014.

[6]Testimony of General John F. Campbell, Vice Chief of Staff, United States Army, before the House Committee on Armed Services, Subcommittee on Readiness, 113th Cong., 2nd sess., April 10, 2014.

[7]GAO, *Defense Logistics: Army and Marine Corps Cannot Be Assured That Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements*, GAO-07- 814 (Washington, D.C.: Sept. 19, 2007).

[8]*See* S. Rep. No. 113-176, at 80-81 (2014).

[9]The towed howitzer is a 155 millimeter field artillery piece. It is constructed of aluminum and steel so as to be air transportable by a CH-53E helicopter or a C-130 or larger fixed-wing aircraft.

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

In summary, according to department officials, there is no DOD guidance for the services to use as they produce their reset liability estimates. In the absence of a standard DOD process for producing reset liability estimates, the Marine Corps and Army each developed its own process. Although there are similarities in the services' processes, there also are key differences. Specifically, the services use the same definition of reset in preparing their estimates, which is defined in a January 2007 DOD memorandum, in part, as actions taken to restore units to a desired level of combat capability commensurate with the units' future mission.[10] However, the services apply that definition to different categories of equipment and calculate reset liability over different periods. For example, the Marine Corps' reset liability estimate includes ground equipment, while the Army estimate includes both ground and aviation equipment. Also, the Marine Corps' reset liability estimate covers all fiscal years until reset is complete while the Army estimate covers a 2-year period (current fiscal year and next fiscal year) even though reset may not be completed within those 2 fiscal years.

Further, we found that when producing their estimates, the Marine Corps and Army use similar cost factors, such as parts and labor. However, the services make different assumptions about the condition—worst case or historical average—of the returning equipment that they will reset.[11] Service-unique differences can yield varying reset costs and reset estimates for an item common to both services. In making differing assumptions about condition, each service can differ on the estimated unit repair cost for a piece of equipment common to each service scheduled for reset in the same year.[12] For example, in fiscal year 2014, the services projected different amounts needed to repair each 155MM towed howitzer planned for reset:

- the Marine Corps estimated the unit repair cost to be $311,090 and
- the Army estimated the unit repair cost to be $246,778.

In addition to differing assumptions about the condition of the returning equipment, DOD officials noted that other service-unique differences can yield varying reset estimates and reset costs for an item common to both services. Such process differences result in reset liability estimates that are not comparable.

The services' processes that produce reset liability estimates may change as a result of DOD action mandated by legislation. Section 324 of the National Defense Authorization Act for Fiscal Year 2014 requires DOD to establish a policy setting forth the department's programs and priorities for the retrograde, reconstitution, and replacement of units and materiel—which would

[10]Deputy Under Secretary of Defense for Logistics and Materiel Readiness memorandum, *Resetting the Force (RESET) and Depot Maintenance Capacity and Utilization*.

[11]The Marine Corps assumption is that an equipment item will return from combat in a worst-case condition such that the maximum allowable amount will likely be needed to reset the item. The Army assumption is that an item will return in such condition that the amount needed to reset the item will likely equal the historical average spent to repair the item.

[12]Unit repair cost refers to the amount of funding to reset a single piece of equipment, and such costs are aggregated to generate reset liability estimates.

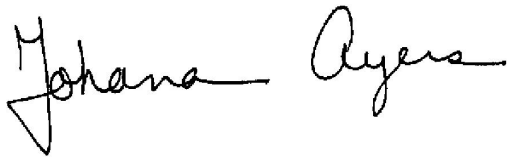
include reset—used to support overseas contingency operations, along with an implementation plan.[13] Once issued, DOD's policy and implementation plan may influence the services' processes that produce reset liability estimates. DOD submitted a classified report in November 2014 in response to this mandate and we have initiated a review of that report.

For additional information about the results of our review, please see the enclosure.

We are not making recommendations in this report. We provided a draft of this report to DOD for review and comment. DOD did not provide written comments to include in this report; however, DOD provided technical comments that we incorporated as appropriate.

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

If you or your staff members have any questions about this report, please contact me at (202) 512-5741 or ayersj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report include Guy LoFaro; Assistant Director; Carol Petersen; Richard Powelson; Paulina Reaves; Terry Richardson; Michael Shaughnessy; Roger Stoltz; and Steve Woods.



Johana Ayers
Director, Defense Capabilities and Management

Enclosure

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[13] *See* National Defense Authorization Act for Fiscal Year 2014, Pub. L. No. 113-66, § 324 (2013) (10 U.S.C. § 129a note). DOD must submit to the congressional defense committees a plan for implementation of the policy including, among other things, an estimate of the resources that will be needed by service and by year to implement the plan.

Enclosure: GAO's Briefing for the Senate Armed Services Committee

[Refer to accessible version of Briefing Slides, "GAO-15-569R_Briefing_Slides.pdf"]

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