



Highlights of [GAO-05-441](#), a report to the Chairman, Subcommittee on Defense, Committee on Appropriations, House of Representatives

## Why GAO Did This Study

The Army depot maintenance activity group received about \$2.6 billion of orders in fiscal year 2004 to repair helicopters, combat vehicles, and air defense systems. To perform this work, the group operates under the working capital fund concept, where customers are to be charged the anticipated costs of providing goods and services to them. GAO was asked to determine (1) if prices charged by the group have increased and, if so, why; (2) how the group allocates gains or losses incurred at the individual depot level; and (3) if the group exceeded its allowable carryover ceilings and the reasons for exceeding the ceilings. GAO was also asked to determine if the Army encountered problems implementing a new system, the Logistics Modernization Program (LMP), at the Tobyhanna Army Depot.

## What GAO Recommends

GAO is making recommendations to DOD to (1) analyze material cost increases and take steps to reduce them, (2) allocate gains or losses to the individual depot incurring them, and (3) comply with the carryover policy. Further, GAO is recommending improvements in the implementation of LMP as well as delaying implementation at the remaining four depots until problems encountered have been resolved. DOD concurred with all the recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-05-441](http://www.gao.gov/cgi-bin/getrpt?GAO-05-441).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-9505 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

# ARMY DEPOT MAINTENANCE

## Ineffective Oversight of Depot Maintenance Operations and System Implementation Efforts

### What GAO Found

GAO identified four management weaknesses that are impairing the efficiency and effectiveness of Army depot maintenance operations. The activity group's average sales price increased from \$111.87 per hour for fiscal year 2000 to \$147.07 per hour for fiscal year 2005—a 31 percent increase (21 percent if adjusted for inflation). An increase in material costs was the major driver of the sales price increase. The Army has identified some causes of the higher material costs such as increased material usage to rebuild certain weapon systems under the Army's recapitalization program and higher prices that it pays suppliers for parts, but it has not completed a comprehensive analysis of material cost increases. As a result, the Army has not been able to take proactive steps to control rising material costs.

GAO analysis showed that in setting future prices, the Army spread depot maintenance reported gains and losses across all depots rather than allocating them to the individual depot that incurred the gains or losses. While DOD policy does not specify how to allocate gains and losses at the depot level, this practice does not provide the right incentives to the depots to set prices correctly in the budget. If one depot consistently incurred losses, the Army would increase the prices at other depots to help recoup its losses. As a result, the depot incurring the losses is not held accountable for operating on a break-even basis. The end result of this practice is that customers of depots with consistent losses are, in effect, subsidized by customers of depots with consistent gains.

GAO analysis also showed that the reported carryover (work not completed at fiscal year end) exceeded DOD's carryover ceilings from fiscal year 1996 through fiscal year 2003. Too much carryover could result in an activity group receiving funds from customers in one fiscal year but not performing the work until subsequent fiscal years. Factors contributing to carryover exceeding the ceilings include depots receiving new orders at fiscal year-end and not being able to obtain parts needed in a timely manner.

Finally, the Army continued to encounter problems implementing a new system intended to improve depot operations. GAO previously reported on these problems in May 2004, and noted that the Army's inadequate requirements management and system testing were primary contributing factors to the problems. These problems are preventing the Tobyhanna Army Depot from accurately reporting on its financial operations, which, in turn, adversely impacts the depot's ability to accurately set prices. GAO's current review found that the Army has not put into place an effective management process to help ensure that the problems with the system are resolved. While the Army developed a process that identified the specific steps that should be followed in addressing the problems identified, the process was not followed. Until the underlying causes of the problems are corrected, other depots implementing LMP will encounter similar problems.