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DEPOT MAINTENANCE

Persistent Deficiencies Limit Accuracy and Usefulness of DOD's Funding Allocation Data Reported to Congress



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-06-88](#), a report to congressional committees

Why GAO Did This Study

Under 10 U.S.C. § 2466, the military departments and defense agencies can use no more than 50 percent of annual depot maintenance funding for work performed by private-sector contractors. The Department of Defense (DOD) must submit a report to Congress annually on the division of depot maintenance funding between the public and private sectors during the preceding fiscal year and projected distribution for the current and ensuing fiscal years. As required, GAO reviewed the report submitted in April 2005 and is, with this report, submitting its views to Congress on whether (1) the military departments complied with the “50-50 requirement” for fiscal year 2004 and (2) the projections for fiscal years 2005 and 2006 represent reasonable estimates. Additionally, GAO is assessing whether the data currently provided in DOD’s annual 50-50 report are useful to Congress in exercising its oversight role.

What GAO Recommends

GAO recommends that DOD improve the accuracy, reliability and usefulness of depot maintenance workload allocation data submitted to Congress. DOD partially concurred with the recommendations but did not indicate specific actions it would take. GAO suggests the Congress require DOD to enhance its annual 50-50 report as stated in GAO’s recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-88.

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

DEPOT MAINTENANCE

Persistent Deficiencies Limit Accuracy and Usefulness of DOD's Funding Allocation Data Reported to Congress

What GAO Found

As in previous years, systemic weaknesses in DOD’s financial systems and persistent deficiencies in 50-50 data reporting processes continue to prevent GAO from determining whether the military departments complied with the 50-50 requirement for public- and private-sector depot maintenance funding allocations for fiscal year 2004. Persistent deficiencies, such as inadequate management attention and review to ensure accurate and complete reporting, limited independent review and validation of data by audit services or other third parties, and inadequate training for those responsible for data gathering and reporting, continue to limit the quality of the 50-50 data submitted to Congress. GAO’s previous reports over the last 7 years identified similar problems and recommended corrective actions, but DOD and the military services have failed to consistently implement corrective actions sufficient to resolve the deficiencies and alleviate data accuracy problems. The recurring nature of these problems indicates a management control weakness as defined under the Federal Managers’ Financial Integrity Act.

Reported projections do not represent reasonable estimates of public- and private-sector depot maintenance funding allocations for fiscal years 2005 through 2006 because some data errors and omissions in DOD’s prior-year report are carried into the projected years. It is difficult to project out-year data due to factors such as changing depot maintenance requirements, the ongoing consolidation of maintenance facilities, and the trend toward more contractor logistics support for new and existing weapon systems.

Although DOD’s current 50-50 report to Congress satisfies the annual mandate, it lacks additional detail that might be useful to Congress as it exercises its oversight role. The report currently submitted by DOD contains data that are aggregated at a high level and provides no analysis of changes from the prior years or long-term trends. The report also does not identify actual funding and workload distribution variances from year to year, nor explain the reasons behind them. Furthermore, it does not contain information as to the methodologies used to prepare the current and future year projections.

DOD’s Reported Fiscal Year 2004 50-50 Data and GAO’s Adjustments in Percentages

Service	Private work reported	Private work adjusted	Public work reported	Public work adjusted
Army	45.0	49.2	55.0	50.8
Navy/Marine Corps	46.2	48.5	50.2	47.7
Air Force	45.3	45.3	54.6	54.6

Sources: DOD (data); GAO (analysis).

Notes: Totals will not equal 100 percent because of rounding and legislatively excluded public-private partnerships. Shaded cells indicate percentages within 2 percentage points of the 50 percent limitation.

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Abbreviations

DOD	Department of Defense
GAO	Government Accountability Office
OSD	Office of the Secretary of Defense
U.S.C.	United States Code

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United States Government Accountability Office
Washington, D.C. 20548

November 18, 2005

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

Under 10 U.S.C. § 2466, not more than 50 percent of annual depot maintenance funding provided to the military departments and defense agencies can be used for work accomplished by private-sector contractors. Section 2466 also directs the Department of Defense (DOD) to submit a report to Congress by April 1 of each year on the percentage distribution of depot-level maintenance and repair funds between the public- and private-sectors for each military department and defense agency during the preceding fiscal year and the projected distribution for the current and ensuing fiscal years. The Secretary of Defense may waive the 50 percent limitation if he determines the waiver is necessary for national security, and he submits notification of the waiver along with the reasons for the waiver to Congress. For fiscal year 2004, DOD issued the report on April 1, 2005. All the services reported that their private sector depot maintenance allocation fell below the 50 percent funding limitation for fiscal year 2004 and will remain below the 50 percent limitation for fiscal years 2005 and 2006.

Section 2466 also requires us to review DOD's report to Congress and evaluate whether DOD complied with the so-called 50-50 requirement. This is the eighth year that we have evaluated and reported on DOD's annual 50-

50 report to Congress.¹ Specifically, this report discusses whether (1) the military departments complied with the 50-50 requirement for public and private sector depot maintenance funding allocations in fiscal year 2004 and (2) the projections for public- and private-sector depot maintenance funding allocations in fiscal years 2005 and 2006 represent reasonable estimates. Additionally, we are providing our assessment concerning whether the data currently provided by DOD in its annual 50-50 report are useful to Congress in exercising its oversight role.

To accomplish these objectives, we reviewed DOD and service-specific guidance for collecting and reporting 50-50 data, and analyzed the military services' procedures and internal management controls for validating depot maintenance information included in the reported data and for responding to the section 2466 requirements. We assessed the reliability of the reported depot maintenance workload funding allocations for fiscal year 2004 for each of the military services. To assess the reliability of DOD's data, we undertook a number of steps, including conducting variance analyses and limited testing on reported funding allocations. Based on the significance of funding variance from previous years and other factors, we selected specific locations and weapons systems for more in-depth reviews. We conducted site visits, interviewed service officials responsible for data collection, and reviewed the data for accuracy and completeness. For example, we verified reported obligations using the source documents provided by service officials. We also reviewed the results of internal studies conducted by the service audit agencies or other third parties, and reconciled areas of concern identified during prior years' audits. As discussed below, we found that the reported private- and public-sector allocation data are not reliable because of long-standing systemic

¹For the two most recent reports, see GAO, *Depot Maintenance: DOD Needs Plan to Ensure Compliance with Public- and Private-Sector Funding*, GAO-04-871 (Washington, D.C.: Sept. 29, 2004), and *Depot Maintenance: DOD's 50-50 Reporting Should Be Streamlined*, GAO-03-1023 (Washington, D.C.: Sept. 15, 2003). Other related GAO products are listed at the end of this report.

weaknesses in DOD's financial systems² and persistent deficiencies in 50-50 data reporting processes. Our analysis of projected allocations for fiscal years 2005 and 2006 was limited because our initial audit efforts identified significant recurring problems in these areas. We conducted our review from April 2005 through September 2005 in accordance with generally accepted government auditing standards. See appendix I for a more detailed description of our scope and methodology.

Results in Brief

As in previous years, systemic weaknesses in DOD's financial systems and persistent deficiencies in 50-50 data reporting processes continue to prevent us from determining whether the military departments complied with the 50-50 requirement for public- and private-sector depot maintenance funding allocations for fiscal year 2004. Our analysis of the April 2005 report submitted to Congress and the military departments supporting data identified errors, omissions, and inconsistencies in DOD funding allocation data, which, if adjusted, would increase the Army's and Navy's percentages of funding allocations going to the private sector, causing them to come very close to reaching the 50 percent private-sector limit. As a result, the data reported for fiscal year 2004 cannot be relied on to provide an accurate measure of the balance of funding between the public and private sectors or to determine if the military departments complied with the statutory limitation set by Congress for private-sector depot-level maintenance funding allocations. Persistent deficiencies, such as inadequate management attention and review to ensure accurate and complete reporting, limited independent review and validation of 50-50 data by audit services or other third parties, and inadequate training for those responsible for data gathering and reporting, continue to limit the accuracy of the 50-50 data submitted to Congress. Our previous reports over the last 7 years identified similar problems and recommended corrective actions, but DOD and the military services have failed to consistently implement corrective actions sufficient to resolve the deficiencies and alleviate data accuracy problems. The recurring nature of

²GAO has repeatedly reported about long-standing systemic weaknesses in DOD's financial systems. See GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005); *DOD Business Systems Modernization: Billions Being Invested without Adequate Oversight*, GAO-05-381 (Washington, D.C.: Apr. 29, 2005); *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, GAO-04-615 (Washington, D.C.: May 27, 2004), and *Department of Defense: Financial and Business Management Transformation Hindered by Long-standing Problems*, GAO-04-941T (Washington, D.C.: July 8, 2004).

these deficiencies in DOD's 50-50 reporting processes indicates a management control weakness significant enough to be reported in DOD's annual performance and accountability report.³ This weakness has not been disclosed in DOD's annual accountability reports to Congress even though the issues have been previously identified in prior audits.

Reported projections do not represent reasonable estimates of public- and private-sector depot maintenance funding allocations for fiscal years 2005 and 2006 because some errors and omissions in DOD's fiscal year 2004 data are carried into the projected years. In addition, it is difficult to project out-year data due to factors such as changing depot maintenance requirements, the ongoing consolidation of maintenance facilities, and the trend toward more contractor logistics support for new and existing weapon systems. These factors limit the usefulness of the reported projections to congressional and, DOD decision makers. We have reported these shortcomings with the future years projections in the past, and the problems continue to occur. The reported projection data show that all of the military services are predicting higher percentages of funding for the private sector and less for the public sector. Data inaccuracies similar to those we identified for fiscal year 2004 could affect this trend, as all of the services are moving closer to the threshold for private-sector funding. For example, while the Army projects that its funding for fiscal years 2005 and 2006 for the private sector will be around 46 percent, the magnitude of the adjustments we made to the Army's fiscal year 2004 data, when carried forward, could cause the Army to reach the limitation on 50-50. Additionally, increasing contractor maintenance support for military operations and new weapon systems scheduled to reach initial operational capability in fiscal year 2007 and beyond could result in all the military departments exceeding the 50 percent threshold. The Air Force has integrated 50-50 reporting requirements into its source of repair decisions for new weapon systems and major system modifications.

Although DOD's current 50-50 report to Congress satisfies the annual mandate, it lacks additional detail that might be useful to Congress as it exercises its oversight role. The report currently submitted by DOD

³Title 31, U.S.C. § 3512(c), (d), commonly referred to as the Federal Financial Managers' Financial Integrity Act, requires federal agencies to report on whether the agency management controls are adequate and effective and are achieving their intended objectives. Guidance on reporting on management controls is contained in Office of Management and Budget Circular A-123 (effective through fiscal year 2005) (revised June 21, 1995).

contains data that are aggregated at a high level and provides no analysis of changes from the prior years. For example, the report does not identify funding trends and workload distribution variances from the prior year, nor does it explain the reasons behind any significant variances. Furthermore, it does not contain information on the methodologies used to prepare the current and future year projections. Because of the limited data provided by the military departments in the 50-50 report, we have developed and reported these types of information as part of our mandated work over the past 7 years to better meet Congress's needs in exercising its oversight role.

We are making two recommendations to the Secretary of Defense to improve the accuracy and reliability of depot maintenance funding allocation data submitted to Congress and to provide congressional decision makers with more useful information. In commenting on a draft of this report, DOD partially concurred with our recommendations. DOD stated it has made and will continue to make improvements in data quality and accuracy. However, DOD did not indicate specific actions it would take to address the persistent deficiencies we identified or to improve the usefulness of the information provided to the Congress. Therefore, we are also suggesting that the Congress require the Secretary of Defense to enhance the department's annual 50-50 report submitted to Congress as stated in our recommendations. DOD's comments and our evaluation are discussed in detail in a later section of this report.

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 defines depot maintenance to include material maintenance or repair requiring the overhauling, upgrading, or rebuilding of parts, assemblies, or subassemblies and the testing and reclamation of equipment, regardless of the source of funds or where maintenance or repair is performed. Depot maintenance also encompasses software maintenance, interim contractor support,⁴ and

⁴Interim contractor support is an interim support arrangement in which a contractor provides depot maintenance (and sometimes other logistics support) as part of the acquisition strategy for new systems.

contractor logistics support⁵ to the extent that work performed in these categories is for depot maintenance. The statute excludes from depot maintenance the nuclear refueling of an aircraft carrier; the procurement of major modifications or upgrades of weapon systems that are designed to improve program performance; and the procurement of parts for safety modifications, although the term does include the installation of parts for safety modifications.

- Section 2474 directs DOD to designate public depots as Centers of Industrial and Technical Excellence and to improve their operations to serve as recognized leaders in their core competencies.⁶ Section 342 of the National Defense Authorization Act for Fiscal Year 2002 (Pub. L. No. 107-107, Dec. 28, 2001) amended this statute to exclude qualifying public-private partnerships,⁷ referred to as private exempt, from the 50 percent funding limitation on contracting in section 2466. Specifically, section 342 provides that the funds expended for the performance of depot-level maintenance by nonfederal government personnel located at the Centers of Industrial and Technical Excellence shall not be counted when applying the 50 percent limitation if the personnel are provided pursuant to a public-private partnership. This exclusion initially applied to depot maintenance funding for fiscal years 2002 through 2005. The exclusion later was extended to fiscal year 2006, and recently to fiscal year 2009.⁸

⁵Contractor logistics support is a lifetime support concept in which a contractor provides most or all elements of logistics support, including depot maintenance.

⁶Core competencies are depot-level maintenance capabilities to be retained in public depots to meet DOD's strategic and contingency plans and for which the military departments believe DOD should be a recognized leader in the national technology and industrial base.

⁷DOD guidance defines a "public-private partnership" for depot maintenance as an agreement between a public-sector depot maintenance activity and one or more private industry or other entities to perform work or utilize facilities and equipment. Such an arrangement includes the use of public facilities, equipment, and employees to perform work for the private sector under certain defined circumstances; private-sector use of public-sector equipment and facilities to perform work for the public sector; and work-sharing agreements using both public- and private-sector facilities, employees, or both.

⁸National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, § 334 (2002); Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 323 (2004).

Section 2466 allows the Secretary of Defense to waive the 50 percent limitation if he determines the waiver is necessary for national security. The Secretary 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.

The Office of the Secretary of Defense (OSD) issues guidance to the military departments for reporting public-private workload funding allocations. The guidance is consistent with the definition of “depot-level maintenance and repair” in 10 U.S.C. § 2460.⁹ The military services have also issued internal instructions to manage the data collection and reporting process, tailored to their individual organizations and operating environments.

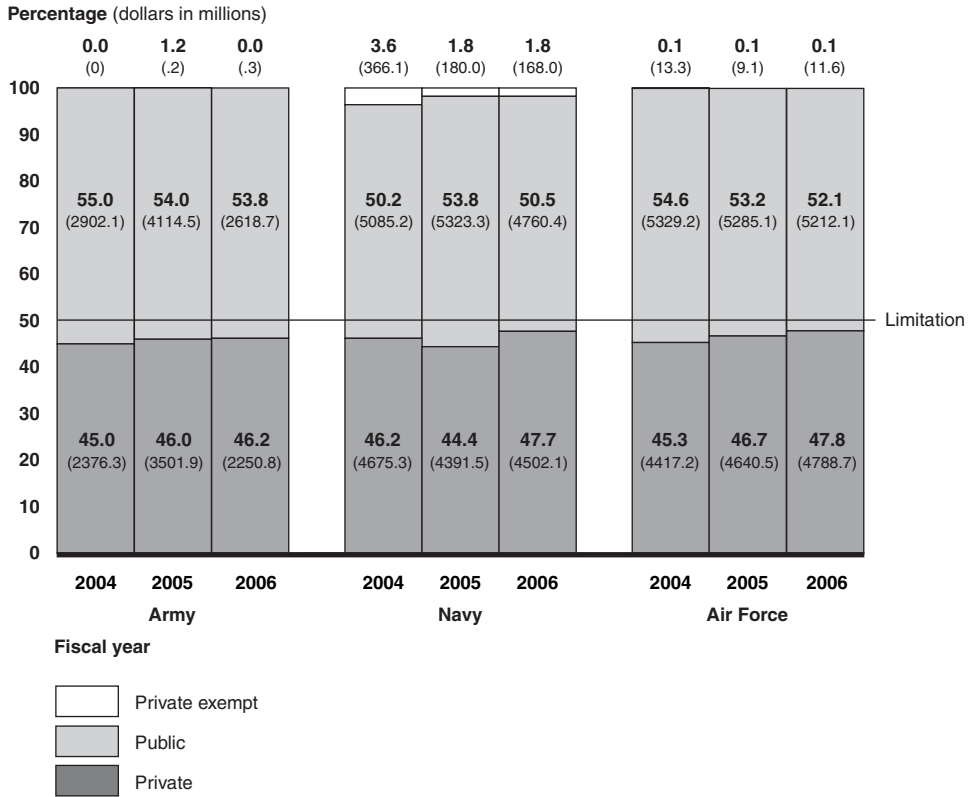
Summary of Data in DOD’s 50-50 Report Submitted in April 2005

Figure 1 summarizes DOD’s April 2005 report to Congress on public- and private-sector funding allocations for depot maintenance.¹⁰ All three departments reported that their private-sector depot maintenance allocation fell below the 50 percent funding limitation for fiscal year 2004 and will remain below the 50 percent limitation for fiscal years 2005 and 2006. The amounts shown are from DOD’s record of actual obligations incurred for depot maintenance work in fiscal year 2004 and projected obligations for fiscal years 2005 and 2006. The percentages show the department’s record of the relative allocations between the public and private sectors and the exempted workload funding.

⁹Because of the difficulty of segregating installation costs for safety modifications from costs for installing other modifications (e.g., for improved performance), OSD’s guidance specifies that all modification installation costs be reported when an installation is considered to be a depot-level service.

¹⁰Although 10 U.S.C. § 2466 specifies the reporting of funds expended in prior years and projected to be expended in future years, DOD’s past and current 50-50 reports are based on obligation data. In the past, 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.

Figure 1: DOD's Prior, Current, and Budget Year Public- and Private-Sector Allocations for Fiscal Years 2004 through 2006



Sources: DOD (data); GAO (analysis).

Notes: Based on analysis of DOD's April 1, 2005, reported 50-50 data. The Department of the Navy includes the Marine Corps.

Limitations on Use of 50-50 Data as Reported by DOD

DOD's 50-50 data, with our adjustments, only provide a rough approximation of the allocation of depot maintenance funding between the public and private sectors. Our prior reports on depot maintenance workload funding allocations have recognized systemic weaknesses in DOD's financial systems, operations, and internal controls that impede the department's ability to provide useful, reliable, and timely financial information for day-to-day management and decision making. In the financial management systems area, DOD continues to struggle in its efforts to implement systems to support managerial decision making. To date, none of the military services have passed the test of an independent financial audit. Nonetheless, the data used to develop the 50-50 report are

the only data available and are accepted by DOD and used as input to Congress for its congressional oversight.

Management Control Weaknesses Prevent Determination of Military Departments' Compliance with 50-50 Requirement for Fiscal Year 2004

As in previous years, management control weaknesses in DOD's financial systems and persistent deficiencies in 50-50 data reporting processes continue to prevent us from determining whether the military departments complied with the 50-50 requirement for public- and private-sector depot maintenance funding allocations for fiscal year 2004. DOD's April 1, 2005, report to Congress contained data errors, omissions, and inconsistencies due to persistent deficiencies, such as inadequate management attention and review to ensure accurate and complete reporting, limited independent review and validation of 50-50 data by audit services or other third parties, and inadequate training for those responsible for data gathering and reporting. As a result, the data reported for the prior year cannot be relied on to provide an accurate measure of the balance of funding between the public and private sectors or to determine if the military departments complied with the statutory limitation set by Congress for private-sector depot-level maintenance funding allocations. The recurring nature of these deficiencies indicates a management control weakness in DOD's 50-50 data reporting processes significant enough to be reported in DOD's annual performance and accountability report. This weakness has not been disclosed in DOD's annual accountability reports to Congress, even though the issues have been identified in prior audits.

DOD's April 2005 Report to Congress Contained Data Errors, Omissions, and Inconsistencies

DOD's April 1, 2005, report to Congress contained errors, omissions, and inconsistencies in the depot maintenance funding allocation data for fiscal year 2004. The net effects of correcting the data inaccuracies we identified would increase the Army's and Navy's percentages of funding allocations going to the private sector, causing both military departments to come very close to the 50 percent private-sector limitation. Although we also found inaccuracies in the Air Force data, adjusting for them does not change the funding allocation distribution percentages. Table 1 summarizes the amounts and effects of our adjustments to DOD's reported depot funding allocation data for fiscal year 2004.

Table 1: GAO Adjustments to DOD's Reported Depot Maintenance Funding Allocations for Fiscal Year 2004

Dollars in millions

		Army		Navy ^a		Air Force	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
Private	Reported	\$ 2,376.3	45.0	\$ 4,675.3	46.2	\$ 4,417.2	45.3
	Adjusted	2,425.9	49.2	4,793.3	48.5	4,416.9	45.3
Public	Reported	2,902.1	55.0	5,085.2	50.2	5,329.2	54.6
	Adjusted	2,505.1	50.8	4,705.6	47.7	5,329.2	54.6
Private exempt	Reported	0.0	0.0	366.1	3.6	13.3	0.1
	Adjusted	0.3	0.0	376.0	3.8	13.3	0.1

Source: GAO analysis of DOD data.

Notes: Based on analysis of *Distribution of DOD Depot Maintenance Workloads, Fiscal Year 2004*, Office of the Secretary of Defense, April 1, 2005. Shaded cells indicate percentages within 2 percentage points of the 50 percent limitation.

^aThe Department of Navy consists of the Navy and Marine Corps.

Department of the Army

Adjusting the Army's data on the basis of the specific inaccuracies we identified would reduce its total depot maintenance funding by \$347.1 million for fiscal year 2004. The net effect of correcting for these inaccuracies would increase the private-sector percentage allocation by about 4.2 percentage points for an overall allocation of 49.2 percent. (See table 3 in app. II for a detailed breakout of these adjustments.)

The Army's most significant data inaccuracies generally were due to overreported public depot funding and underreported or unreported private depot funding. Adjustments to the Army's reported public work amounted to a \$397 million decrease. The most significant of the errors in public-sector depot maintenance reporting, \$399.4 million, was due to a transcription error. The Army also overreported an additional \$9.6 million due to double-counting and \$7.8 million for misclassifying private-sector workload as public. Additionally, the Army underreported \$18.4 million in public-sector depot maintenance funding at the Aviation and Missile Command and the Communications and Electronics Command and did not report nearly \$0.9 million in depot maintenance funding for the FOX vehicle. Adjustments to the Army's private sector workload resulted in a net increase of \$49.6 million mostly due to unreporting or underreporting. The Army did not report private depot work for onetime repairs at a nondepot aviation location in the amount of \$20.7 million. The Army also failed to report \$2.2 million in private depot work at Anniston Army Depot and \$6.2 million in private depot work at a National Guard aviation

classification and repair depot. It also did not report \$6.9 million in private depot work for the Stryker vehicle and \$5.9 million for the FOX vehicle. For fiscal year 2004, the Army included amounts for its National Maintenance Program,¹¹ one of the two areas the Army previously estimated made up the majority of its unreported depot-level maintenance work performed at nondepot facilities; however, \$5.7 million was underreported because planned funding was reported instead of the amounts actually obligated. Finally, the Army underreported \$7.8 million through a misclassification of private work as public work.

Department of the Navy

Adjusting the Navy's and Marine Corps' data on the basis of the specific inaccuracies we identified would reduce their total depot maintenance funding by \$251.7 million for fiscal year 2004, the net effect of correcting for these inaccuracies would increase the private-sector percentage allocation by 2.4 percentage points for an overall allocation of 48.5 percent. (See table 4 in app. II for a detailed breakout of these adjustments.)

The Navy's most significant data inaccuracies generally were due to unreported private depot funding and overreported public depot funding. For example, as we reported in past years, the Navy did not report \$80.3 million in depot maintenance funding for work accomplished during the nuclear refueling of aircraft carriers, citing the exclusion of nuclear refueling from the 10 U.S.C. § 2460 definition of "depot maintenance." We continue to believe that depot maintenance repairs not directly associated with the task of nuclear refueling should be reported because these types of repair actions are reported by other organizations and it is possible to identify the funding for these tasks in Navy contracts and financial systems. The Navy also, as in prior years, inconsistently reported on inactivation activities related to the servicing and preservation of systems and equipment prior to their placement in storage or on inactive status. Specifically, the Navy did not report \$14.4 million of private-sector allocations for inactivation work on non-nuclear ships, even though it reported private-sector funding for the inactivation for nuclear ships. The Navy contends that the work for nuclear ship inactivation is complex while the work for non-nuclear ships is not. We maintain that all such depot-level work should be reported, since the statute and implementing guidance do

¹¹The National Maintenance Program is the Army's ongoing action to establish a fully integrated national maintenance requirements process that includes all depot-level maintenance requirements, regardless of the location of the work, in a field facility or a maintenance depot.

not make a distinction based on complexity. Additionally, the Navy's public-sector depot maintenance allocation was overreported by \$357.6 million because of errors in reporting obligations for funds available to be spent over multiple years. Navy and OSD guidance requires that commands only report the funds actually obligated in the fiscal year. We found that some Naval Sea Systems Command activities incorrectly reported the funds available for obligation for depot maintenance in fiscal year 2004 instead of the funds that were actually obligated. As a result, some of the amounts included in the Navy's 50-50 report were not obligated during fiscal year 2004. Additionally, multiyear funds from a prior year appropriation that were obligated in fiscal year 2004 were not, but should have been, included.

Our review of the Marine Corps' 2004 data found that it underreported the public-sector total by about \$1.3 million for maintenance work performed at other military service depots. In previous years, the Marine Corps' error rate was relatively high compared to that of the other services despite its smaller depot maintenance program. Based on our recommendation from last year, the Marine Corps addressed a key contributor to its high error rate by appointing a 50-50 focal point for the Marine Corps Systems Command, the command responsible for acquiring and upgrading weapon systems. The focal point is responsible for preparing and submitting a consolidated report for the command's depot maintenance funding allocation between the public and private sectors.

Department of the Air Force

Adjusting the Air Force's data on the basis of the specific inaccuracies we identified would increase its total depot maintenance funding by \$0.3 million but would not change the percentage allocation between the public and private sectors. (See table 5 in app. II for a detailed breakout of these adjustments.)

Additionally, we were unable to verify some of the private depot maintenance amounts reported because the Air Force had no supporting data. For example, we were unable to verify the total amount in private-sector workload funding allocation for air crew training devices used to train active duty air crews. According to the Air Force, all air crew training devices are operated and maintained through contractor logistics support contracts. The depot maintenance portion for these contracts is computed by taking a percentage of the cost incurred against a selected contract line item or, in some instances, a percentage of the entire amount obligated for the year. DOD's 50-50 guidance allows algorithms to be used when precise determinations cannot be made; however, the line items included and the

percentages used are largely determined by the contractor, and the Air Force lacks access to the data needed to validate the percentages used.

Additionally, the Air Force incorrectly reported amounts for depot maintenance warranties in its fiscal year 2004 50-50 data. The Air Force's guidance states that onetime obligations for warranties over extended periods will be prorated for each year over the life of the warranty. However, OSD guidance states that although warranty support that occurs prior to initial operating capability shall not be reported as depot maintenance and repair, warranty support that is contracted for prior to initial operating capability but occurs after initial operating capability shall be reported. Also, the total warranty costs for depot maintenance and repair services are to be reported in the year in which the obligation occurs. Therefore, consistent with OSD guidance, the Air Force should have reported all amounts obligated for warranties for depot maintenance repair that cover periods after initial operating capability in the year the obligations were made.

Although we found the aforementioned inaccuracies, overall the Air Force's data had the least problems. Additionally, the Air Force correctly included contract administrative and oversight costs in its fiscal year 2004 data. In previous years, the Air Force adjusted its reported amounts for contract administration and oversight costs, which decreased the amount of funding for the private sector and increased funding for the public sector. We repeatedly reported that this adjustment was not consistent with 50-50 guidance, which states that costs should be associated with the end product (i.e., the repaired item), and that the costs should be treated as contracting expenses.

**Persistent Deficiencies
Continue to Limit Accuracy
of Reported Data**

Systemic weakness in DOD's financial systems and persistent deficiencies, such as inadequate management attention and review to ensure accurate and complete reporting, limited independent review and validation of 50-50 data by audit agencies or other third parties, and inadequate training for those responsible for data collection and reporting continue to limit the accuracy of the 50-50 data provided to Congress. For these reasons, the reported data cannot be relied on to provide an accurate measure of the balance of funding between the public and private sectors or to determine whether the military departments complied with the 50 percent statutory limitation set by Congress for private-sector depot-level maintenance.

Moreover, during the past 7 years, we have made 33 recommendations for improving the depot maintenance reporting process for 50-50 purposes, addressing both DOD and individual service reporting issues and concerns. Of these recommendations 19 have been officially closed by GAO. The 14 recommendations that remain open contain several recurring themes. Table 2 summarizes the number of times these themes are mentioned in the 14 open recommendations as well as the number of times these themes have been recommended throughout the course of the past 7 years of reviewing DOD's 50-50 depot maintenance report.

Table 2: Summary of Prior GAO 50-50 Recommendations

Recommendation	Number of open recommendations^a	Number of times recommended over 7 years	Year(s) recommended^b
Improve management attention, controls, and oversight	4	9	1999, 2000, 2001, 2002 (Marine Corps, Army)
Document procedures and retention of records to support reported data for future follow-up	2	6	1998, 1999, 2000, 2001
Use service audit agencies or third party to validate data before sending to OSD/Congress	4	6	1999, 2001 (Army, Navy), 2002 (Navy), 2003, 2004
Ensure proper and timely training for staff involved in 50-50 process	2	2	2003, 2004
Issue, clarify, and/or disseminate guidance	6	14	1998, 1999, 2000, 2001, 2002, 2003

Source: GAO.

^aIn many cases, the recommendations covered multiple issue areas, and therefore the number of open recommendations is not equal to the number of times these issues are mentioned in the open recommendations.

^bRecommendations made prior to 2001 have been closed. However, most recommendations made in 2001 or later have not been implemented or have been partially implemented and therefore remain open.

The problems in DOD's 50-50 data reporting processes have not been disclosed in DOD's annual accountability reports to Congress, even though the problems have been previously identified in prior audits, and in our view result in more than a remote risk that significant misstatements will not be prevented or detected. As a result, managers or oversight officials' decisions based on this reporting—to include workload or funding

allocation decisions—may be adversely affected. Title 31 U.S.C. § 3512(c)¹² requires that management controls be in place to reasonably ensure that obligations and costs comply with the applicable law; all assets are safeguarded against waste, loss, unauthorized use, and misappropriation of assets; and revenues and expenditures are properly reported and accounted for. Management controls are the organization, policies, and procedures that help managers achieve results and safeguard the integrity of their programs. Title 31 U.S.C. § 3512(c) also requires agency heads to provide an annual statement of assurance on the effectiveness of the management controls and to identify and report on material weaknesses. As defined in Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004 (effective for Fiscal Year 2006), materiality for financial reporting¹³ is risk of error or misstatement that could occur in a financial report that would affect management's or users' decisions or conclusions based on such report. An official from OSD's Materiel Readiness and Maintenance Policy, the office responsible for submitting the 50-50 report to Congress each year, told us they had never evaluated whether DOD's 50-50 reporting should be included in DOD's annual accountability report.

Inadequate Management Attention and Review

One of the primary reasons for the recurring inaccuracies in the military services' 50-50 data was inadequate management attention and review to ensure accurate and complete reporting. Generally, we found that personnel collecting the data at the various reporting centers or program offices did not review or verify the data before submitting them up the reporting chain to the service representative responsible for compiling and forwarding the data to OSD. Additionally, little documentation is provided to the military service's 50-50 data focal points or the reporting commands' focal points to support the data included in the 50-50 report. In prior reports we recommended that the Secretary of Defense direct the military services to provide more management review at all levels in DOD to ensure

¹²Title 31, U.S.C. § 3512(c), (d), commonly referred to as the Federal Financial Managers' Financial Integrity Act, requires federal agencies to report on whether the agency management controls are adequate and effective and are achieving their intended objectives. Guidance on reporting on management controls is contained in Office of Management and Budget Circular A-123 (effective through fiscal year 2005) (revised June 21, 1995).

¹³Financial reporting includes annual financial statements of an agency or other significant financial reports that could have a material effect on significant spending, budgetary, or other financial decisions of the agency or that is used to determine compliance with laws and regulations.

accurate and complete reporting. Despite these recommendations, the services have limited policies and procedures for such management review. For example, an Army official told us that no one checks the accuracy of the data or performs a variance analysis with previously reported data. Our variance analysis of the Army's fiscal year 2004 data compared with the fiscal year 2003 data resulted in identifying nearly \$400 million in overreported public-sector workload funding allocations due to a transcription error. The same location reported only about \$2.3 million the previous fiscal year. This error may have been identified and corrected if the Army emphasized reviewing, analyzing, and questioning variances from year to year.

As in previous years, we found that the Marine Corps officials responsible for compiling and submitting the Marine Corps' final report to OSD performed no review to ensure the completeness or accuracy of the reported data. Moreover, during our review of the Navy's U.S. Pacific Fleet, we found the Southwest Regional Maintenance Facility did not maintain documentation to support the amounts it reported. It took the facility more than a month to recreate a list of the transactions to support the \$339.3 million in workload funding allocation data reported for fiscal year 2004. Additionally, the Naval Audit Service could not verify the amount of public-sector depot maintenance workload funding allocation for the Puget Sound Naval Shipyard and Intermediate Maintenance Facility. Moreover, the Air Force often lacks access to the documentation needed to validate the completeness or accuracy of the data associated with its contractor logistics support/interim contractor support programs and the algorithms used to determine the amount of depot maintenance for each contract.

Independent Review and Validation of Data Limited by Time and Scope

Although each of the military departments obtained some level of independent review and validation¹⁴ of its 50-50 data, the reviews were constrained by time and limited in scope. Moreover, not all of the errors were corrected prior to submission to Congress. In prior reports we repeatedly recommended that to further enhance 50-50 data accuracy, the Secretary of Defense require the secretaries of the military departments to direct the use of service audit agencies, or an agreed-upon alternate method, for third-party review and validation of depot maintenance workload funding allocation data and to ensure that auditor-identified

¹⁴Data validation is the process of verifying data by comparing reported data to a source document to ensure the data are accurate and complete and then attesting to the accuracy of the data.

errors in the data are rectified before reports are submitted to Congress. DOD guidance for this year's 50-50 report directed the military departments to implement this recommendation.

Concerning fiscal year 2004 depot maintenance allocation data, the Army Audit Agency evaluated whether the Army implemented or planned to implement selected recommendations made based on prior audits of depot-level maintenance workload allocation reporting, and whether the Army accurately reported the status of implementation to the Office of the Army Deputy Chief of Staff for Logistics. The Army Audit Agency did not review the accuracy of the 50-50 data submitted to Congress. The Army hired a consulting firm to review and validate its 50-50 data for fiscal year 2004. The firm selected a statistical sample of the reported allocations to review. However, due to time constraints, the Army did not correct several of the errors identified by the consulting firm prior to submitting the report to Congress. Naval Audit Service identified errors in the Navy's data, which were corrected before the 50-50 report went to Congress. However, the Naval Audit Service's review was limited to two activities, which accounted for only 6 percent of the Navy's reported depot maintenance funding for fiscal year 2004. Furthermore, although it did not review 100 percent of transactions, the results and errors found during the review were considered an indicator that similar errors might exist at the other eight Navy reporting organizations. Due to time constraints, the Naval Audit Service did not attempt to determine the underlying cause for the errors identified. Air Force Audit Agency focused its review on contractor logistics support/interim contractor support maintenance programs, an area where problems in 50-50 reporting had been identified in the past. The contracts reviewed by the audit agency represented about three-fourths of the contractor logistics support/interim contractor support programs. Errors identified by the Air Force Audit Agency were corrected prior to submitting the report to Congress. Air Force officials acknowledge that even with improvements, errors still occur and accurate reporting remains an ongoing concern. However, they do not believe additional errors that may be found would threaten compliance with the 50-50 statute.

Inadequate Staff Training

Inadequate training for those responsible for collecting, aggregating, and reporting 50-50 data continues to be a problem. In two prior reports we recommended that the Secretary of Defense require the secretaries of the military departments to ensure that the 50-50 guidance is properly disseminated and that staff are properly and promptly trained in the application of the 50-50 guidance. During our review we found that although the reporting activities generally received the 50-50 data call

guidance, several reporting activities did not report 50-50 data accurately. Additionally, we found that although the Army, Marine Corps, and Air Force provide some training, not all staff responsible for 50-50 reporting attended this training. According to a Navy official, no formal training on procedural requirements or Navy guidance to develop and report the 50-50 data is provided to the personnel responsible for compiling the data. Rather, the reporting activity coordinators are expected to provide guidance on reporting requirements as questions arise from the reporting activities. According to an Air Force official, program managers have not had sufficient training to prepare and maintain documentation to ensure that 50-50 data are accurate.

Fiscal Year 2005 and 2006 Projections Do Not Represent Reasonable Estimates of Public- and Private-Sector Funding

DOD's reported projections for fiscal years 2005 through 2006 do not represent reasonable estimates of public- and private-sector depot maintenance funding allocations. The usefulness of the reported projections to congressional and DOD decision makers is limited because errors, omissions, and inconsistencies in DOD's reported prior-year data are carried into future years and because of the difficulty in projecting out-year data due to factors such as changing depot maintenance requirements, consolidating maintenance facilities, and the trend toward more contractor logistics support for new and existing weapon systems. We reported these shortcomings with the future years' projections in the past. While limitations affect the usefulness of the data reported as a predictor of funding allocations, the reported projection data show that all of the military services are predicting a greater percentage of funds for the private sector and less for the public sector.

Recurring errors, omissions, and inconsistencies similar to those we identified for the fiscal year 2004 reported data could affect this trend, as all of the services are moving closer to the threshold for private-sector funding. For example, while the Army projects that its private-sector depot maintenance workload allocation will be around 46 percent, the magnitude of the adjustments we made to the Army's fiscal year 2004 data—increasing the private-sector percentage by about 4.2 percentage points—when carried forward, could cause the Army to exceed the 50-50 limitation. Similarly, the Navy projects that its private-sector depot maintenance workload allocation for fiscal year 2006 will be around 48 percent. The magnitude of the adjustments we made to the Navy's fiscal year 2004 data—increasing the private-sector percentage by about 2.4 percentage points—when carried forward, could cause the Navy to exceed the 50-50 limitation.

DOD has agreed that 50-50 data within 2 percentage points of exceeding the 50 percent threshold is a reasonable trigger for additional oversight and management to ensure compliance with the 50 percent threshold. Last year, we recommended that the Secretary of Defense direct each military department's secretary, within 30 days of reporting 50-50 data indicating that past, current, or budget year data are within 2 percentage points of exceeding the 50 percent threshold, to submit a plan to OSD that identifies actions the military department shall take to ensure continued compliance, including the identification of decisions on candidate maintenance workload sourcing that could be made to support remaining within the 50 percent threshold. To date, none of the services have provided such plans because their reported data did not indicate that such submissions were necessary.

Additionally, increasing contractor maintenance support for military operations and increasing the number of new weapon systems scheduled to reach initial operational capability in fiscal year 2007 and beyond could result in all the military departments exceeding the 50 percent threshold. During our review, the Air Force provided evidence that it has integrated 50-50 reporting requirements into its source of repair decisions for new weapon systems and major system modifications.

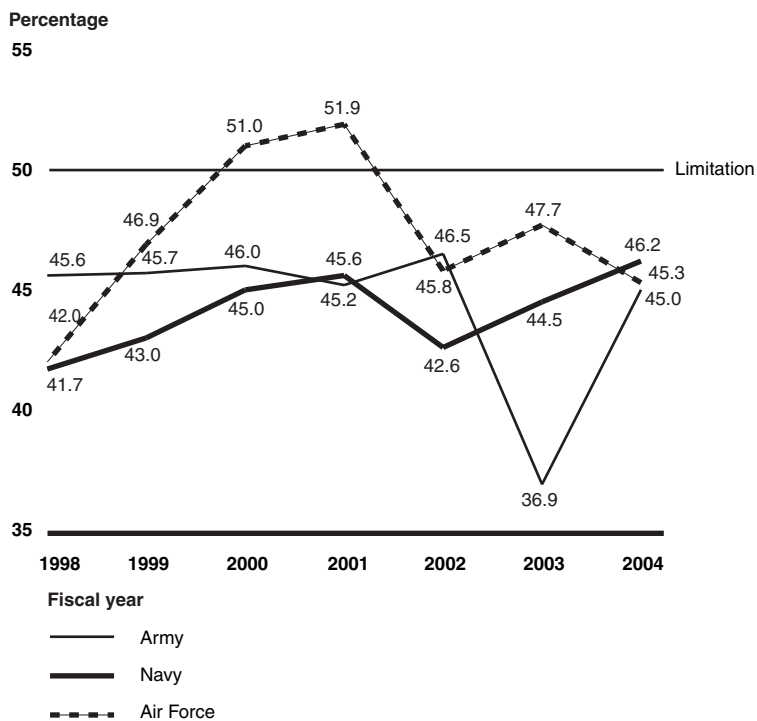
DOD's Current 50-50 Report Satisfies the Annual Mandate but Could Provide More Useful Data and Analysis

Although DOD's current 50-50 report to Congress satisfies the annual mandate, it lacks additional detail that might be useful to Congress as it exercises its oversight role. For example, the report provides no analysis of the data to show how the fiscal year 2004 funding allocations compared to prior years' figures. Furthermore, the reported data are aggregated at the service level. The report also does not identify funding allocation variances from year to year, nor explain the reasons behind them. Additionally, the report does not contain analysis of long-term trends; historical trend data must be calculated using previous 50-50 reports. Finally, DOD's 50-50 report to Congress does not contain information about the methodologies used to prepare the current and future year projections or the reasons for projected funding variances and changes in workload distribution.

Because of the limited data provided in DOD's 50-50 report, we have developed these types of information as part of our mandated work over the past 8 years to better meet Congress's needs in exercising its oversight role. Our analysis of trend data shows that although reported depot maintenance funding for fiscal year 2004 increased by about \$700 million

over fiscal year 2003, only the Army's total funding and private-sector workload allocation increased significantly. Compared to the other services, the Army reported the largest increase in total funding (almost \$1.8 billion) and the largest jump in workload funding allocation to the private sector. With this increase, the Army's reported private sector allocation is on par with those of the other services. The Navy shows the biggest overall decrease in depot workload funding allocation (almost \$1.3 billion), and the Air Force shows little change. Figure 3 shows a historical trend for private-sector reported allocations for fiscal years 1998 through 2004.

Figure 2: Historical Private-Sector Reported Allocations (Fiscal Years 1998-2004)



Sources: DOD (data); GAO (analysis).

Note: Decrease in private-sector percentage starting in fiscal year 2002 was largely due to reporting private-exempt allocations separately.

Conclusions

Year after year we continue to see the same persistent deficiencies in DOD's 50-50 report to Congress. As a result, the reported 50-50 data cannot be relied on to provide an accurate measure of the balance of funding between the public and private sectors or to determine if the military services exceeded the statutory limitations set by Congress for private-sector depot-level maintenance funding allocations. By disclosing the persistent deficiencies in the 50-50 reporting processes as a management control weakness, along with planned corrective actions, in future accountability reports, DOD will increase the level of management attention and help focus improvement efforts so that the data provided to Congress are accurate and complete.

The data DOD provides in its annual 50-50 report to Congress satisfy the annual mandate but lack additional detail that may well be useful to Congress as it exercises its oversight role. Until DOD provides additional information and analysis on changes in depot maintenance funding and allocations, significant variances from the prior year's report, and methodologies used to estimate workload allocation projections for the current and ensuing fiscal years in its annual 50-50 report, Congress will continue to be hindered in its ability to exercise effective oversight. Additionally, the extent of the percentage adjustments we find each year, coupled with the persistent lack of progress by the Army and the Navy toward improving their reporting processes and data quality, indicate that DOD cannot afford to wait until the services reach the 50 percent limit before formulating and providing a plan that identifies actions the military departments will take to avoid exceeding the threshold for private-sector funding.

Recommendations for Executive Action

To improve the accuracy and reliability of depot maintenance funding allocation data submitted to Congress and to provide congressional decision makers with better information on funding allocations, we recommend that the Secretary of Defense take the following two actions.

We recommend that the Secretary, in future accountability reports, disclose a management control weakness in DOD's 50-50 data reporting processes along with planned corrective actions to improve management control in the following areas:

- Management review, attention, and policies sufficient to ensure accurate and complete 50-50 reporting.

-
- Independent review and validation of 50-50 data by service audit agencies or other third parties, with auditor-identified data inaccuracies corrected prior to submission of the annual report to Congress.
 - Annual training on 50-50 policies and procedures for all individuals participating in data gathering and reporting.

We also recommend that the Secretary enhance DOD's annual 50-50 report submitted to Congress. This enhanced reporting should include the following types of information:

- Variance analyses that identify significant changes in depot maintenance workload allocations from the prior year's report and the reasons for these variances.
- Analysis of historical trends in depot maintenance workload allocations.
- Explanation of the methodologies used to estimate workload allocation projections for the current and ensuing fiscal years.
- The military departments' plans to ensure continued compliance with the 50-50 requirement, including the identification of decisions on new weapon systems maintenance workload sourcing that could be made to support remaining within the 50 percent threshold.

Matter for Congressional Consideration

If Congress determines, for oversight purposes, that improvements are needed in the reliability and usefulness of DOD's annual report on depot maintenance funding allocations, Congress should require the Secretary of Defense to enhance its annual 50-50 report to Congress as stated in our recommendations. Specifically, this enhanced reporting should include (1) variance analyses of significant changes in depot maintenance workload allocations from the prior year's report and the reasons for these variances; (2) analysis of historical workload allocation trends; (3) explanation of the methodologies used to estimate workload allocation projections; and (4) plans to ensure continued compliance with the 50-50 requirement, including the identification of decisions on new weapon systems maintenance workload sourcing that could be made to support remaining within the 50 percent threshold. Additionally, the enhanced reporting should address the corrective actions DOD is taking to improve the persistent deficiencies we have identified in DOD's 50-50 data reporting processes.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD partially concurred with our recommendations but did not indicate specific actions it would take address the persistent deficiencies we identified in its 50-50 reporting processes or to improve the usefulness of the information provided to Congress. DOD agreed there were errors in the 50-50 report and stated that it is committed to providing accurate data in its annual report to Congress, has made improvements in its reporting over the past several years, and will continue to improve.

DOD partially concurred with our recommendation that the Secretary of Defense, in future accountability reports, disclose a management control weakness in DOD's 50-50 data reporting processes along with planned corrective actions to improve management control. However, DOD did not indicate that it would disclose its 50-50 data reporting processes as a management control weakness in future accountability reports. Instead, DOD stated that it currently reports internal management control weaknesses in its annual accountability reports. The currently reported weaknesses, however, are not specific to DOD's 50-50 data reporting processes, and we continue to believe that the recurring nature of the deficiencies we have found in DOD's 50-50 reporting processes indicates a management control weakness significant enough to be reported separately in DOD's annual accountability reports. Neither DOD nor the military services have consistently implemented corrective actions sufficient to resolve the deficiencies. As discussed in the report, during the past 7 years we have made 33 recommendations for improving 50-50 reporting. Of these recommendations, 19 have been officially closed by GAO. The 14 recommendations that remain open contain several recurring themes, which include the need for increased management attention to ensure accurate and complete 50-50 reporting, independent review, and validation of data and annual training on 50-50 policies and procedures for all individuals participating in data gathering and reporting. Nevertheless, in its comments DOD stated that systemic changes to the reporting process have already been made in response to previous recommendations. DOD noted that it instituted third-party review of data by service audit agencies and corrected auditor-identified data inaccuracies prior to submission of the annual report to Congress. While we agree that DOD has made improvements in its reporting processes over the past several years, our work nevertheless has identified persistent deficiencies in these processes that continue to prevent us from determining whether the military departments complied with the 50-50 requirement. For example, as we reported, although each of the military services obtained some level of

independent review and validation this year, the reviews were constrained by time and limited in scope. Moreover, not all of the errors were corrected prior to submission to Congress. Disclosing 50-50 reporting processes as a management control weakness in future accountability reports could increase DOD management emphasis on addressing the persistent deficiencies that continue to limit the accuracy and usefulness of the depot maintenance funding allocation data reported to Congress.

DOD also partially concurred with our recommendation that the Secretary of Defense enhance DOD's annual 50-50 report submitted to Congress. However, DOD stated that producing the types of information suggested in our recommendation would require a massive undertaking and may be of limited value. We disagree. We have developed these types of information as part of our annual mandated review of DOD's 50-50 report, and the information has been valuable in understanding and evaluating DOD's depot maintenance funding allocations. For example, we compared fiscal year 2004 reported allocations for specific programs and reporting centers with fiscal year 2003 allocations, and followed up with the military services to determine the reasons for significant differences. The goal of this recommendation is not to place an unnecessary burden on the department but to provide additional information on depot maintenance funding that would make the annual 50-50 report to Congress more informative and useful as an oversight tool. Furthermore, we believe that if DOD would provide more detailed and analytical information to Congress, it would place additional emphasis on assuring the accuracy of the data provided in its annual 50-50 report.

Because it does not appear to us that DOD's actions will address the persistent deficiencies we identified in its 50-50 reporting processes or improve the usefulness of the information provided to Congress, we have 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.

DOD also stated in its written comments that its 50-50 data quality has improved, as shown by reductions in the Navy's and the Air Force's private-sector corrections. DOD further noted that the Army's one transcription error accounted for 99.3 percent of its private sector corrections. Our report does not conclude that the department's data quality has improved. On the contrary, we state as in past years that DOD's 50-50 data, with our adjustments, provide only a rough approximation of the allocation of depot maintenance funding between the public and private sectors. We reported


that DOD's April 1, 2005, report to Congress contained errors, omissions, and inconsistencies that if corrected, would increase the Army's and Navy's percentages of funding allocations going to the private sector. Additionally, we did not conduct a detailed review of all reported 50-50 data; therefore, there may be additional errors, omissions, and inconsistencies that were not identified during our review. We agree that the Army's \$399.4 million transcription error was the single largest correction we identified. However, this error involved a public-sector correction rather than a private-sector correction as DOD stated. We noted several other errors in the Army's data for both the public and private sectors, as shown in table 3 of this report. We continue to believe that adequate management attention and review of 50-50 data to ensure accurate and complete reporting would have helped identify the transcription error and other errors prior to submitting the data to DOD and Congress.

DOD believes, based on guidance from the General Counsel's office in the Department of the Navy, that it has properly excluded depot maintenance associated with nuclear carrier refueling and inactivation work performed on non-nuclear ships. We have disagreed in prior years with DOD's decision to exclude these types of depot maintenance repairs from its 50-50 reports. As discussed in our report, we continue to believe that depot maintenance repairs not directly associated with the task of refueling of nuclear aircraft carriers should be included in DOD's annual report to Congress. We also continue to believe that inactivation work performed on non-nuclear ships should be included in DOD's report.

DOD's written comments are reprinted in appendix III.

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 staff 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.

A handwritten signature in black ink, appearing to read 'W. Solis', with a long horizontal flourish extending to the right.

William M. Solis
Director, Defense Capabilities and Management

Scope and Methodology

To determine the accuracy of the military services' reporting of their depot maintenance allocations and whether they met the 50-50 requirement for fiscal year 2004, we analyzed each service's procedures and internal management controls for collecting and reporting its depot maintenance allocations. Certain programs, reporting centers, and maintenance activities were identified for in-depth reviews.¹ In particular, we focused on those reporting locations, programs, and issues that Department of Defense (DOD) personnel and we identified as problem areas in current and past reviews as well as those that had experienced significant funding variances over time. We did not conduct a detailed review of all reported 50-50 data; therefore there may be additional errors, omissions, and inconsistencies that were not identified.

As part of these in-depth reviews, we conducted site visits to departmental headquarters, major commands, selected maintenance activities, and reporting centers; interviewed the service officials involved with the data collection; and reviewed the data utilized for accuracy and completeness. Our data verification efforts included examining summary records, accounting reports, budget submissions, and contract documents. We also reviewed DOD, military service, and command-specific guidance for collecting and aggregating 50-50 data. We also compared this year's instructions with last year's to identify any changes and additions and reviewed service efforts to identify reporting sources and to distribute guidance and tasks to develop and report the 50-50 data.

To determine what actions the services took to improve the quality of reported 50-50 data and implementation of GAO's prior year's recommendations, we reviewed the results of internal studies conducted by the service audit agencies or other third parties, and reconciled areas of concern identified during prior years' audits. Additionally, we reviewed prior years' recommendations to determine whether known problem areas were being addressed and resolved. We applied this knowledge to identify additional areas for improving the reporting process and management controls. We examined the process used to compile the reports and the data reported to determine that it was consistent and in compliance with legislative requirements and to identify any errors, omissions, or

¹We selected the programs reviewed on the basis of size, location, or any previously identified areas of concern. Given the nature of our sample, the results are not projectable to the universe of depot maintenance activities. We also did not audit the integrity of the Department of Defense's financial systems and accounting data used to prepare the 50-50 reports.

inconsistencies in the data reported. We discussed with officials managing and coordinating the reporting process their efforts to address known problem areas and respond to recommendations by internal audit agencies and GAO.

Our analysis of the data for fiscal years 2005 and 2006 was limited because our audit efforts identified significant recurring problems in this area of the report. To determine whether DOD's projected allocations for the current fiscal year and ensuing fiscal year were reasonable, we performed certain checks and tests, including variance analyses, to judge the consistency of this information with data from prior years and with the future years' budgeting and programming data used in DOD's budget submissions and reports to Congress. We found repeated and significant changes, even though the estimates were prepared only about 1 year apart.

We used the results of our analysis of fiscal year 2005 and 2006 projections to further discuss with officials, and analyze the reasons behind, changes in reported data and percentage allocations between the 2004 and 2005 50-50 reports submitted to Congress. Our current and past work on this issue has shown that DOD's 50-50 data cannot be relied upon as a precise measure of the allocation of depot maintenance funds between the public and private sectors. However, the mandate in 10 U.S.C. § 2466 requires (1) DOD to report the data, which are the only data available and accepted and used for DOD decision making and for congressional oversight, and (2) us to submit our views on whether DOD has complied with the 50-50 requirement to Congress. While DOD's data cannot be relied upon to provide a precise measure of the funding between the public and private sectors, the data, along with our adjustments, provide a rough approximation of the allocations and some trends that may be useful to Congress in exercising its oversight role and to DOD officials in managing the depot maintenance program. Concerns about the accuracy and completeness of the 50-50 data available were considered and incorporated into our methodology and approach to reviewing the fiscal year 2004 report. Along with the limitations on the 50-50 data available from DOD, the constrained time frame for our review limited the extent to which our analysis could be relied upon to identify all the errors, inconsistencies, and omissions in DOD's data. We recognize that we have not been able to comprehensively identify all of the errors and omissions in the 50-50 report for fiscal year 2004. However, we were able to conclude that the reported depot maintenance workload funding allocations were not sufficiently reliable for accurately determining whether the military departments complied with the 50-50 requirement for fiscal year 2004. As a result, we

developed recommendations for improving the 50-50 data collection, verification, and reporting processes.

We interviewed officials, examined documents, and obtained data at the Office of the Secretary of Defense, Army, Navy, Marine Corps, and Air Force headquarters in the Washington, D.C., area; Anniston Army Depot in Anniston, Alabama; Army Materiel Command in Alexandria, Virginia; National Guard Bureau Aviation Classification Repair Activity Depot in Gulfport, Mississippi; Tank Automotive Command in Warren, Michigan; Naval Air Systems Command in Patuxent River, Maryland; Naval Sea Systems Command in Washington, D.C.; Naval Inventory Control Point in Philadelphia, Pennsylvania; U.S. Fleet Forces Command in Norfolk, Virginia; Pearl Harbor Naval Shipyard and Intermediate Maintenance Facility in Honolulu, Hawaii; U.S. Pacific Fleet Command in Honolulu, Hawaii; Air Force Materiel Command in Dayton, Ohio; Ogden Air Logistics Center in Ogden, Utah; Marine Corps Logistics Command in Albany, Georgia; Marine Corps Logistics Command in Barstow, California; Marine Corps Systems Command in Quantico, Virginia; Army, Naval, and Air Force Audit Services; several public depots managed by the military departments' materiel commands; and selected operating bases. We conducted our review from April 2005 through September 2005 in accordance with generally accepted government auditing standards.

GAO Adjustments for Inaccuracies Found in the Military Departments' 50-50 Data for Fiscal Year 2004

Our review of the data supporting DOD's 50-50 report identified errors, omissions, and inconsistencies that if corrected, would revise the total workload funding allocations and increase the private-sector allocations for each of the military departments. (See tables 3, 4, and 5.)

Appendix II
GAO Adjustments for Inaccuracies Found in
the Military Departments' 50-50 Data for
Fiscal Year 2004

Table 3: GAO's Adjustments to the Army's Fiscal Year 2004 Reported Depot Maintenance Allocations

Dollars in millions		
Category	Allocation	Percentage
Private work reported	\$2,376.3	45.0%
Private work adjusted	2,425.9	49.2%
Change	\$49.6	4.2%
Overreported—third party verification analysis at Aviation and Missile Command and Communications and Electronics Command	(5.8)	
Underreported—misclassified as public work	7.8	
Underreported—private depot work at National Maintenance Program nondepot locations due to reporting planned versus obligated funding	5.7	
Unreported—private depot work at Anniston Army Depot	2.2	
Unreported—private depot work (\$3.5 million) and government-furnished equipment (\$2.7 million) at a National Guard Aviation Classification and Repair Depot	6.2	
Unreported—private depot work for onetime repairs at nondepot aviation maintenance location	20.7	
Unreported—private depot work for Stryker vehicle (\$6.9 million) and FOX vehicle (\$5.9 million)	12.8	
Public work reported	\$2,902.1	55.0%
Public work adjusted	2,505.1	50.8%
Change	(\$397.0)	-4.2%
Overreported—transcription error	(399.4)	
Overreported—double-counting	(9.6)	
Overreported—misclassified private work	(7.8)	
Underreported—reported workload allocation at Aviation and Missile Command and Communications and Electronics Command	18.4	
Underreported—National Maintenance Program workload allocation reported as amounts planned rather than obligated	0.5	
Unreported—FOX vehicle	0.9	
Private work exempt reported	0.0	0.0%
Private work exempt adjusted	\$0.3	0.0%
Change	\$0.3	0.0%
Unreported—two partnerships at Anniston Army Depot that qualified for Centers of Industrial and Technical Excellence exemption	0.3	
Total work reported	\$5,278.4	
Total work adjusted	\$4,931.3	
Change	(\$347.1)	

Sources: DOD (data); GAO (analysis).

Notes: Numbers in parentheses are negative. Percentages subject to rounding.

Appendix II
GAO Adjustments for Inaccuracies Found in
the Military Departments' 50-50 Data for
Fiscal Year 2004

Table 4: GAO's Adjustments to the Navy's Fiscal Year 2004 Reported Depot Maintenance Allocations

Dollars in millions		
Category	Allocation	Percentage
Private work reported	\$4,675.3	46.2%
Private work adjusted	4,793.3	48.5%
Change	\$118.0	2.4%
Unreported—non-nuclear conventional ship inactivations	14.4	
Unreported—depot maintenance performed while nuclear refueling of carriers	80.3	
Underreported—misclassified, private workload allocation incorrectly reported as public	23.3	
Public work reported	\$5,085.2	50.2%
Public work adjusted	4,705.6	47.7%
Change	(\$379.6)	-2.6%
Unreported—United States Marine Corps work performed at other public depots	1.3	
Overreported—incorrect reporting of multiyear appropriations	(357.6)	
Overreported—misclassified, private workload allocation incorrectly reported as public	(23.3)	
Private work exempt reported	\$366.1	3.6%
Private work exempt adjusted	376.0	3.8%
Change	\$9.9	0.2%
Underreported—incorrect reporting of multiyear appropriations	9.9	
Total work reported	\$10,126.6	
Total work adjusted	\$9,874.9	
Change	(\$251.7)	

Sources: DOD (data); GAO (analysis).

Notes: Numbers in parentheses are negative. Percentages subject to rounding. The Department of Navy consists of the Navy and Marine Corps.

Appendix II
GAO Adjustments for Inaccuracies Found in
the Military Departments' 50-50 Data for
Fiscal Year 2004

Table 5: GAO's Adjustments to the Air Force's Fiscal Year 2004 Reported Depot Maintenance Allocations

Dollars in millions

Category	Allocation	Percentage
Private work reported	\$4,417.2	45.3%
Private work adjusted	4,416.9	45.3%
Change	(\$0.3)	0.0%
Underreported	2.0	
Overreported	(2.3)	
Public work reported	\$5,329.2	54.6%
Public work adjusted	5,329.2	54.6%
Change	\$0.0	0.0%
Private work exempt reported	\$13.3	0.1%
Private work exempt adjusted	13.3	0.1%
Change	\$0.0	0.0%
Total work reported	\$9,759.7	
Total work adjusted	\$9,759.4	
Change	(\$0.3)	

Sources: DOD (data); GAO (analysis).

Notes: Numbers in parentheses are negative. Percentages subject to rounding.

Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

November 8, 2005

Mr. William M. Solis
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Solis:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-06-88 (GAO Code 350727), "DEPOT MAINTENANCE: Persistent Deficiencies Limit Accuracy and Usefulness of DoD's Funding Allocation Data Reported to Congress," dated September 30, 2005.

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:

- Detailed reporting instructions and conventions for allocating depot costs.
- Third party review of Service data prior to submission to OSD.

The draft report states data cannot be relied upon to provide an accurate reflection of the balance of funding between the public and private sectors due to errors and omissions, yet uses the data to conclude the Army and Navy are approaching the 50 percent limitation. Further improvements in cost allocation data depend on the implementation of a more detailed cost accounting system within the depots.

The draft report cites examples of omissions to include nuclear ship refueling and conventional ship inactivations. As reported in previous years, we have been advised by the General Counsel's office in the Department of the Navy that nuclear ship refueling costs are properly excluded, and conventional ship inactivation workload is not considered depot level maintenance, therefore properly excluded, not omitted.

We agree, due largely to extreme time constraints, there were errors in Military Department reports. However, a review of past data indicates the number of GAO private sector corrections have been consistently reduced over the last three years. Third party reviews and other process reviews will continue to improve data quality and accuracy.

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

Sincerely,


Jack Bell

Enclosure:
As stated



GAO DRAFT REPORT – DATED September 30, 2005
GAO CODE 350727/GAO-06-88

"DEPOT MAINTENANCE: Persistent Deficiencies Limit Accuracy and Usefulness
of DOD's Funding Allocation Data Reported to Congress"

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense, in future accountability reports, disclose a management control weakness in DOD's 50-50 data reporting processes along with planned corrective actions to improve management control in the following areas:

- management review, attention, and policies sufficient to ensure accurate and complete 50-50 reporting;
- independent review and validation of 50-50 data by service audit agencies or other third parties, with auditor-identified data inaccuracies corrected prior to submission of the annual report to Congress; and
- annual training on 50-50 policies and procedures for all individuals participating in data gathering and reporting.

DoD Response: Partially Concur. The Secretary of Defense currently reports internal management control weaknesses in DoD's assurance statement as part of the Performance and Accountability Report. Independent review and validation of 50-50 data by service audit agencies or other third parties, with auditor-identified data inaccuracies corrected prior to submission of the annual report to Congress was accomplished. GAO recognizes that there are extreme time constraints for 50-50 data collection, review, and reporting. Even so, the Department's data quality has improved as evidenced by reductions in Navy and Air Forces's private sector corrections. The Army's one transcription error accounted for 99.3% of their private sector corrections. Naturally, from year to year with staff turnover, reorganizations, financial system changes, etc., limited errors can occur. These process challenges identified by GAO have been addressed by the Department in previous years and systemic changes such as third party review, Service level supplemental guidance, as well as training on exemption reporting have been made by the services to overcome these challenges.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense enhance DOD's annual 50-50 report submitted to Congress. This enhanced reporting should include the following types of information:

- changes in depot maintenance workload allocations, including significant variances from the prior year's report, the reasons for these variances, and analysis of long-term trends;
- methodologies used to estimate workload allocation projections for the current and ensuing fiscal years; and
- the military departments' plans to ensure continued compliance with the 50-50 requirement, including the identification of decisions on new weapon systems maintenance workload sourcing that could be made to support remaining within the 50 percent threshold.

DoD Response: Partially Concur. GAO acknowledges that the Congressional reporting mandates are being met. Current and future year depot maintenance workload projections are generated using a rigorous review process and justification provided in the President's Budget. Variances occur for a variety of reasons to include: Congressional "adds" and supplemental funding, operational schedule changes, and emergent requirements. Scope of work changes, and workload reprioritizations also compound the net effect on variances from projection to actual. It would require a massive undertaking to track the changes throughout the year across the Department's diverse depot maintenance program. Additionally, the Global War on Terrorism (GWOT) has necessitated a dynamic support environment in which historical "long-term" trends in depot maintenance requirements may be of limited value. Congress recently eliminated the requirement to present five years of projections for the reasons cited above.

GAO Contacts and Staff Acknowledgments

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Acknowledgments

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