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United States General Accounting Office

GAO

Report to the Chairman, Committee on
Armed Services, House of
Representatives

September 1990

NAVY FIELDDED SYSTEMS

Operating and Support Costs Not Tracked



National Security and
International Affairs Division

B-240565

September 28, 1990

The Honorable Les Aspin
Chairman, Committee on
Armed Services
House of Representatives



Dear Mr. Chairman:

As you requested, we examined the reliability of the Navy's operating and support (O&S) cost expenditure data for the F/A-18 and SH-60B weapon systems. You also asked us to examine the relationship of that data to Navy budget requests. We addressed the results of our work in a briefing to your committee staff. This letter reflects information presented in that briefing.

Results in Brief

The Navy O&S cost data for the two weapon systems did not provide a sufficiently reliable indication of actual costs expended to operate and support the two aircraft systems. The Navy does not maintain a cost accounting system that reliably allocates O&S cost expenditures among its weapon systems. The data provided us were extracted from a variety of data bases. Various assumptions and limitations associated with the individual cost elements and the data bases make the data unreliable for determining if O&S cost objectives were being met. Also, Navy and Office of the Secretary of Defense (OSD) officials told us that the O&S cost data provided us typically cannot be reconciled to a Navy budget request and are generally not used for the purpose of formulating budget requests.

Background

Various Department of Defense directives define O&S costs as the cost of operation, modification, maintenance, supply, and follow-on logistics support of a weapon system in the inventory. The O&S cost element structure in OSD guidelines includes (1) costs directly and indirectly attributable to a specific defense system, (2) costs for personnel, consumables, depot maintenance, contract unit level support, and sustaining investment that would not occur if the system did not exist, and (3) other indirect costs. These cost elements are funded and tracked through several different budget appropriation accounts, and many of these elements cannot be confidently related to specific weapon systems.

DISTRIBUTION STATEMENT A

Approved for public release;
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In May 1984, OSD announced a policy to determine and review estimates of future O&S costs of defense systems and to control those costs throughout the operational life of the systems. To support this objective, OSD directed the military services to establish and maintain Visibility and Management of Operating and Support Costs (VAMOSC) programs, which would permit the development of a well-defined, standard presentation of O&S costs by defense system. The VAMOSC programs were to be designed to produce data that could be used as a basis for making decisions concerning affordability, budget development, support concepts, cost trade-offs, modifications, and retention of current systems and for deriving O&S cost estimates for future defense systems.

The directive, however, constrained the military services to the use of existing cost accounting systems in collecting and allocating functional cost data to specific defense systems and made the secretaries of the military departments responsible for reviewing and evaluating the use of VAMOSC data and the effectiveness of the VAMOSC programs. A Steering Committee was established to promote standardization of O&S cost data collection by the military services, and the OSD Director of Program Analysis and Evaluation was made responsible for directing standardization of the VAMOSC data elements.

Navy Operating and Support Costs

We identified approved O&S cost estimates in F/A-18 and SH-60B program documents, and the Navy's F/A-18 and SH-60B program offices provided us with fiscal year 1986 and 1987 O&S costs reported by the Navy's official aircraft O&S cost tracking system, the VAMOSC-AIR Total Support System (TSS). However, the data cannot be used as a reliable indicator of what was being expended to operate and support the two aircraft systems.

During our work, OSD officials expressed reservations about relying on the VAMOSC-AIR TSS data as a basis for determining whether the F/A-18 and SH-60B systems were meeting O&S objectives. Navy officials who were familiar with the VAMOSC-AIR TSS collection process expressed similar reservations. The following are factors cited to us that suggested tracing reported VAMOSC-AIR TSS data to O&S cost objectives or to budget requests would likely prove inconclusive.

- The VAMOSC-AIR TSS program collects data elements from 18 functional data bases and converts the data to the VAMOSC format. The conversion is not always appropriately documented or validated.
- Cost data collected may be incomplete or contain irrelevant expenses.



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- Some expenses for components and consumable items common to a number of aircraft types cannot be traced to a particular weapon system and are allocated somewhat arbitrarily.
- Certain expenses, such as software maintenance costs, may not be included in VAMOSC data cost elements.
- The fiscal year 1987 report is the most recent VAMOSC-AIR TSS data available, and it was not published until 1990.
- The O&S costs for weapon systems are not accounted for or included in the budget in a way that would allow the costs to be identified with a specific weapon system.

In its report for fiscal year 1988, the Senate Committee on Appropriations requested each military service to establish a capability within 4 years to report accurate and verifiable O&S cost data for major weapon systems and to provide the data for at least three weapon systems beginning with the fiscal year 1990 budget request. However, OSD did not transmit the VAMOSC-AIR data that the Navy had proposed to furnish in response to the Committee's request because of concern that the data were of such poor quality.

Agency Comments

We did not obtain written comments from the agency. However, Navy and OSD officials, after reviewing a draft of this report, told us that they concurred in our observations on the data limitations and advised us that there are continuing problems with O&S cost tracking.

Conclusion

Concerns about limitations and problems with the VAMOSC-AIR TSS program are beyond the scope of this review. However, until they are resolved, we believe that a reliable determination of the O&S cost data associated with the F/A-18 and SH-60B systems cannot be made.

Scope and Methodology

To assess the reliability of the O&S cost expenditures for the F/A-18 and SH-60B weapon systems, we interviewed OSD and Navy officials and reviewed pertinent records as well as directives and guidelines. We also obtained the perspectives of various knowledgeable Navy officials on the reliability of O&S cost data obtained through the Navy VAMOSC-AIR TSS program. Because of the reservations expressed to us about the reliability of the available VAMOSC-AIR TSS data, we did not attempt to use the data to determine if the FA-18 and SH-60B systems were meeting their cost objectives. We also did not attempt to independently assess

the reliability of the Navy's VAMOSC-AIR TSS data or to comprehensively assess the Navy VAMOSC-AIR TSS program.

We conducted our review from January through July 1990. We obtained informal oral comments from OSD and Navy officials on a draft of this report and incorporated them as appropriate.

As agreed with your office, we plan no further distribution of this report until 30 days from the issue date, unless you publicly announce its contents earlier. At that time, we will send copies to the Secretaries of Defense and the Navy and to other congressional committees. We will also make copies available to others upon request.

Please contact me at (202) 275-6504 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Martin M. Ferber", with a long horizontal flourish extending to the right.

Martin M Ferber
Director, Navy Issues

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