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May 15, 2008

Congressional Committees

Subject: Depot Maintenance: Issues and Options for Reporting on Military Depots

This report formally transmits the attached briefing in response to the *Senate Report on the National Defense Authorization Act for Fiscal Year 2008*. The report required GAO to review and make recommendations regarding the reports, assessments, analyses, and documents used for determining the compliance of the Department of Defense and military departments with the percentage limitation in 10 U.S.C. 2466—frequently referred to as the 50/50 requirement. On April 23 and 24, 2008, we provided the briefing to staff of your committees to satisfy the mandate requirement.

We are sending copies of this report to the appropriate congressional committees. We are also sending copies to the Secretary of Defense; the Deputy Secretary of Defense; the Under Secretary of Defense (Acquisition, Technology, and Logistics); the Secretaries of the Army, Navy, and Air Force; and the Commandant of the Marine Corps. This report will also be available at no charge on GAO's Web site at <http://www.gao.gov>. Should you or your staff have any questions concerning 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 were Julia Denman, Assistant Director; Carleen Bennett; Dawn Godfrey; LaShawnda Lindsey; and Randy Neice.

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Enclosure: Briefing Slides



Issues and Options for Reporting on Military Depots

**Briefing for the Senate and House Committees on
Armed Services**

April 23, 2008

Briefing Agenda

- Introduction
 - Objectives
 - Scope and Methodology
 - Summary of Preliminary Observations
 - Background
 - Preliminary Observations
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Introduction

- The Senate Report on the National Defense Authorization Act for Fiscal Year 2008 requires GAO to review and make recommendations regarding the reports, assessments, analyses, and documents used for determining the compliance of the Department of Defense (DOD) and military departments with the percentage limitation in 10 U.S.C. 2466 - frequently referred to as the 50/50 requirement. The committee expressed particular interest in learning whether there are better methods than the current system for meeting its oversight responsibilities of DOD compliance with the 50/50 requirement.
- The 50/50 requirement, which under certain circumstances can be waived by the Secretary of Defense, provides that not more than 50 percent of the funds made available in a fiscal year to a military department or a defense agency for depot-level maintenance and repair workload may be contracted to non-federal government personnel. DOD must report annually on the percentage of depot maintenance funds expended during the preceding fiscal year, and are projected to be expended during the current fiscal year and the ensuing fiscal year, for performance of depot-level maintenance and repair workloads by the public and private sectors.

Objectives

1. To what extent does the current 50/50 reporting on the mix of depot maintenance funding between the public and private sectors provide information for congressional oversight?
2. To what extent could reporting on core depot capabilities to Congress provide an alternative measure for assessing the balance of public and private sector depot maintenance workload?
3. What issues might Congress wish to consider to enhance reporting on military depots capabilities or funding allocations of the public sector versus private sector?

This briefing is intended to satisfy the mandate that GAO review 50/50 reporting requirements.

Scope and Methodology

- To determine the extent to which the current 50/50 reporting on the mix of depot maintenance funding between the public and private sectors provides information for congressional oversight, we reviewed prior GAO and other audit agency products on 50/50 and core and we discussed 50/50 issues with cognizant DOD officials.
- To determine the extent to which the reporting on core depot capabilities could provide an alternative measure for assessing the balance of public and private sector depot maintenance workload, we incorporated preliminary findings from our ongoing audit work on depot maintenance issues.
- To identify issues Congress might wish to consider to enhance reporting on military depot capabilities or funding allocations in the public and private sectors, we reviewed DOD's depot maintenance policies and procedures, reviewed GAO and other audit agencies' reports, incorporated preliminary findings from our ongoing audit work, and met with OSD and service officials to discuss alternatives for 50/50 reporting.

Summary of Preliminary Observations

- While the 50/50 reporting does not provide a precise accounting of the mix of depot maintenance funding between the public and private sectors, it provides information for approximating this mix. If Congress wishes to assess this mix, 50/50 may continue to provide a useful metric until a more meaningful process can be implemented. However, oversight could be enhanced with additional information such as analyses of annual funding allocation to prior years data, funding allocation variances from year to year, and analyses of long term trends. Nonetheless, absence of information about workload limits 50/50's usefulness to Congress as a stand-alone metric for evaluating the mix of depot maintenance between the public and private sectors.
- The concept of defining a level of core workload to be maintained in government depots is an appropriate approach for addressing congressional requirements for organic maintenance. Since the current core policy and implementation has limitations and does not provide a comprehensive process for determining core requirements and capability, it is not a viable stand-alone alternative for measuring the depot maintenance workload mix, but as a complement to 50/50 does provide additional data that would be useful to congressional oversight if it were improved and provided to Congress. If improved to provide a more comprehensive assessment of core, this process could be used as an alternative to 50/50.
- Additional information would benefit the decision-making process regarding the future of organic depot maintenance, 50/50, and core.

Background

- While both public and private sector activities have contributed to the performance of depot maintenance work, the statutory limitations on the percentage of private and public work have been amended several times since the inception of the legislative language on the mix of depot maintenance workload between the public and private sectors. Several selected developments are listed below:
 - 1982 – DOD directed that services plan for not more than 70 percent of depot maintenance to be repaired at organic [military] depots.
 - 1984 – National Defense Authorization Act (NDAA), 1985 provided for maintaining core logistics capability.
 - 1991 – NDAA for FY 1992 and FY 1993 set a 60 percent floor for organic depot maintenance.
 - 1996 – DOD's policy shifted to relying more on the private sector for depot maintenance.
 - 1997 – NDAA for FY 1998 established that no more than 50 percent of depot maintenance funding can be allocated to the private sector.
 - 1998 – Definition of depot maintenance at Section 2460 of Title 10 was expanded to include all depot level maintenance and repair workload regardless of location of where the work was performed, adding to the complexity of 50/50 reporting.

Background (continued)

- From 1998-2006 GAO was required to review DOD's compliance with 50/50 requirement.
- Although there is a legislative requirement for core to provide for retaining a minimum capability in military depots to support surge requirements to meet contingencies, the Secretary of Defense is not required to submit to Congress an annual report regarding core capability requirements. The Secretary is required to report waivers of the core statute and a notification and justification of the determination that a weapon system is a commercial item and not subject to core. According to the services, they have not submitted reports under these requirements.



Objective 1: Current 50/50 Reports Provide Information on Public/Private Funding Mix But Shortcomings Limit Usefulness

- The 50/50 process collects and aggregates funding data for depot maintenance work accomplished in both the public and private sectors, but the existing process has shortcomings that limit its ability to provide an exact measure of this funding mix. Some of the weaknesses identified in GAO and service audit agency reports are listed below.
 - Inadequate guidance and insufficient internal processes and procedures make it difficult to maintain consistency in 50/50 reporting methods.
 - Mathematical errors, under- and over-reporting workload, and the exclusion of certain reportable depot workload raise questions about data accuracy.
 - The commingling of depot and intermediate level maintenance and use of multiple types of funding complicates 50/50 reporting.
 - Use of funding rather than workload provides a misleading representation of the public/private mix since funding for military depots includes the price of parts which are often procured from the private sector. Further, because 50/50 does not provide information about workloads, it provides no insights about specific workload capabilities in the maintenance depots.
 - During the years when GAO was required to review and report on 50/50 compliance, generally the reports noted that GAO could not determine compliance with precision due to factors such as weaknesses in DOD's financial systems and the processes used to collect and report the data.



Objective 1: Current 50/50 Reports Provide Information on Public/Private Funding Mix But Shortcomings Limit Usefulness

- OSD and the services have worked to improve the 50/50 data accuracy by developing improved guidelines and using service audit agencies to review the data.
 - Despite some continued weaknesses, the collection and aggregation of 50/50 data allows an approximation of depot maintenance dollars between the public and private sectors – information not available through other sources.
 - The availability of 50/50 data and the need to follow 50/50 procedures have in certain cases, influenced the services to consider shifting maintenance work to military depots to improve their 50/50 postures.
 - The requirement to develop a mitigation plan when the service comes within 2 percent of the 50 percent private sector ceiling has impacted the Air Force and more recently the Army to develop plans for shifting workloads to military depots.
 - The requirement that only the Secretary of Defense may waive the 50/50 requirement has generated discussions among high level officials in the Air Force regarding source of repair decisions.
 - We have reported that 50/50 reporting could be made more useful to Congress with the addition of such information as analyses of annual funding allocation to prior years data, funding allocation variances from year to year, and analyses of long term trends.
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Objective 2: Information on Core Capabilities at Military Depots has Shortcomings But If Improved Could Provide an Alternative Measure for Congressional Oversight

- The concept of identifying a core workload that should be maintained in military depots is a systematic process for delineating what should be performed in the public sector, but the existing core process has limitations.
 - The legislative requirement for core provides, in part, that a minimum capability should be retained in military depots to support the surge requirement to meet contingencies.
 - DOD's biennial core process is designed to identify required core capabilities for depot maintenance and the associated workloads needed to sustain those capabilities. But our preliminary work indicates that the process may not be comprehensive in establishing core capabilities required by DOD guidance in the military depots.
 - The core requirement is vague and results in different service interpretations.
 - The core process, which uses direct labor hours is more difficult to quantify than 50/50, which uses dollars. Workload information is collected by each depot in a work breakdown structure format, aggregated for each service, and reported to Office of Secretary of Defense – but not to Congress.
 - Our preliminary work indicates that each service implements DOD's core policies differently.
 - The biennial core process, which addresses legacy and modified systems does not interface with the acquisition process, which addresses emerging requirements for new and future systems.



Objective 2: Information on Core Capabilities at Military Depots has Shortcomings But If Improved Could Provide an Alternative Measure for Congressional Oversight

- Lack of internal controls within DOD (1) brings into question the accuracy of the core data and (2) does not ensure maintaining sufficient core workloads to meet core capability requirements.
 - To address core requirements for new and modified systems, DOD's acquisition guidance requires that a core logistics analysis be conducted before acquisition milestone B (or milestone C (if no milestone B)) and the core logistics capability be established within four years of initial operational capability for mission essential weapon systems and materiel, but the process for performing the core logistics analysis is not clearly defined and implementation varies among the services.
 - Based on our ongoing work, it is not clear that program offices are establishing core within timeframes required by DOD guidance.
 - Program office officials cited an inconsistency between the core requirement and their perception of DOD's preference for private contractor support.
 - Not having technical data and lack of funding for depot plant equipment are reasons program offices gave for not establishing core.
 - Despite its weaknesses, the core process does provide information about required capabilities and the workloads needed to sustain it – information not available from other sources. As such it is a complement to 50/50 and if improved could be used as an alternative measure for assessing the balance of public and private sector depot maintenance workload.
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Objective 3: Key Issues for Congress as it Considers Reporting Options for Oversight of the Public/Private Mix

To better evaluate potential changes to existing requirements on depot maintenance, consideration of a number of issues would provide meaningful insights to aid in the decision-making process.

- To what extent are 50/50 and core still relevant for assessing a required level of organic maintenance capability?
- What role are the depots to have in DOD weapons system support? Are they to be only used for legacy systems and as repairers of last resort when a contractor is not available, or are they to be a key source of repair for new and modified weapon systems?
- How does core depot maintenance fit into a DOD support scenario in light of DOD's preference for using performance-based logistics?
- If the maintenance depots are to remain relevant in the future, what actions are needed to ensure they are modernized and capable of performing maintenance on new systems?
- As it becomes more difficult to distinguish depot from intermediate maintenance and maintenance from other supportability functions, to what extent does it remain practicable to quantify a balance of public and private sector depot maintenance?
- Is it important for DOD to continue to define some level of core capability that it should perform using DOD military or civilian employees?



Objective 3: Key Issues for Congress as it Considers Reporting Options for Oversight of the Public/Private Mix (continued)

- What kind of capability, if any, should DOD retain in organic depots to assure that they have a ready and controlled source of technical competence and the resources necessary to ensure its ability to respond to current and future national defense emergencies?
 - To what extent should the depots be capable of performing maintenance on weapon system commodities?
 - How would DOD assure that maintenance would continue to be cost effective if the depots were no longer available as an alternative source of repair?
 - Should there continue to be a required level of organic logistics capability and if so should it be only for maintenance?
 - What changes can be made to the 50/50 and or core process to improve their accuracy and internal controls?
 - Could a modified strategic-level core process be developed to simplify the development of required information regarding essential capabilities to be retained in the military depots?
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Agency Views

We obtained oral comments and the agency concurred with the facts presented. On the basis of the comments, we made several technical changes as appropriate.



Generally Accepted Government Auditing Standards (GAGAS) Statement

- We conducted this performance audit from February 2008 through April 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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