

GAO

Report to the Chairmen, Committee on
Appropriations, and the Subcommittee
on Defense, Committee on
Appropriations, House of
Representatives

June 2001

DEFENSE INVENTORY

Information on the Use of Spare Parts Funding Is Lacking



G A O

Accountability * Integrity * Reliability

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United States General Accounting Office
Washington, DC 20548

June 11, 2001

The Honorable Bill Young
Chairman, Committee on Appropriations
House of Representatives

The Honorable Jerry Lewis
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

In recent years, the military services have been reporting that a shortage of spare parts has caused a decline in military readiness. Despite additional funding provided by the Congress to address this issue, the services are still reporting concerns about spare parts shortages. You expressed concern about whether the added funding had been used to reduce spare parts shortages and asked that we review how the Department of Defense had used the funds.¹ In response to your request, this report addresses (1) what the Department and the military services did with the funds the Congress specifically provided for spare parts and (2) what plans the Department has to improve financial management information on spare parts funding. As agreed with your staff, we focused this review on the funds, totaling about \$1.1 billion, that were specifically earmarked for spare parts and associated logistical support in the Emergency Supplemental Appropriations Act for Fiscal Year 1999.

Results in Brief

The funds earmarked specifically for spare parts and associated logistical support, totaling about \$1.1 billion, were largely placed in the military services' operation and maintenance accounts. However, current financial information does not show the extent to which the Department used these funds for spare parts. Available documentation shows that the Department of Defense transferred 92 percent of these funds to the military services' operation and maintenance accounts. The remaining 8 percent was transferred to a Navy procurement account related to spare

¹ This is one in a series of reviews related to concerns you raised about spare parts issues. We have other reviews in progress that deal with such issues as spare parts shortages in each of the services, spare parts requirements for Army war reserves, and quality of spare parts. We are reporting separately on each of these issues.

parts for new equipment. Once the funds were transferred into the operation and maintenance accounts, the Department did not separately track the use of these funds. They could have been used for a variety of purposes, including obtaining new or repaired spare parts. Funds within the services' operation and maintenance accounts are tracked in over 200 subactivity groups, ranging from 27 in the Marine Corps to 63 in the Air Force, but spare parts is not one of them. Instead, funding for spare parts is included in numerous subactivity groups and not separately tracked within such subactivity groups.

The Department of Defense plans to annually develop detailed financial management information on spare parts funding uses. However, the Department has indicated that it does not plan to report the information to the Congress. According to a June 2000 regulation, the Department and the military services are to develop information annually on the quantity and funding for all spare parts. The information is to be developed for the first time in conjunction with the fiscal year 2002 operation and maintenance budget request. The information is to include all spare parts by groupings, such as ships, aircraft, and combat vehicles.

Continuing concerns about the impact of spare parts shortages on readiness make reliable and timely information about the use of funds for spare parts essential for effective congressional oversight. Consequently, we are recommending to the Secretary of Defense that the information required by the June 2000 regulation routinely be provided to the Congress as an integral part of the Department's annual budget submission. The Department of Defense agreed with our recommendation.

Background

Spare parts are repair parts and components, including kits, assemblies, and subassemblies (both repairable and nonrepairable items) required for the maintenance of all equipment. Repairable items are those that are returned to the supply system to be repaired when they are no longer in working condition. Nonrepairable items are called consumables, which means they are consumed in use or can not be economically repaired.

For several years, the military services have, to varying degrees, expressed concern that a lack of spare parts has reduced their ability to carry out their missions. In the *Quarterly Readiness Report to the Congress for October -December 2000*, the Department reported the following:

- The Department continues to face challenges in the readiness of aviation assets, in part, because of spare parts shortages.

-
- Most Army equipment was at or above readiness goals, but prepositioned war reserves still had spare parts shortages.
 - Nondeployed Navy units had aviation spare parts shortages.
 - Funding for Air Force spare parts was on track, and previous spare parts funding initiatives were beginning to improve the availability of parts and consequently were helping to curb the declining trend in aircraft readiness. However, engine readiness had declined since it peaked in May 2000, and a reason for the decline was continuing parts problems.

In response to such concerns, the Congress has provided additional funding. Funding for spare parts is typically provided as part of the appropriations for operation and maintenance.² During fiscal years 1996-2000, the Congress consistently funded the President's Defense operation and maintenance budget request and provided additional funding.

In the Emergency Supplemental Appropriations Act for Fiscal Year 1999 (P.L. 106-31 sec. 2007), the Congress provided the Department of Defense with about \$1.1 billion specifically for use for spare parts and associated logistical support. That act indicated that funds were to be available for obligation³ until the end of fiscal year 2000 and could be transferred only to the operation and maintenance or procurement accounts. Section 8170 of the Department of Defense Appropriations Act for Fiscal Year 2000 (P.L. 106-79) reduced fiscal year 2000 funding for spare parts and associated logistical support by \$550 million. The act then directed that the unobligated funds available from section 2007 of the fiscal year 1999 emergency supplemental be made available to finance spares and logistical support activities in the exact amounts that were reduced in the fiscal year 2000 act.

We have reported recently on the Department's difficulties in financial and inventory management as high-risk areas that are vulnerable to waste,

² Besides funding for spare parts, the operation and maintenance appropriations are intended to cover the costs associated with many diverse Department of Defense items and activities, such as the pay and benefits for most of the Department's 700,000 civilian employees, fuel, other supplies, operations at military bases, training and education of individual service members, and medical care.

³ Obligations are financial amounts associated with orders placed, contracts awarded, services rendered, and other transactions occurring during a given period that would require payments during the same period or in the future.

fraud, abuse, and mismanagement.⁴ We also recently testified⁵ that none of the military services or the Department as a whole passed the test of an independent financial audit for fiscal year 2000 because of pervasive weaknesses in its financial management systems, operations, and controls. We pointed out that, despite progress, ineffective asset accountability and the lack of internal controls continue to adversely affect visibility over inventories. Furthermore, unreliable cost and budget information undermines the Department's ability to effectively measure performance, maintain adequate fund control, and reliably report on how much money it has spent and for what purposes.⁶

We further testified that the Department continued to spend more than necessary to procure and manage inventory. The Department's records showed that, as of September 30, 1999, inventory on order, valued at about \$1.6 billion, would not have been ordered based on current requirements. However, we also pointed out that at the same time the Department had experienced equipment readiness problems because of a lack of spare parts.

Funds Were Largely Used for Operation and Maintenance Activities, but Not Necessarily for Spare Parts

The vast majority of the funds provided specifically for spare parts were placed in the military services' operation and maintenance accounts. However, the Department of Defense financial management information does not show the extent to which this funding was used for spare parts. Once the funds are in these accounts, the Department does not routinely track the amount of funds that are used for spare parts. They could have been used for a variety of purposes including spare parts.

The Department of Defense transferred 92 percent of the funds specifically earmarked for spare parts and associated logistical support to operation and maintenance accounts. The remaining 8 percent was transferred to a

⁴ These difficulties in the financial management and inventory management areas are discussed in our reports entitled *Major Management Challenges and Program Risks: Department of Defense* (GAO-01-244, Jan. 2001) and *High-Risk Series: An Update* (GAO-01-263, Jan. 2001).

⁵ *Major Management Challenges and Program Risks: Departments of Defense, State, and Veterans Affairs* (GAO-01-492T, Mar. 7, 2001), testimony delivered before the Subcommittee on National Security, Veterans Affairs, and International Relations, House Committee on Government Reform.

⁶ Recent financial audits show that obligated balances were not always correct or supported.

Navy procurement account associated with spare parts for new weapon systems or equipment. Of the \$1.1249 billion earmarked specifically for spare parts and associated logistical support, as authorized, \$1.0372 billion was transferred by the Department to the services' operation and maintenance accounts (see table 1). At that point, the vast majority of the funds earmarked for spare parts and associated logistical support became indistinguishable from other operation and maintenance funds. Officials of the Department of Defense and the military services explained that obligations incurred for spare parts were included with obligations incurred with various operation and maintenance subactivities and were not tracked separately. They advised us that, consequently, they could not readily provide information to show how those funds were used.

Table 1: Transfers of Funds Specifically Earmarked for Spare Parts and Associated Logistical Support

Dollars in thousands

Service	Operation and maintenance	Procurement	Total
Army	\$170,000		\$170,000
Navy	312,400	\$87,700	400,100
Marine Corps	40,000		40,000
Air Force	466,800		466,800
Air Force Reserve	23,000		23,000
Air National Guard	25,000		25,000
Total	\$1,037,200	\$87,700	\$1,124,900

Source: GAO analysis based on Department of Defense transfer documents.

The services' operation and maintenance accounts typically contain four budget activities: (1) operating forces, (2) mobilization, (3) training and recruiting, and (4) administration and servicewide activities.⁷ Budget activities are in turn divided into activity groups, which are further divided into subactivity groups. The number of activity groups and subactivity groups varies for each service.

In total, these operation and maintenance accounts comprise over 200 subactivity groups and range from 27 in the Marine Corps to 63 in the Air Force. They include some major programs such as Army divisions, fleet ballistic missiles, and Air Force primary combat forces and smaller

⁷ The Marine Corps is an exception with only three budget activities and does not include the mobilization budget activity.

programs such as real property maintenance for accession training at the service academies, junior reserve officers training corps, and off-duty and voluntary education program.

Funding for spare parts is spread across various subactivity groups. For example, a portion of the Air Force's operation and maintenance funds goes to its eight major commands for use in their flying hour programs. These major commands use such funds to pay for fuel, maintenance, and spare parts. The flying hour program is not separately identified in the operation and maintenance account; flying hour costs are charged to numerous subactivity groups, and funds for spare parts are included in those costs.

Department Plans to Develop Detailed Information on Spare Parts Funding, but Does Not Plan to Provide It to the Congress

The Department of Defense plans to annually develop detailed financial management information on spare parts funding, but does not plan to provide it to the Congress as part of its budget submission. Starting with the budget request for fiscal year 2002, the Department and the services are to develop information that will show the amount of operation and maintenance appropriations used for spare parts and the quantity of consumable and repairable spare parts used.⁸

The regulation that deals with specific backup material requirements associated with the justification for operation and maintenance appropriations was revised in June 2000. The revision calls for the development of information on the quantity of parts involved and funding for each grouping, such as ships, aircraft, and combat vehicles, within the Department's and each service's operation and maintenance account. According to the revised regulation, the information is also to include an explanation of changes in the quantity and funding between years and deviations between actual and program data.

In the past, the Department asked the services to provide information designed to show the funding used to purchase repairable parts. However, the information did not show the funding for consumable parts and did not reflect the quantities of repairable parts involved. In addition, there was no explanation of changes in funding used between years and deviations between actual and program data.

⁸ The Department of Defense Financial Management Regulation (vol. 2A, ch. 3) requires the Department and each service to prepare backup material on spare parts, identified as exhibit OP-31.

The revised regulation states that the information on spare parts is not to be included in the Department's budget request submitted to the Congress. An official from the Department's Office of the Comptroller told us that this information is only for internal Department use and that the Department is not required to provide the information to the Congress.

This official also said that as of May 2001, the Department had not started to develop the information on spare parts required by the revised regulation because of the Department-wide strategic review by the Secretary of Defense.

Conclusions

Implementation of the Department's plan to develop detailed information on spare parts funding should increase visibility and accountability for the use of spare parts funds. The plan should also help to determine the extent to which progress is being made in addressing spare parts shortages. Such information, when developed through a reliable and consistent methodology, would also be useful for congressional decision-making and oversight. However, the Department does not plan to provide it to the Congress.

Recommendation for Executive Action

Continuing concerns about the impact of spare parts shortages on readiness make reliable and timely information about the use of funds for spare parts essential for effective congressional oversight. Therefore, we are recommending that the Secretary of Defense routinely provide to the Congress, as an integral part of the operation and maintenance budget submission, the spare parts information required by the Department's revised regulation associated with the justification for operation and maintenance appropriations.

Agency Comments

In commenting on a draft of this report, the Acting Deputy Under Secretary of Defense for Logistics and Materiel Readiness indicated that the Department of Defense generally agreed with the report and concurred with the recommendation. Specifically, the Acting Deputy Under Secretary indicated that copies of the Department's and the military services' detailed spare parts information required by the Department's revised regulation would routinely be provided to the Congress as part of the annual budget submission. Moreover, the Department will incorporate this new congressional reporting requirement in its financial management regulation when it is updated. The Department's comments are reprinted in their entirety in appendix I.

Scope and Methodology

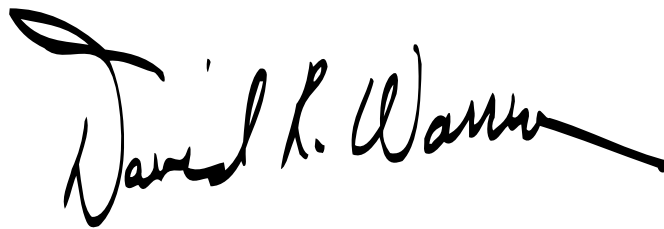
To determine what the Department and the services did with the funding specifically provided for spare parts and associated logistical support, we reviewed the legislative history and the provisions of relevant appropriations acts and documented the amount and purpose of supplemental funding provided by the Congress. We obtained information from the Department of Defense and the military services on the transfer of supplemental funding from the Department of Defense to the services. We asked officials from the Department's Office of the Comptroller and the individual services and their major commands for information on how they tracked the status of obligations for spare parts at their respective levels. We discussed with officials of the Department of Defense and individual services whether they had procedures to determine whether the earmarked funds were obligated for spare parts. We also obtained documentation on the extent to which the Department of Defense tracks funding for spare parts embedded in the normal operation and maintenance accounts. We also reviewed our prior reports dealing with high-risk operations within the Department of Defense.

To ascertain what plans the Department has to improve financial management information on spare parts funding, we contacted the Department's Office of the Comptroller. We also reviewed the revised chapter of the Department's Financial Management Regulation that deals with specific backup material requirements associated with the budget formulation and justification for operation and maintenance appropriations. We also compared the provisions related to spare parts in the revised regulation with the provisions in the regulation just prior to the revision. We discussed the differences in the regulation requirements with an official in the Office of the Comptroller and obtained information about the status of efforts to implement the revised requirements dealing with spare parts.

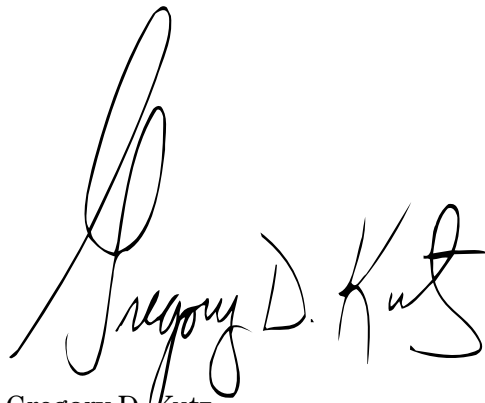
We performed our work from June 2000 to May 2001 in accordance with generally accepted U.S. government auditing standards.

We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Appropriations and the Senate Committee on Armed Services; the Chairman and Ranking Minority Member, House Committee on Armed Services; the Secretaries of Defense, the Army, the Air Force, and the Navy; the Commandant of the Marine Corps; and the Director of the Office of Management and Budget. We will also make copies available to others upon request.

Please contact David Warren on (202) 512-8412 or Gregory Kutz on (202) 512-9505 if you or your staff have any questions concerning this report. Key contributors to this report were Jeffrey L. Overton, John C. Wren, Jeanett H. Reid, and Joseph F. Murray.

A handwritten signature in black ink that reads "David R. Warren". The signature is written in a cursive style with a long horizontal stroke at the end.

David R. Warren
Director, Defense Capabilities
and Management

A handwritten signature in black ink that reads "Gregory D. Kutz". The signature is written in a cursive style with a large, looped initial "G".

Gregory D. Kutz
Director, Financial Management
and Assurance

Appendix I: Comments From the Department of Defense



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

MAY 21 2001


Mr. David R. Warren
Director, Defense Capabilities
and Management
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE INVENTORY: Information on the Use of Spare Parts Funding is Lacking," dated April 19, 2001 (GAO Code 709508/OSD Case 3078). The DoD generally concurs with the draft report.

Detailed comments on the draft report recommendation are included in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,


Allen W. Beckett
Acting

Enclosure



GAO DRAFT REPORT DATED APRIL 19, 2001
GAO CODE 709508/OSD CASE 3078

"DEFENSE INVENTORY: INFORMATION ON THE USE OF SPARE PARTS
FUNDING IS LACKING"

DEPARTMENT OF DEFENSE COMMENTS TO
THE GAO RECOMMENDATION

RECOMMENDATION: The GAO recommended that the Secretary of Defense routinely provide to the Congress, as an integral part of the operation and maintenance budget submission, the spare parts information required by the Department's revised regulation associated with the justification for operation and maintenance appropriations.

DoD RESPONSE: Concur. The Secretary of Defense will routinely provide copies of the "Spare and Repair Parts (Exhibit OP-31)" exhibits to the Congress. The DoD Components will be requested to include these data in their Volume II Data Books, and Chapter 3 of Volume 2A of the DoD Financial Management Regulation will be revised to incorporate this new congressional reporting requirement when it is next updated.

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