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United States Government Accountability Office  
Washington, DC 20548

June 16, 2005

The Honorable Duncan Hunter  
Chairman  
Committee on Armed Services  
House of Representatives

Subject: Department of Defense's Annual 50-50 Report

Dear Mr. Chairman:

This letter confirms our commitment to review the Department of Defense's (DOD) compliance with reporting requirements for funds expended for depot maintenance and repair workloads based on the mandate included in the Fiscal Year 2005 Ronald W. Reagan National Defense Authorization Act. PL 108-375 directs the Secretary of Defense, no later than April 1 of each year, to submit a report to Congress identifying for each of the armed services and each defense agency the percentage of the funds expended during the preceding fiscal year, and are projected to be expended during the current and ensuing fiscal year. The public law also mandates that we report within 90 days on whether (1) DOD complied with the reporting requirement during the preceding fiscal year covered by the report, and (2) the projected allocations for the current and ensuing fiscal years are reasonable. Please see enclosure I for a list of other members from cognizant committees with whom we will be coordinating this engagement.

We will provide a briefing by the end of June that details our preliminary observations concerning the department's compliance with reporting requirements for fiscal year 2004 data and the reasonableness of projected allocations for fiscal years 2005 and 2006. We plan to complete our work and issue a report to you later in 2005. Enclosure II sets forth the key aspects of the study.

We look forward to working with you and your staff on this assignment. Should you have any questions, please contact me on (202) 512-8365 or [solisw@gao.gov](mailto:solisw@gao.gov) or, Thomas Gosling, Assistant Director, on (202) 512-8919 or [goslingt@gao.gov](mailto:goslingt@gao.gov).

Sincerely yours,

William M. Solis  
Director, Defense Capabilities and Management

Enclosures - 2

cc: Mr. Bill Greenwalt, SASC—Readiness, majority staff  
Mr. Greg Riley, SASC—Readiness, majority staff  
Mr. Peter Levine, SASC—Readiness Subcommittee, ranking staff  
Ms. Mary Ellen Fraser, HASC—Readiness Subcommittee, majority staff  
Mr. Paul Arcangeli, HASC—Readiness Subcommittee, ranking staff

**LIST OF COMMITTEE MEMBERS**

The Honorable John Warner  
Chairman  
Committee on Armed Services  
United States Senate  
(Staff Member(s): Bill Greenwalt/Greg Riley)

The Honorable Carl Levin  
Ranking Member  
Committee on Armed Services  
U.S. Senate  
(Staff Member: Peter Levine)

The Honorable Ike Skelton  
Ranking Member  
Committee on Armed Services  
House of Representatives  
(Staff Member: Paul Arcangeli)

## TERMS OF WORK

### Objectives/Key Questions

Section 2466 of title 10, U.S. Code, establishes a 50 percent limit on annual funding for depot maintenance that can be accomplished by private-sector contractors. The act also requires GAO to report within 90 days on whether (1) DOD complied with the "50-50 requirement" during the preceding fiscal year (04) covered by the report and (2) DOD's expenditure projections for the current and ensuing fiscal years (05 and 06) are reasonable. Key Questions: (1) To what extent did the military services meet the 50-50 requirements in their reporting of allocations for fiscal year 2004? (2) To what extent are the projected allocations for fiscal years 2005 and 2006 reasonable? (3) To what extent had DOD and the services taken actions to improve the quality of reported data and implement GAO's prior year's recommendations?

### Scope

Our review will include audit work at all four military services. However, site visits to service specific installations to verify information included in the services' 50-50 reports will be limited prior to our June briefing. The results of additional service specific site visits conducted after the June briefing will be included in our final report.

### Methodology

To determine if the extent that military services met the 50-50 requirement in their reporting of funding allocations for fiscal year 2004 depot maintenance we will analyze DOD guidance and service implementing instructions to assess their consistency with the legislative requirement; analyze trends and changes in funding allocations as reported by DOD; determine the process used by DOD to comply with the reporting requirement, including each service's procedures and internal controls for collecting, aggregating, and validating data; conduct service-specific reviews of reported workload funding to identify any errors, omissions, and inconsistencies in the data; and as necessary, judgmentally select certain programs, reporting centers, or maintenance categories for more detailed review.

To determine the extent that the projected allocations for fiscal years 2005 and 2006 are reasonable we will determine the methodology used by each service to project workload funding, including data sources and assumptions.

To determine what extent DOD and the services have taken actions to improve the quality of reported data, we will follow up on key limitations identified and determine the actions the services have taken to implement the recommendations detailed in our prior year's report.

Past GAO audits have found recurring weaknesses in DOD's data gathering, reporting processes, and financial systems that prevented us from determining with precision whether the services complied with the 50-50 requirement. Furthermore, because we will not conduct a detailed review of all reported 50-50 data, there may be errors, omissions, and inconsistencies that are in addition to those we identify.

We will conduct our work in accordance with Generally Accepted Government Auditing Standards (GAGAS).

### **Product and Delivery Date(s)**

We will provide a briefing to the mandating committees by the end of June 2005. We plan to follow up with a final report to be issued later in 2005. We will obtain comments from DOD on these products prior to issuance.

### **Reporting on Job Status**

We will provide updates concerning the status of this engagement upon you or your staff's request.