

Report to Congress
on
Distribution of Department of Defense
Depot Maintenance Workloads for
Fiscal Years 2014 through 2016



**Office of the Under Secretary of Defense
for Acquisition, Technology, and Logistics**

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The estimated cost of this report or study for the Department of Defense is approximately \$527,000 in Fiscal Years 2014 - 2015. This includes \$45,000 in expenses and \$482,000 in DoD labor.

Cost estimate generated on July 21, 2015. RefID: 1-34EF6B6

INTRODUCTION

Section 2466(d)(1) of title 10, U.S.C., requires the Secretary of Defense to submit, not later than 90 days after the date on which the budget of the President for a fiscal year is submitted to Congress, a report identifying, for each of the armed forces (other than the Coast Guard) and each Defense Agency, the percentage of funds referred to in section 2466(a) of title 10, U.S.C., that was 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. For reference, sections of title 10, U.S.C., are included on the last page of this report.

The following conventions were used in the preparation of this report:

- Limited to military materiel and software that is integral to the operation of military materiel.
- Applies to all depot maintenance support requirements, regardless of the source or sponsor of the program.
- Applies to all funding sources and all customers budgeted or managed by the Military Department or Defense Agency.
- Funds made available are for depot maintenance and repair obligations for FY 2014 and projected obligations for FYs 2015 and 2016.
- Applies to all locations performing depot-level maintenance and repair (i.e., all maintenance and repair tasks designated or coded as depot-level that are performed in field or other non-depot locations).
- Includes all factors of production.
- Includes the installation costs of all modifications when the installation is considered a depot-level service.
- Reporting is made from the Principal's perspective (i.e., the component that manages the funding for or owns the equipment that is being repaired or maintained).
- Includes interim contractor support and contractor logistics support (or any similar contractor support) to the extent that such support is for performance of depot-level maintenance and repair.
- Acquisition of modifications and upgrades is excluded; however, installation of excluded modifications and upgrades is included when the installation is considered a depot-level service.

Section 2474(f) of title 10, U.S.C., excludes certain expenditures from the percentage limitations in section 2466(a). The exclusion applies to the performance of depot-level maintenance and repair workload by non-Federal Government personnel at a Center of Industrial and Technical Excellence (CITE) pursuant to a public-private partnership. Section 2466(d)(2) requires that the report required under section 2466(d)(1) include as a separate item any expenditure covered by section 2474(f) that was made during the fiscal year covered by the

report and shall specify the amount and nature of each expenditure. The following applies to determination of the exclusion:

- The depot maintenance activity on which the workload is performed must have been designated a CITE.
- The workload must be pursuant to a public-private partnership for depot maintenance.
- The workload must be performed by personnel provided by private industry or other entities outside the Department of Defense at a CITE.

REPORT

The information on distribution of depot-level maintenance and repair workloads by the public and private sectors for the Military Departments and Defense Agencies is provided in the attached table. The first portrayal, “Military Department/Defense Agency,” is the portrayal applicable to compliance with the section 2466(a), a 50 percent limitation on the funds made available to a Military Department or Defense Agency that can be used to contract for performance by non-Federal Government personnel.

The second portrayal, “Department of the Navy — Armed Forces Component Data,” is applicable to the section 2466(d)(1) requirement for reporting for each of the Armed Forces (other than the Coast Guard) in that it provides the required breakout for the Department of the Navy (to include the Marine Corps). The third portrayal, “Other Defense Organizations,” provides information for organizations not meeting the sections 101(a)(4), (8), and (11) of title 10, U.S.C., definitions of Armed Forces, Military Department, or Defense Agency and, therefore, not subject to the 50 percent limitation.

Non-Federal work that is not excluded by section 2474(f) from the 50 percent limitation on the funds made available to a Military Department or Defense Agency that can be used to contract for performance by non-Federal Government personnel is identified on the table as “Non-Federal Work Non-excluded.” Non-Federal work that is excluded by section 2474(f) from the 50 percent limitation is identified on the included table as “Non-Federal Work Excluded.” Although not counted for purposes of applying the percentage limitation, CITE public-private partnership expenditures are included in total expenditures for non-federal depot maintenance work. Since U.S. Special Operations Command (USSOCOM) is neither a Military Department nor a Defense Agency, the section 2474(f) exclusion does not apply.

All three Military Departments report compliance with the 50 percent limitation for funds used to contract for the performance of depot-level maintenance by non-Federal Government personnel in FY 2014 and are projecting compliance for FY 2015 and FY 2016. The Missile Defense Agency’s (MDA) historically non-traditional systems acquisition approach to rapidly field the Ballistic Missile Defense System has impacted meeting the 50/50 goal. We are directly engaged with MDA on their plan and timeline to achieve compliance.

INTERNAL AUDIT REQUIREMENT

In response to concerns expressed in Congressional Reports that accompanied the FY 2015 National Defense Authorization Act, this section includes a description of the efforts made by each of the Military Departments and Defense Agencies to comply with the requirement for internal audit agencies to validate the data submitted for the annual report to Congress required by 10 U.S.C. 2466.

Army: The Army has relied on the Army Audit Agency to validate their data and collection methods for ensuring compliance with 10 U.S.C. 2466. For this report, the Army Audit Agency determined that the Army has an effective process in place to report depot-level maintenance workload distribution, and that the FY 2014 data was reported accurately.

Navy: The Department of the Navy (DON) engaged the Naval Audit Service to review and validate the data collected by the Navy and Marine Corps for this report. The Naval Audit Service reviewed data sets of selected organizations that collectively comprised the majority of the total reported depot maintenance funds. The review focused on the accuracy and reliability of reported data and supporting documentation, and compliance with Department of Defense and Navy reporting guidance and instructions. The DON concurred with the Audit Service findings, and all required corrections were incorporated in this report.

Air Force: Based on the results of the audit conducted by the Air Force Audit Agency (AFAA), the Auditor General of the Air Force reported that some errors were found in the reported costs for five Air Force programs; however, the net percentage of the total represented by the errors was negligible (0.16 percent on the contract side) and would not have changed the Air Force's compliance status. The errors were corrected before the data was submitted. Although the AFAA found that "Air Force personnel established effective processes and procedures for capturing Contractor Logistics Support depot maintenance costs," the Auditor General recommended that standard, repeatable processes be established in Air Force policy to periodically verify that programs properly capture and document depot maintenance costs (which they have completed) and that alternative means be developed for training personnel responsible for developing and collecting depot maintenance data (which will be implemented for the next reporting cycle).

Missile Defense Agency (MDA): MDA's Internal Review (IR) office performed an audit validation in accordance with DoD policy. The MDA IR reports that improvements have been made since their audit validation conducted in 2014. MDA is updating its corrective action plan for continued implementation of IR's recommendations and to foster further improvements in the accuracy of their data.

**Distribution of DoD Depot Maintenance Workloads
For Fiscal Years 2014 Through 2016**

Military Departments	Workload Distribution/Reporting Category	(\$Millions)		
		2014	2015	2016
Army	Total Funds	5,207.8	4,050.9	4,677.2
	Federal Work	3,070.2	2,389.7	2,828.5
	Non-Federal Work Total	2,137.6	1,661.2	1,848.7
	Non-Federal Work Non-excluded	2,074.4	1,638.0	1,836.4
	Non-Federal Work Excluded	63.2	23.2	12.3
	Public Portion	59.0%	59.0%	60.5%
	Private Portion Non-excluded	39.8%	40.4%	39.3%
<u>Expenditures Excluded as CITE Partnering under 10 U.S.C. 2474(f):</u>			Amount Excluded in FY 2014	
Stryker			63.2	
Navy	Total Funds	14,155.6	13,314.8	13,067.9
	Federal Work	7,151.6	7,345.3	6,998.8
	Non-Federal Work Total	7,004.0	5,969.4	6,069.2
	Non-Federal Work Non-excluded	7,002.6	5,967.8	6,068.0
	Non-Federal Work Excluded	1.4	1.6	1.2
	Public Portion	50.5%	55.2%	53.6%
	Private Portion Non-excluded	49.5%	44.8%	46.4%
<u>Expenditures Excluded as CITE Partnering under 10 U.S.C. 2474(f):</u>			Amount Excluded in FY 2014	
Legacy Systems Depot Maintenance Support			1.4	
Air Force	Total Funds	12,026.3	12,374.7	13,302.1
	Federal Work	6,513.6	6,878.2	7,072.2
	Non-Federal Work Total	5,512.7	5,496.5	6,229.9
	Non-Federal Work Non-excluded	5,368.7	5,330.5	6,053.6
	Non-Federal Work Excluded	144.0	166.0	176.3
	Public Portion	54.2%	55.6%	53.2%
	Private Portion Non-excluded	44.6%	43.1%	45.5%
<u>Expenditures Excluded as CITE Partnering under 10 U.S.C. 2474(f):</u>			Amount Excluded in FY 2014	
OC-ALC F119 Engine – Special technologies engine component repair			2.8	
WR-ALC LANTIRN – Phase I – Component Repair			8.0	
B-1 Software – Software Maintenance			64.5	
B-2 Software – Software Maintenance			68.7	
Total			144.0	

**Distribution of DoD Depot Maintenance Workloads
For Fiscal Years 2014 Through 2016 (continued)**

Department of the Navy - Armed Forces Component Data		Workload Distribution/ Reporting Category			(\$Millions)
		2014	2015	2016	
Navy	Total Funds	13,284.5	12,603.1	12,560.7	
	Federal Work	6,425.1	6,768.7	6,565.4	
	Non-Federal Work Total	6,859.4	5,834.3	5,995.4	
	Non-Federal Work Non-excluded	6,858.0	5,832.7	5,994.2	
	Non-Federal Work Excluded	1.4	1.6	1.2	
	Public Portion	48.4%	53.7%	52.3%	
	Private Portion Non-excluded	51.6%	46.3%	47.7%	
USMC	Total Funds	871.1	711.7	507.2	
	Federal Work	726.5	576.6	433.4	
	Non-Federal Work Total	144.6	135.1	73.8	
	Non-Federal Work Non-excluded	144.6	135.1	73.8	
	Non-Federal Work Excluded	0.0	0.0	0.0	
	Public Portion	83.4%	81.0%	85.4%	
	Private Portion Non-excluded	16.6%	19.0%	14.6%	
Defense Agencies					
MDA	Total Funds	198.0	143.9	292.5	
	Federal Work	13.0	16.3	14.5	
	Non-Federal Work Total	185.0	127.6	278.0	
	Non-Federal Work Non-excluded	185.0	127.6	278.0	
	Non-Federal Work Excluded	0.0	0.0	0.0	
	Public Portion	6.6%	11.3%	5.0%	
	Private Portion Non-excluded	93.4%	88.7%	95.0%	
Expenditures Excluded as CITE Partnering under 10 U.S.C. 2474(f):				Amount Excluded in FY 2014	
None				0.0	
Other Defense Organizations					
United States Special Operations Command (USSOCOM)	Total Funds	.834	.630	.713	
	Federal Work	.063	.046	.063	
	Non-Federal Work Total	.771	.584	.650	
	Public Portion	7.6%	7.3%	8.9%	
	Private Portion Non-excluded	92.4%	92.7%	91.1%	

Notes:

\$ Dollars are expressed in millions; totals reflected may not add due to rounding.

USMC = United States Marine Corps

USSOCOM does not meet the 10 U.S.C. 101(a)(4), (8) and (11) definitions for armed forces, Military Department, or Defense Agency and is not subject to the 50 percent limitation; however, USSOCOM data is included for consistency with past reports.

Title 10, Section 2466¹. LIMITATIONS ON THE PERFORMANCE OF DEPOT-LEVEL MAINTENANCE OF MATERIEL-

(a) PERCENTAGE LIMITATION. - 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 used to contract for the performance by non-Federal Government personnel of such workload for the military department or the Defense Agency. Any such funds that are not used for such a contract shall be used for the performance of depot-level maintenance and repair workload by employees of the Department of Defense.

(b) WAIVER OF LIMITATION. - The Secretary of Defense may waive the limitation in subsection (a) for a fiscal year if—

(1) the Secretary determines that the waiver is necessary for reasons of national security; and

(2) the Secretary submits to Congress a notification of the waiver together with the reasons for the waiver.

(c) PROHIBITION ON DELEGATION OF WAIVER AUTHORITY. - The authority to grant a waiver under subsection (b) may not be delegated.

(d) Annual Report².—

(1) Not later than 90 days after the date on which the budget of the President for a fiscal year is submitted to Congress pursuant to section 1105 of title 31, the Secretary of Defense shall submit to Congress a report identifying, for each of the armed forces (other than the Coast Guard) and each Defense Agency, the percentage of the funds referred to in subsection (a) that was 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.

(2) Each report required under paragraph (1) shall include as a separate item any expenditure covered by section 2474(f) of this title that was made during the fiscal year covered by the report and shall specify the amount and nature of each such expenditure.

Title 10, Subsection 2474(f)³. EXCLUSION OF CERTAIN EXPENDITURES FROM PERCENTAGE LIMITATION- Amounts expended for the performance of a depot-level maintenance and repair workload by non-Federal Government personnel at a Center of Industrial and Technical Excellence under any contract shall not be counted for purposes of applying the percentage limitation in section 2466(a) of this title if the personnel are provided by private industry or other entities outside the Department of Defense pursuant to a public-private partnership.

¹ As amended by P.L. 108-375, section 321.

² As amended by P.L. 111-84, section 329.

³ As amended by P.L. 109-364, section 331.