

Report to Congress
on
Distribution of Department of Defense
Depot Maintenance Workloads for
Fiscal Years 2017 through 2019



**Office of the Under Secretary of Defense
for Acquisition and Sustainment**

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The estimated cost of this report or study for the Department of Defense is approximately \$678,000 in Fiscal Years 2017 - 2018. This includes \$60,000 in expenses and \$618,000 in DoD labor.

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INTRODUCTION

Title 10, United States Code (U.S.C.), section 2466(d)(1), requires the Secretary of Defense to submit, not later than 90 days after the date on which the President's Budget 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 title 10, U.S.C., section 2466(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. 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 Fiscal Year (FY) 2017 and projected obligations for FYs 2018 and 2019.
- 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.

Title 10, U.S.C., section 2474(f) 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 Center of Industrial and Technical Excellence.
- 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 Center of Industrial and Technical Excellence.

REPORT

Title 10, U.S.C., section 2466(a), limits Military Department or Defense Agency contract expenditures to no more than 50 percent of the funds made available for the performance of depot-level maintenance by non-Federal Government personnel. The expenditures and percentage distribution of depot-level maintenance and repair workloads between the public and private sectors is displayed in the table that begins on page four.

The table is organized in four sections. The first section displays the expenditures and distribution of workloads for the Military Departments as required by title 10, U.S.C., section 2466(a). The second section, "Department of the Navy - Armed Forces Component Data," breaks out the Department of the Navy (DoN) in its component armed forces, the Navy and the Marine Corps, as specified by section 2466(d)(1). The third section, "Defense Agencies," displays expenditures and workload distribution for reporting Defense Agencies under section 2466(a). Lastly, the fourth section, "Other Defense Organizations," provides information for organizations that do not meet the definition of Armed Forces, Military Department, or Defense Agency under title 10, U.S.C., sections 101(a)(4), (8), and (11), and therefore, not subject to the 50 percent limitation. Based on past practices, depot expenditures for United States Special Operations Command (USSOCOM) is included in this section.

The table displays actual expenditures for FY 2017 and projected expenditures for FY 2018 and FY 2019. The category "Federal Work" refers to public sector work performed by DoD personnel. Consistent with statutory language, contract work is referred to as Non-Federal Work. Non-Federal contract or private sector depot workloads subject to the 50 percent limitation do not include expenditures under CITE Public-Private Partnerships. CITE partnership expenditures are excluded from the percentage calculation for contract depot-level maintenance by section 2474(f) and are included under category "Non-Federal Work Excluded." Consequently, the expenditures that are subject to the 50 percent limitation are in the category "Non-Federal Work Non-Excluded." Although excluded from the percentage calculation for contracted depot-level maintenance, CITE public-private partnership expenditures are included in the total of depot-level maintenance expenditures. Since USSOCOM is neither a Military Department nor a Defense Agency, the section 2474(f) exclusion does not apply.

For this reporting period, Military Department and Defense Agency compliance with the law is based on actual FY 2017 expenditures; the percentage listed in the FY 2017 column for

category “Private Portion Non-Excluded” can be no more than 50 percent. 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 2017 and are projecting compliance for FY 2018 and FY 2019. The Missile Defense Agency (MDA) exceeded the 50 percent limit for contracted depot maintenance expenditures for the Ballistic Missile Defense System (BMDS). The alignment of MDA with the Under Secretary of Defense for Research and Engineering (USD(R&E)) signals a return to its traditional Research, Development and Engineering role, with responsibility for operations, maintenance, and life cycle sustainment assigned to the Service Departments.

INTERNAL AUDIT REQUIREMENT

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 title 10, U.S.C., section 2466.

Army: The Army Audit Agency (AAA) reviewed the methods, used by the Office of the Deputy Chief of Staff, G-4 and Headquarters, Army Materiel Command, for capturing, consolidating, and reporting depot workload data. AAA also validated the accuracy of the data and evaluated compliance with Office of Secretary of Defense reporting guidance. AAA focused primarily on the Tank-Automotive and Armaments Command Life Cycle Management Command and the Program Management Officers assigned to the Program Executive Offices for Ground Combat Systems, Combat Support/Combat Service Support, Soldier, Ammunition and Joint Program Executive Office for Chemical and Biological Defense, reviewing and verifying 1,357 depot maintenance transactions valued at over \$1.7 billion. AAA will publish its official report in September 2018.

Navy: The Naval Audit Service (NAS) reviewed data sets of selected organizations, which collectively comprised the majority of their total reported depot maintenance funds. The review focused on the accuracy and reliability of reported data and required supporting documentation as well as compliance with DoD and DoN reporting requirements. All preliminary findings from the review have been incorporated in the DoN Report. NAS also audited Marine Corps Logistics Command data and found no discrepancies in the reporting process.

Air Force: The Air Force Audit Agency (AFAA) conducted an audit of data collection processes for depot-level maintenance under Contractor Logistics Support and reporting by the F-35 Joint Program Office. The AFAA did not identify significant issues or errors requiring correction in the reported data. AFAA will publish its official report in June 2018.

MDA: The agency’s Internal Review office conducted the audit of the data submitted by those elements of the BMDS reporting depot maintenance expenditures, in accordance with generally accepted government auditing standards. Future reporting for the agency may change, as it returns to its traditional Research and Engineering mission with its new alignment under USD(R&E).

**Distribution of DoD Depot Maintenance Workloads
For Fiscal Years 2017 Through 2019**

Military Departments	Workload Distribution/Reporting Category	(\$Millions)		
		2017	2018	2019
Army	Total Funds	4,811.0	4,318.0	4,701.7
	Federal Work	3,040.8	2,890.5	3,199.9
	Non-Federal Work Total	1,770.2	1,427.4	1,501.8
	Non-Federal Work Non-excluded	1,765.4	1,427.4	1,501.8
	Non-Federal Work Excluded	4.8	.016	0.0
	Public Portion	63.2%	66.9%	68.1%
	Private Portion Non-excluded	36.7%	33.1%	31.9%
<u>Expenditures Excluded as CITE Partnering under 10 U.S.C. 2474(f):</u>			<u>Amount Excluded in FY 2017 (\$M)</u>	
Stryker Parts Through Requisitions			2.1	
RQN Stryker Downparts Refurbishment			2.7	
Total			4.8	
Navy	Total Funds	15,870.6	18,091.6	18,017.1
	Federal Work	7,754.7	8,496.8	8,436.8
	Non-Federal Work Total	8,115.9	9,594.8	9,580.3
	Non-Federal Work Non-excluded	6,777.1	8,241.1	8,201.5
	Non-Federal Work Excluded	1,338.9	1,353.7	1,378.8
	Public Portion	48.9%	47.0%	46.8%
	Private Portion Non-excluded	42.7%	45.6%	45.5%
<u>Expenditures Excluded as CITE Partnering under 10 U.S.C. 2474(f):</u>			<u>Amount Excluded in FY 2017 (\$M)</u>	
Engines Repair			489.1	
V-22 Repair			368.5	
H-60 Repair			204.8	
F/A-18E/F Repair			110.5	
F/A-18 Repair			82.2	
H-53 Repair			49.1	
Repair, Common			30.1	
Depot Restoration on Legacy Systems			2.7	
EA-6B/F-14 Repair			1.0	
F/A-18A/H-53 Hydraulics PPP			0.6	
Repair, Aviation Support			0.3	
Total			1,338.9	

**Distribution of DoD Depot Maintenance Workloads
For Fiscal Years 2017 Through 2019 (continued)**

Military Departments - Continued	Workload Distribution/Reporting Category	(\$Millions)		
		2017	2018	2019
Air Force	Total Funds	13,940.2	14,261.2	14,962.8
	Federal Work	7,718.8	7,929.8	7,962.1
	Non-Federal Work Total	6,221.4	6,331.4	7,000.7
	Non-Federal Work Non-excluded	6,091.4	6,167.0	6,838.5
	Non-Federal Work Excluded	130.0	164.4	162.2
	Public Portion	55.4%	55.6%	53.2%
	Private Portion Non-excluded	43.7%	43.2%	45.7%

	Amount Excluded in FY 2017 (\$M)
<u>Expenditures Excluded as CITE Partnering under 10 U.S.C. 2474(f):</u>	
OC-ALC: F119 Engine - Special technologies engine component repair	3.1
WR-ALC: LANTIRN – Phase I – Component Repair	2.2
OC-ALC: B-1 Software – Software Maintenance	69.7
OC-ALC: B-2 Software – Software Maintenance	55.0
Total	130.0

Department of the Navy - Armed Forces Component Data	Workload Distribution/Reporting Category	(\$Millions)		
		2017	2018	2019
Navy	Total Funds	15,436.9	17,658.5	17,565.6
	Federal Work	7439.8	8217.9	8124.6
	Non-Federal Work Total	7,997.1	9,440.6	9,441.0
	Non-Federal Work Non-excluded	6,658.3	8,086.9	8,062.2
	Non-Federal Work Excluded	1,338.9	1,353.7	1,378.8
	Public Portion	48.2%	46.5%	46.3%
	Private Portion Non-excluded	43.1%	45.8%	45.9%
USMC	Total Funds	433.7	433.1	451.5
	Federal Work	314.9	278.9	312.2
	Non-Federal Work Total	118.8	154.2	139.3
	Non-Federal Work Non-excluded	118.8	154.2	139.3
	Non-Federal Work Excluded	0.0	0.0	0.0
	Public Portion	72.6%	64.4%	69.1%
	Private Portion Non-excluded	27.4%	35.6%	30.9%

**Distribution of DoD Depot Maintenance Workloads
For Fiscal Years 2017 Through 2019 (continued)**

Defense Agencies	Workload Distribution/Reporting Category	(\$Millions)		
		2017	2018	2019
MDA	Total Funds	142.2	225.0	262.6
	Federal Work	10.4	32.0	32.9
	Non-Federal Work Total	131.8	193.0	229.7
	Non-Federal Work Non-excluded	115.1	169.5	205.6
	Non-Federal Work Excluded	16.7	23.5	24.1
	Public Portion	7.3%	14.2%	12.5%
	Private Portion Non-excluded	80.9%	75.3%	78.3%
<u>Expenditures Excluded as CITE Partnering under 10 U.S.C. 2474(f):</u>			<u>Amount Excluded in FY 2017 (\$M)</u>	
Electronics Equipment Unit (EEU) Refurbishment			16.7	
Other Defense Organizations				
United States Special Operations Command (USSOCOM)	Total Funds	1,505.3	1,562.9	1,660.4
	Federal Work	0.0	0.0	0.0
	Non-Federal Work Total	1,505.3	1,562.9	1,660.4
	Public Portion	0.0%	0.0%	0.0%
	Private Portion Non-excluded	100.0%	100.0%	100.0%

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.

CORRECTIONS TO PREVIOUS YEAR'S REPORT

In last year's report, submitted on August 31, 2017, the 2016 expenditures reported for the Navy were incorrect due to inadvertent mathematical errors discovered after the report had been submitted. The Department of the Navy's Non-Federal Work, Non-Excluded expenditures (contract) for 2016 should have been reported as \$5,801.8 million; \$4.9 million less than reported. This \$4.9 million error was also in the Navy Service Component section. Also in the Navy Service Component section, Non-Federal Work Excluded expenditures should have been reported as \$859.8 million, \$4.5 million less than reported. These errors did not change the percentages reported nor the status of the Navy's compliance with title 10, U.S.C., §2466.

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, Section 2474, Subsection (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.