Financial Management


Office of the Inspector General of the Department of Defense
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Acronyms

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<tr>
<th>Acronym</th>
<th>Definition</th>
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<tr>
<td>AIRLANT</td>
<td>Naval Air Force, U.S. Atlantic Fleet</td>
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<td>ASN (FM&amp;C)</td>
<td>Assistant Secretary of the Navy (Financial Management and Comptroller)</td>
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<td>ASPA/SDLM</td>
<td>Aircraft Service Period Adjustment/Standard Depot Level Maintenance</td>
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<td>FASAB</td>
<td>Federal Accounting Standards Advisory Board</td>
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<td>FMR</td>
<td>Financial Management Regulation</td>
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<td>IMC</td>
<td>Integrated Maintenance Concept</td>
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<td>MSC</td>
<td>Military Sealift Command</td>
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<td>NAVAIR</td>
<td>Naval Air Systems Command</td>
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<td>PP&amp;E</td>
<td>Property, Plant, and Equipment</td>
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<td>RSI</td>
<td>Required Supplemental Information</td>
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<td>SFFAS</td>
<td>Statement of Federal Financial Accounting Standards</td>
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<td>SURFLANT</td>
<td>Surface Ships, U.S. Atlantic Fleet</td>
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March 6, 2003

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL


We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) comments were partially responsive. We request additional comments from the Assistant Secretary of the Navy (Financial Management and Comptroller) on Recommendations A.1, A.2, A.4, and B. by May 6, 2003. As a result of management comments, we deleted Recommendation A.4.b.

If possible, please provide management comments in electronic format (Adobe Acrobat file only) to Audcolu@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the classified SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kormides at (614) 751-1400 ex 211 or Mr. Stuart D. Dunnett at (614) 751-1400 ex 214. See Appendix B for the report distribution. The team members are listed inside the back cover.

[Signature]

Deputy Assistant Inspector General
for Auditing
Office of the Inspector General of the Department of Defense

March 6, 2003


Executive Summary

Who Should Read This Report and Why? DoD personnel responsible for compiling and reporting deferred maintenance information and users of deferred maintenance information should read this report. The report discusses how to comply with deferred maintenance reporting requirements.

Background. The Federal Accounting Standards Advisory Board requires Federal entities to provide supplemental information on deferred maintenance as part of the entities’ financial statements. The Federal Accounting Standards Advisory Board defines deferred maintenance as maintenance that was not performed when it should have been or maintenance that was scheduled and then was delayed until a future period. The Navy reported an estimated $1.3 billion of deferred maintenance at the beginning of FY 2002 on its aircraft, ships, missiles, combat vehicles, and other weapon systems national defense property, plant, and equipment (PP&E) commodities. This audit focused on the records used to compile the reported deferred depot maintenance estimate and did not include a detailed review of contractor, intermediate, or organizational-level maintenance.

Results. The Navy significantly increased the amounts it reported as deferred maintenance on its national defense PP&E in recent years from $608 million in FY 1998 to $1.3 billion in FY 2001. However, the Navy’s estimate at the beginning of FY 2002 understated some deferred maintenance requirements by at least $129 million and overstated other requirements by $17.7 million. Also, the Navy did not perform the required reconciliation between its deferred maintenance information and its budget documentation. Additionally, the Navy’s Military Sealift Command did not collect information on the deferred maintenance it incurred on support ships. The Navy had improved the deferred maintenance reporting process. However, the Navy needed to improve its procedures for collecting information on deferred maintenance to be able to provide a reliable estimate of the cost to complete maintenance that was needed but not performed in FY 2002 (finding A). In addition, the Navy’s presentation of information about its deferred maintenance on financial statements was inadequate. The Navy did not fully and adequately disclose changes in aircraft maintenance support plans and the method of measuring deferred maintenance for ships. Unless improvements are made to present complete information, the reader’s ability to make informed management decisions on the condition of Navy national defense PP&E will continue to be impaired (finding B).

Management Comments and Audit Response. The Director, Office of Budget, Assistant Secretary of the Navy (Financial Management and Comptroller) generally concurred with the intent of the recommendations and the proposed corrective actions. As a result of his comments, we deleted a recommendation to report deferred maintenance on Ready Reserve Force Ships. However, we disagreed with the Director’s
belief that the Navy was properly using the federal accounting definition for reporting
defered maintenance and we request that the Navy provide additional comments. We
also request that the Navy provide additional comments that clarify the action planned to
report changes in deferred maintenance that result from operational or financial
constraints, reconsider its response to report deferred maintenance on aircraft carriers,
indicate whether the Military Sealift Command has established the management controls
to measure and estimate the deferred maintenance, and include more narrative or
descriptive statistics when reporting on deferred maintenance amounts. We request that
the Navy provide the comments by May 6, 2003. See the Findings section of the report
for a discussion of management comments and the Management Comments section of the
report for the complete text of the comments.
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Background

This audit was performed in support of the Chief Financial Officers Act of 1990 (Public Law 101-576), as amended by the Government Management Reform Act of 1994 (Public Law 103-356), and the Federal Financial Management Improvement Act of 1996 (Public Law 104-208). This report is the third in a series resulting from our audit of the financial reporting of deferred maintenance on weapons systems. The first report discussed Air Force reporting, and the second discussed Army reporting. This report discusses Navy efforts to compile and report deferred maintenance information.

Federal Standards. Statement of Federal Financial Accounting Standard (SFFAS) No. 6, “Accounting for Property, Plant and Equipment,” June 1996, as amended by SFFAS No. 14, “Amendments to Deferred Maintenance Reporting,” April 1999, provides the reporting requirements for deferred maintenance on national defense property, plant, and equipment (PP&E). SFFAS No. 6 defines deferred maintenance as maintenance that was not performed when it should have been or maintenance that was scheduled and then was delayed until a future period. Maintenance is the act of keeping fixed assets in acceptable condition and includes all activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. However, maintenance excludes activities that would expand the capacity of the asset or otherwise upgrade it to serve needs different from, or significantly greater than, those originally intended.

In June 1996, The Federal Accounting Standards Advisory Board (FASAB) required entities to disclose deferred maintenance in the financial statements as a line item on the Statement of Net Cost with a footnote reference instead of a dollar amount. FASAB concluded that deferred maintenance did not meet the definition of a liability because it could not be sufficiently measured. In April 1999, FASAB changed the financial statement reporting of deferred maintenance from the footnotes to the Required Supplemental Information (RSI) section to allow management maximum flexibility in reporting deferred maintenance. FASAB defines generally accepted accounting principles for the Federal Government. Within SFFAS No. 6, FASAB concluded that maintenance is often underfunded because the consequences of underfunding maintenance are often not immediately apparent. The consequences include increased safety hazards, higher operating costs in the future, and inefficient operations. Therefore, reporting deferred maintenance estimates in the financial statements is intended to provide reliable information on the condition of PP&E and the cost of correcting any deficiencies to DoD managers, the Congress, and other interested parties.

DoD Policy. The Financial Management Regulation (FMR) implements SFFAS No. 6 and provides the requirements for the Military Departments to report deferred maintenance on national defense PP&E. The FMR requires the Military Departments to use the unfunded column of the Op-30, “Depot Maintenance Program Summary,” a budgetary exhibit that is submitted with the President’s Budget as the basis for reporting deferred depot-level maintenance.
DoD policy allows the Departments to supplement the Op-30 unfunded amounts with any material contractor, intermediate, or organizational non Op-30 deferred maintenance amounts.

**Navy FY 2001 Deferred Maintenance Amounts.** For FY 2001, the Navy reported deferred maintenance estimates of $1.3 billion in the RSI portion of the Navy General Fund Financial Statement. The major classes of weapons that the Navy reported were aircraft, ships, missiles, combat vehicles, and other weapon systems. The other weapon systems class included ordinance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, air traffic control equipment, target systems, expeditionary airfield equipment, special weapons, target maintenance, and repair of reparables.

**Objectives**

Our overall objective was to determine whether the Military Departments consistently and accurately compiled deferred maintenance information on weapons systems for financial statement reporting. We determined whether the Navy procedures for compiling and presenting deferred maintenance information were adequate. We also assessed compliance with applicable laws and regulations. See Appendix A for a discussion of the audit scope and methodology.
A. Compilation of Deferred Maintenance Information

The Navy significantly increased the amounts it reported as deferred maintenance on its national defense PP&E in recent years from $608 million in FY 1998 to $1.3 billion in FY 2001. However, the Navy’s estimate at the beginning of FY 2002 included deferred maintenance requirements that were understated by at least $129 million, and other requirements that were overstated by $17.7 million. Additionally, the Navy did not perform the required reconciliation between deferred maintenance information and budget documentation. Also, the Navy’s Military Sealift Command (MSC) did not collect information on the deferred maintenance it incurred on support ships. These conditions existed because the Navy did not adequately implement the DoD policy for collecting deferred maintenance information or comply with financial statement information requirements. Unless the procedures are improved, the Navy will not be able to provide a reliable estimate of maintenance deficiencies on national defense PP&E.

Navy Compilation Process for Deferred Maintenance

Navy Reporting in Prior Years. The Navy had made improvements to the deferred maintenance reporting process in recent years. Specifically, since 1998, the Assistant Secretary of the Navy (Financial Management and Comptroller), hereafter referred to as ASN (FM&C), placed greater emphasis on the accuracy and consistency of Navy deferred maintenance reporting. The ASN (FM&C) also issued implementing guidance to the Navy claimants for deferred maintenance reporting.

The ASN (FM&C) office compiled deferred maintenance information annually based on the submission of deferred maintenance data from the Navy major claimants. The major claimants that were reporting deferred maintenance included the Marine Corps, Naval Air Systems Command, Naval Sea Systems Command, U.S. Atlantic and U.S. Pacific Fleets, Naval Space and Warfare Command, and MSC. These claimants reported total deferred maintenance amounts of $608 million in FY 1998, $2.2 billion in FY 1999, $1.3 billion in FY 2000, and $1.3 billion in FY 2001. The significant rise in the amount of deferred maintenance reported between 1998 and 1999 related to the ships’ major asset class. The Navy understated the FY 1998 amount it reported because it did not include any amount for ships. In FY 1999, the Navy overstated the amount because it included intermediate and organizational-level deferred maintenance for the ships’ major asset class. The Navy’s 2000 and 2001 amounts included only depot-level deferred maintenance as required by DoD policy.
Navy Policy. The ASN (FM&C) deferred maintenance policy requires that deferred maintenance amounts reconcile to the Op-30 report for each major command. However, MSC was not required to prepare Op-30 reports because MSC was a Working Capital Fund that charged fees for services performed. Other Navy commands did prepare Op-30 reports because they received funding from the Navy Operations and Maintenance fund. Table 1 shows the deferred maintenance amounts submitted by each major claimant.

Table 1. Navy FY 2001 Deferred Maintenance Amounts Submitted by Each Major Claimant

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<th>Reporting Activity</th>
<th>Amount (In millions)</th>
<th>Percent of Total Amount Reported</th>
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<tr>
<td>Naval Air Systems Command¹²</td>
<td>$302.3</td>
<td>23.1</td>
</tr>
<tr>
<td>U.S. Atlantic &amp; Pacific Fleets¹</td>
<td>903.8</td>
<td>69.2</td>
</tr>
<tr>
<td>Naval Sea Systems Command</td>
<td>73.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Marine Corps¹</td>
<td>26.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Space and Warfare Command</td>
<td>0.2</td>
<td>.1</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$1,306.3</strong></td>
<td><strong>100</strong></td>
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¹ Includes active and reserve  
² Includes Marine Corps aviation

Collection of Deferred Maintenance Information

The Navy improved the deferred maintenance reporting process. However, the Navy procedures for collecting information on deferred maintenance needed improvement to consistently and accurately estimate amounts of necessary maintenance that were delayed until a future period. Specifically, the prior year estimate of Navy deferred maintenance did not include $129 million of deferred maintenance that should have been included and included $17.7 million of deferred maintenance that should not have been included. The Navy:

- excluded at least $50.5 million of deferred maintenance on aircraft that met FASAB reporting criteria,
- excluded $78.5 million of deferred maintenance on fleet ships that met FASAB reporting criteria and included $17.7 million of deferred maintenance that should not have been reported on fleet ships, and
- did not reconcile the deferred maintenance estimates to the Op-30 President’s budget documents.
In addition, MSC did not collect deferred maintenance information on support ships. MSC did not have a process in place to measure and quantify requirements on MSC ships. MSC did not prepare Op-30 reports because it is classified as a Navy Working Capital Fund. Working Capital Funds recover operating costs through customer charges and thus are exempt from the Op-30 reporting requirements.

**Deferred Maintenance Reporting for Aircraft**

The Navy procedures for collecting deferred maintenance information on aircraft did not consistently and accurately estimate deferred maintenance. The Navy did not include $50.5 million of deferred maintenance on aircraft that should have been reported. The $50.5 million understatement consisted of $16.5 million of depot maintenance on H-1 Cobra/Huey and H-53 Sea Dragon/Super Stallion helicopter airframes and $34 million of depot maintenance on 17 F/A-18 Hornet fighter and attack aircraft. The deferred maintenance on the helicopters occurred because the planned maintenance was deleted from the Op-30s when the maintenance could not be performed. The F/A-18 depot maintenance requirements were not performed because of limited funding.

**Understated Deferred Maintenance on Helicopters.** The Naval Air Systems Command (NAVAIR) understated deferred maintenance on H-1 Cobra/Huey and H-53 Sea Dragon/Super Stallion helicopter airframes by at least $16.5 million when NAVAIR used revised Op-30 budget exhibits for deferred maintenance reporting. The exhibits excluded the helicopter maintenance that was originally planned. The planned maintenance on these helicopters was not performed because of delays in implementing a phased maintenance plan. The new plan, the Integrated Management Concept (IMC), involved performing maintenance tasks at certain fixed intervals. The Navy was transitioning from a maintenance plan, called the Aircraft Service Period Adjustment/Standard Depot Level Maintenance (ASPA/SDLM) aircraft maintenance support plan, to the IMC support plan. As a result of the delays, NAVAIR did not include the originally planned helicopter maintenance requirements in the revised Op-30 form that was submitted with the following year’s President’s Budget. The funds initially allocated to the helicopter IMC program were used to satisfy other aircraft depot maintenance requirements. FASAB guidance requires the reporting of maintenance that was planned but not performed.

NAVAIR had not established a process for reporting deleted requirements in the deferred maintenance submission. To improve its compliance with FASAB and DoD policy, the deferred maintenance compilation process needed improvement to include all material deferred maintenance requirements in its year-end estimate, including those requirements that are deleted from the Op-30 during the fiscal year.

The F/A-18 repair costs were not programmed in the NAVAIR Op-30 budget exhibits because of limited funding. As a result, the FY 2001 NAVAIR deferred maintenance submission (based on the Op-30s) did not include the $34 million for the F/A-18 aircraft requirements. During FY 2002, NAVAIR made progress to reduce the number of F/A-18 aircraft awaiting depot repair. Specifically, NAVAIR obtained supplemental funding from the DoD Emergency Response Fund to repair seven of the F/A-18 aircraft. NAVAIR needed to establish procedures to collect and report deferred maintenance on the F/A-18 aircraft in accordance with FASAB requirements.

Deferred Maintenance Reporting for Fleet Ships

The Navy procedures for collecting deferred maintenance information for fleet ships needed improvement to consistently and accurately include deferred maintenance. The Navy understated $78.5 million and overstated $17.7 million of deferred maintenance related to U.S. Atlantic Fleet aircraft carriers.

Table 2 details the breakdown of the deferred maintenance by aircraft carrier.

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<tr>
<th>Aircraft Carrier</th>
<th>Amount Reported</th>
<th>Understated Amount</th>
<th>Overstated Amount</th>
<th>Absolute Difference</th>
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<td>USS John F. Kennedy</td>
<td>0</td>
<td>26.3</td>
<td>0</td>
<td>26.3</td>
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<tr>
<td>USS Enterprise</td>
<td>0</td>
<td>26.2</td>
<td>0</td>
<td>26.2</td>
</tr>
<tr>
<td>USS Dwight D. Eisenhower</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>USS Theodore Roosevelt</td>
<td>0</td>
<td>9.8</td>
<td>0</td>
<td>9.8</td>
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<tr>
<td>USS George Washington</td>
<td>0</td>
<td>16.2</td>
<td>0</td>
<td>16.2</td>
</tr>
<tr>
<td>USS Harry S. Truman</td>
<td>17.7</td>
<td>0</td>
<td>17.7</td>
<td>17.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17.7</strong></td>
<td><strong>$78.5</strong></td>
<td><strong>$17.7</strong></td>
<td><strong>$96.2</strong></td>
</tr>
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**Understated Deferred Maintenance Information.** The Naval Air Force, U.S. Atlantic Fleet (AIRLANT), reported deferred maintenance for only one of the six U.S. Atlantic Fleet aircraft carriers even though additional deferred maintenance existed. As a result, AIRLANT understated deferred maintenance for four of the six U.S. Atlantic Fleet aircraft carriers by $78.5 million. The deferred maintenance was understated because AIRLANT only reported deferred maintenance for the requirements that should have been executed in the current year. AIRLANT methodology excluded the reporting of maintenance deferred from all prior periods. For example, at least $16.2 million in maintenance requirements was deferred from the last depot availability for the USS George Washington. AIRLANT did not report any amount of deferred maintenance for this ship. Although valid deferred maintenance existed for the USS George Washington, no amount was to be reported as deferred maintenance for FY 2002 based on AIRLANT methodology. AIRLANT should be reporting the deferred
maintenance not performed when it should have been or maintenance that was scheduled and then delayed until a future period.

**Overstated Deferred Maintenance Information.** AIRLANT overstated the amount of deferred maintenance for one of the six U.S. Atlantic Fleet aircraft carriers by $17.7 million. This amount was reported as deferred maintenance for the USS Harry S. Truman and was based on a preliminary deferred maintenance estimate for maintenance that was scheduled to start September 2001. However, because the time period had not passed for the maintenance to be accomplished, AIRLANT should not have reported any deferred maintenance for that carrier in FY 2001. The deferred maintenance estimated was overstated because AIRLANT reported deferred maintenance requirements that were not scheduled to be funded in FY 2001. AIRLANT was required to recognize maintenance not performed when it should have been or maintenance that was scheduled and then delayed until a future period. AIRLANT should report an amount of deferred maintenance for FY 2002 based on the deferred maintenance from the ships’ most recent depot-level maintenance availability.

**Deferred Maintenance Reconciliation to Budget Documents**

The deferred maintenance estimates reported on the financial statements did not reconcile to the Op-30 budget documents as required by ASN (FM&C) and DoD policy. Navy and DoD policy state that although the deferred maintenance amounts reported for the financial statements and the Op-30 exhibit may not match exactly, there should be a reasonable correlation and the difference (if any) should be reconcilable. For example, the Atlantic Fleet Reserve submission for deferred maintenance for ships was $17 million more than the Op-30 President’s Budget exhibit unfunded amount. In addition, the support for the Marine Corps major command submission for deferred maintenance on combat vehicles was $9.1 million less than the Op-30 President’s Budget exhibit unfunded amount. This occurred because no process had been established to reconcile the Op-30 to the amounts submitted by the claimants for financial statement purposes. Therefore, the Navy needs to require the major claimants to perform reconciliation between the amounts that support the financial statements and the Op-30 exhibit amounts.

**Deferred Maintenance on Military Sealift Command Ships**

MSC provides sea transportation worldwide for DoD in peace-time and war. MSC uses a mixture of Government-owned and commercial ships. MSC ships support four separate and distinct programs: Naval Fleet Auxiliary Force, Special Mission, Prepositioning, and Sealift. MSC currently operates 121 active non-combatant, civilian-crewed ships around the world. In FY 2001, MSC did not collect deferred maintenance information on ships. As a result, MSC reported no deferred maintenance on those ships. Although deferred maintenance existed for MSC ships, data were not available to estimate the total cost. This occurred
because MSC did not establish a methodology to measure, estimate, and report deferred maintenance amounts. MSC needs to develop a process to determine deferred maintenance for MSC ships in accordance with FASAB requirements.

Deferred maintenance existed on ships operated by MSC. However, data were not available to estimate the total cost of the deferred maintenance. For example, we obtained information showing 28 MSC ships with 109 outstanding U.S. Coast Guard safety violations in FY 2001. MSC could not provide documentation demonstrating that the deficiencies were corrected in FY 2001.

**Intent of Deferred Maintenance**

The Navy significantly improved its reporting of deferred maintenance since 1998. However, further refinements are needed. Until the Navy procedures for estimating deferred maintenance are improved, the Navy will not be able to provide a reliable estimate of the total maintenance delays and deficiencies on Navy national defense PP&E. Improvements are needed to prevent continuing problems for FY 2002 and beyond.

In SFFAS No. 6, FASAB concluded that by reporting deferred maintenance, the entity would provide reliable information on the condition of the PP&E and estimates of the cost to correct deficiencies. In addition, FASAB required Federal agencies to report deferred maintenance in part because of concerns over the deteriorating condition of Government-owned PP&E.

The Navy deferred maintenance collection procedures resulted in inconsistent and inaccurate deferred maintenance amounts. As a result, the current Navy process for capturing deferred maintenance information does not meet the requirements of FASAB.

**Recommendations, Management Comments, and Audit Response**

In the draft report, we requested comments from the Assistant Secretary of the Navy (Financial Management and Comptroller); Commander, Naval Air Systems Command; Commander, Naval Air Force; U.S. Atlantic Fleet; and Commander, Military Sealift Command. The Director, Office of Budget, Assistant Secretary of the Navy (Financial Management and Comptroller) issued the official Navy response to the draft report.

**Deleted Finding.** As a result of management comments, we deleted the portion of draft finding A relating to deferred maintenance reporting on Ready Reserve Force Ships and the corresponding recommendation A.4.b.

**A.1.** We recommend that the Commander, Naval Air Systems Command establish procedures to collect and report deferred maintenance on aircraft to include all maintenance that was not performed when it should have been or maintenance that was scheduled and then delayed until a future period.
Management Comments. The Director, Office of Budget, Assistant Secretary of the Navy (Financial Management and Comptroller), hereafter referred to as the Director, partially concurred. The Director stated that the Naval Air Systems Command had established procedures to collect and report deferred maintenance that was not performed when it should have been or maintenance that was scheduled and then delayed until a future period. However, he stated that the Navy would annotate in future deferred maintenance reports any changes in scheduled maintenance due to operation requirements or funding constraints. He agreed that the migration of the helicopters to the Integrated Maintenance Concept did not progress as planned. However, he did not concur that the Integrated Maintenance Concept requirements were removed from the budget, but migrated to the Aircraft Service Period Adjustment/Standard Depot Level Maintenance. He stated the F/A-18 aircraft awaiting repair were not in the FY 2001 budget because the requirement was not fully identified when the FY 2001 budget was developed.

Audit Response. The Director’s comments were partially responsive. We request additional comments from the Director to clarify how the Naval Air Systems Command will report changes in scheduled maintenance due to operational requirements or funding constraints because the existing methodology does not capture the information. Past deferred maintenance reports stated that unexecutable deferred maintenance (defined as capacity or operating constraints, or reasons other than funding constraints) information was neither collected nor reported. We agree with the Director’s comment that the helicopter funds were not removed from the overall depot maintenance budget and we revised the report to clarify that the funds were used for other depot maintenance requirements. We believe that the F/A-18 maintenance requirements existed in FY 2001 and should have been reported even though they were not in the FY 2001 budget.

A.2. We recommend that the Commander, Naval Air Forces, U.S. Atlantic Fleet establish a process to collect and report all deferred maintenance on aircraft carriers to include all maintenance that was not performed when it should have been or maintenance that was scheduled and then delayed until a future period.

Management Comments. The Director concurred. However, he stated that the Navy was properly using the FASAB definition for reporting deferred maintenance. The Director stated that the Navy did not report items that were identified in FY 2001 and were either intended or scheduled to be accomplished at a future date. In addition, the Director did not concur with the $78.5 million of underreported maintenance on aircraft carriers. He indicated that the maintenance availabilities were not scheduled in the budget for three of the aircraft carriers. In the case of the fourth aircraft carrier, all the requirements that should have been performed had, in fact, been completed. Additionally, the Director did not agree with the audit determination that the Navy overstated deferred maintenance amounts by $17.7 million related to the USS Harry Truman. The Director stated that the September 2001 maintenance availability was not fully funded for the USS Harry Truman. As a result, the unfunded amount was reported as deferred maintenance in FY 2001. The Director stated that additional depot work on the USS Harry Truman that could not be performed in FY 2002 was reported in the FY 2002 deferred maintenance report.
Audit Response. We disagree that the Navy is properly using the federal accounting definition for reporting deferred maintenance. We agree that items identified in FY 2001 that were either intended or scheduled to be accomplished at a future date should not be reported as deferred maintenance. However, in our report, we neither questioned that practice nor recommended that the Navy report in the financial statements any amount associated with those items.

We believe that the Navy process of reporting only the deferred maintenance requirements originally scheduled for the current fiscal year is inadequate because it does not allow for the reporting of past years deferred requirements when that maintenance was not scheduled to be completed in the current year. We disagree with the Director’s comments regarding the USS John F. Kennedy, USS Enterprise, and USS Theodore Roosevelt because all the carriers had valid maintenance requirements deferred from previous availability work packages due to lack of funding. We disagree with the Director’s statement that all work was completed on the USS George Washington. Navy maintenance officials and records indicate that there was $16.2 million of deferred maintenance for the USS George Washington as of September 30, 2001. A maintenance availability was completed on the USS George Washington in August 2001, however, the work package indicated that 53 items were deferred because funds were not available. Therefore, the maintenance requirements meet the FASAB definition of deferred maintenance. The USS Harry Truman should not have reported deferred maintenance for FY 2001. FASAB states that maintenance that was scheduled to be performed and delayed or put off until a future period should be reported. Because the time period had not passed for the maintenance to be accomplished for the USS Harry Truman, the Navy should not have reported any deferred maintenance for this ship. We request that the Director reconsider his comments and provide additional comments.

A.3. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) require the major commands to prepare and submit a reconciliation between the Op-30 President’s Budget exhibit and the deferred maintenance amounts.

Management Comments. The Director concurred and stated that budget guidance will be modified to require each Budget Submitting Office to explain any difference between amounts reported in the financial statements and amounts reported for the Op-30 President’s Budget exhibit.

A.4. We recommend that the Commander, Military Sealift Command establish the necessary management controls to measure, estimate, and report deferred maintenance on Military Sealift Ships.

Management Comments. The Director concurred and stated that the Military Sealift Command now reports deferred maintenance on Military Sealift ships.

Audit Response. We considered the comments from the Director to be partially responsive. The response did not indicate whether the Military Sealift Command has established the management controls to measure and estimate the deferred maintenance. We believe that Military Sealift Command needs to develop a
process to determine deferred maintenance for Military Sealift Command ships in accordance with FASAB requirements. We request that the Director provide additional comments addressing the recommendation that Military Sealift Command establish management controls to measure and estimate the deferred maintenance.
B. Presentation of Deferred Maintenance Information

The Navy’s presentation of deferred maintenance information was inadequate. This condition existed because the Navy did not adequately comply with financial statement reporting requirements. Specifically, the Navy did not fully and adequately disclose changes in aircraft maintenance support plans and the method of measuring deferred maintenance for ships. Unless improvements are made to present complete information, the reader’s ability to make informed management decisions on the condition of Navy national defense PP&E will be impaired.

Deferred Maintenance Criteria and Policy

FASAB Presentation Criteria. The FASAB recognizes that each entity is unique and allows management flexibility in reporting deferred maintenance amounts. Therefore, to ensure that readers understand the deferred maintenance amounts that are reported, SFFAS No. 6 requires management to present supplemental narrative information along with the deferred maintenance amounts. Examples of required information include each major asset class, the method of measuring deferred maintenance, the definition of acceptable condition, and asset condition.


Navy Guidance. The ASN (FM&C) office issued guidance (discussed in finding A) to the major claimants for the preparation of the FY 2001 deferred maintenance submissions. The guidance implemented the FMR policy on deferred maintenance for the FY 2001 financial statements. The ASN (FM&C) office had not issued new guidance for the preparation of the FY 2002 financial statements.

Compliance with FASAB Reporting Requirements

The Navy procedures for presenting deferred maintenance on national defense PP&E needed improvement to comply with FASAB requirements. FASAB requires that narrative information in the RSI section of the financial statements be clear enough so that the reader can understand the condition of the PP&E in relation to necessary maintenance. However, the Navy RSI information did not provide enough information to present the condition of its national defense PP&E.
Specifically, the Navy presentation of deferred maintenance information did not:

- disclose the change in aircraft maintenance support plans or
- disclose the method of measuring deferred maintenance for ships.

Additional deferred maintenance information in these categories would have improved the presentation of deferred maintenance by making the information more understandable and meaningful for users and interested readers.

**Disclose Change in Aircraft Maintenance Support Plans.** The Navy needs to improve the RSI narrative to include a discussion of the change in aircraft maintenance support plans as required by FASAB. In addition, the Navy should disclose changes in the depot support programs for retiring aircraft.

**Change in Aircraft Support Plans.** The Navy did not disclose, as required by FASAB, that they were in the process of transitioning from one airframe depot maintenance support plan to another maintenance support plan. The existing plan, the ASPA/SDLM, specified that as long as the individual aircraft passed depot inspections, it remained in the fleet. Under the ASPA/SDLM approach, aircraft could remain in the inventory for several years or more before returning to the depot for complete overhaul. The new plan, IMC, involved segmenting the depot rework into phases that are performed at certain fixed intervals.

The Navy recognized that the condition of Navy aircraft was deteriorating due in part to the aging of the aircraft inventory and the extended periods between depot overhaul. The objective of the IMC plan is to improve the overall aircraft condition while reducing operating and support costs. The change in maintenance philosophy should have been disclosed in the RSI narrative as required by FASAB. In addition, the new plan may have a significant impact on future Navy aviation maintenance budgets, aircraft condition, and readiness rates.

**Change in Support Plans on Aircraft Being Phased Out.** The Navy is reducing the extent of depot maintenance for retiring aircraft in anticipation of receiving new aircraft in future years. The aircraft narrative was inadequate because it did not disclose that either the ASPA/SDLM or the IMC programs do not support retiring aircraft. For example, the Navy plans to replace the CH-46D with the H-60 Seahawk helicopter. Consequently, the Navy no longer overhauls CH-46D Sea Knight helicopters because of the planned phase out. The CH-46Ds receive safety of flight inspections and have depot-level repairs performed in the fleet. In addition, the Navy plans to gradually phase out the F-14 Tomcat fighter aircraft as early as FY 2006 and replace it with the F/A-18 E/F Super Hornet aircraft. During the phase out period, the Navy planned to perform airworthiness inspections on older F-14s and reduce the number of F-14s being overhauled. During the phase out period, the F-14s that cannot be economically repaired will likely be stricken from the inventory. The F-14 depot overhauls normally costs approximately $3 million per aircraft.

The F-14 phase out plan is contingent on the funding for new F/A-18 E/F aircraft. However, the Navy budget documents disclosed that requirements are not being
funded to meet the Navy’s goals for replacing retiring aircraft. The Navy goal is to replace 180-210 aircraft per year, but only 90 aircraft were funded for FY 2002. The Navy should disclose the maintenance plans for retiring aircraft and the possibility that additional depot maintenance funds may be needed to extend the life of the aircraft in the event that the Navy does not receive adequate funding for replacement aircraft.

Disclose Method of Measuring Deferred Maintenance for Ships. FASAB defines two acceptable methods of measuring deferred maintenance in SFFAS No. 6: the cost assessment survey method and the life-cycle costing method. Cost assessment surveys are periodic inspections to determine the current condition of the ships and the estimated cost to correct any deficiencies. The life-cycle costing method considers operating, maintenance, and other costs in addition to the acquisition cost of the assets. These forecasted maintenance expenses serve as a basis to compare actual maintenance expense and estimate deferred maintenance. FASAB allows entities to use additional methods similar to the two defined.

The Navy’s explanation provided in the RSI narrative statement did not adequately describe the method of measuring deferred maintenance for ships. Each of the Atlantic and Pacific Type Commanders (Air Forces, Surface Forces, and Submarines Forces) estimates deferred maintenance using a unique methodology. The RSI narrative stated that ship deferred maintenance includes maintenance actions that were deferred from actual depot maintenance work packages as well as maintenance that was deferred prior to inclusion in a work package because of either fiscal, operational, or capacity constraints. However, this was not the basis used by one of the two type commands we reviewed. Surface Ships, U.S. Atlantic Fleet (SURFLANT) uses the current ship maintenance program to detail all outstanding maintenance requirements. SURFLANT did not base deferred maintenance for their ships on deferred work packages. At a minimum, the Navy needs to disclose the methods of measuring deferred maintenance used by the different type commands for ships.

The Navy also needed to disclose the amounts reported within the ships major asset class. Specifically, the Navy needed to disclose the amount of deferred maintenance related to the fleet ships, the MSC ships, and the Ready Reserve Force ships.

Understanding Navy Deferred Maintenance Information

The intent of SFFAS No. 6 is to require entities to provide the reader of the financial statements meaningful information on the condition of the PP&E and provide estimates of the costs to correct any deficiencies. This information may be useful to DoD managers, the Congress, and other interested parties. When significant portions of the required information are omitted, the usefulness of the data is reduced. This information, in conjunction with other types of maintenance and readiness indicators, is helpful in understanding where maintenance funds would be most effective, the differences in budget and financial reporting requirements, and the condition of national defense PP&E in relation to a defined level of acceptable operating condition.
Recommendation, Management Comments, and Audit Response

B. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) include a narrative in the deferred maintenance amounts in the financial statement that describes the method of measuring deferred maintenance, the requirements or standards for acceptable condition, and the condition of assets, expressed as a narrative or as descriptive statistics, as required by generally accepted accounting practices.

Management Comments. The Director, Office of Budget, Assistant Secretary of the Navy (Financial Management and Comptroller) nonconcurred and stated that the maintenance cycles for the myriad weapons systems are intricate and managed by the appropriate community using very different approaches. The Navy stated that they continue to try to standardize methodologies across organizations, but that the intricacies of numerous complicated processes are best described in separate documents referenced elsewhere. In addition, the Navy stated that the data and the narratives in the financial report are not collected and provided in accordance with generally accepted accounting practices. Furthermore, the data have been collected for years as part of the budgeting process stopgap measure. The application of accounting principles to data that are not a part of the accounting system is not appropriate. The Navy stated that they are not attempting to make the data to be of accounting quality.

Audit Response. The Director, Office of Budget, Assistant Secretary of the Navy (Financial Management and Comptroller) comments were nonresponsive. We agree with the Navy’s statement that the data and narratives are not collected and provided in accordance with generally accepted accounting practices. However, the Navy is required to report financial information in accordance with federal accounting standards. We believe that describing the method of measuring deferred maintenance and defining acceptable condition for national defense property, plant, and equipment is necessary to clarify how deferred maintenance on assets is being measured and improves the usefulness, understandability, and acceptance of Navy deferred maintenance information. We request that the Assistant Secretary of the Navy (Financial Management and Comptroller) provide additional comments.
Appendix A. Scope and Methodology

The Navy reported a deferred maintenance amount of $1.3 billion in the RSI section of the General Fund Financial Statements at the end of FY 2001. We obtained the Op-30, “Depot Maintenance Program Summary,” budget exhibits that are the required basis for the deferred maintenance information presented in the financial statements. We also obtained the U.S. Atlantic Fleet deferred ship depot maintenance annual reports. The amounts in these reports form the basis of the Op-30 data. We visited or contacted MSC Headquarters, NAVAIR Headquarters, three NAVAIR Depots, AIRLANT, and SURFLANT type commands to obtain depot-level supporting documentation for outstanding deferred maintenance amounts. We reviewed the compilation procedures for two of the six Fleet type commands, AIRLANT and SURFLANT.

The methodology SURFLANT used to compile and report deferred maintenance appears to produce reasonably complete and accurate deferred maintenance estimates. We did not identify any material misstatements in the deferred ship depot maintenance annual report for SURLANT. The deferred maintenance reported by SURFLANT and AIRLANT represents 81 percent, or $730 million, of the total $904 million deferred maintenance reported for the ships’ major asset class in FY 2001. We did not review the compilation procedures for the remaining four type commands. See Table 3 for a breakout of Navy deferred maintenance FY 2001 amounts reported by major asset class.

<table>
<thead>
<tr>
<th>Major Asset Class</th>
<th>Amount (in Millions)</th>
<th>Percent of Total Amount Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft</td>
<td>$176.9</td>
<td>13.5</td>
</tr>
<tr>
<td>Ships</td>
<td>903.8</td>
<td>69.2</td>
</tr>
<tr>
<td>Missiles</td>
<td>34.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Combat Vehicles</td>
<td>.8</td>
<td>&lt;0.1</td>
</tr>
<tr>
<td>Other Weapon Systems</td>
<td>190.0</td>
<td>14.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,306.3</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

FASAB and DOD FMR provide the reporting requirements for deferred maintenance. We reviewed the compilation and presentation of deferred maintenance for compliance with FASAB and DoD policy.

We performed this audit from July 2001 though October 2002 in accordance with generally accepted government auditing standards.
General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Use of Computer-Processed Data. We used summary requirements, budget, and financial system computer data that supported the DoD Planning, Programming, and Budgeting System. We also used computer-processed data from the Current Ships Maintenance Program for our review of AIRLANT and SURFLANT. We relied on the computer-processed data without performing tests of the system’s general and application controls to confirm the reliability of the data. We did not establish the reliability of the data because it would have required audit resources that were not available. We did not find errors that would preclude the use of the computer processed data to meet the audit objectives or that would change the conclusions in this report.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the Navy management’s self-evaluation of the process to compile and present deferred maintenance information in the Required Supplementary Information section of the General Fund financial statements.

Adequacy of Management Controls. We identified material management control weaknesses for the Navy, as defined in DoD Instruction 5010.40. Navy management controls were not adequate to ensure that all material amounts of deferred maintenance information were consistently and accurately compiled or presented in accordance with DoD policy and FASAB standards. Recommendations A.1., A.2., A.3., A.4., and B., if implemented, will correct the weaknesses. A copy of the report will be provided to the senior official within the Navy responsible for management controls.

Adequacy of Management’s Self Evaluation. Management’s self-evaluation was not adequate. The ASN (FM&C) did not identify preparation of a deferred maintenance estimate as a separate assessable unit. As a result, the ASN (FM&C) did not identify the material management control weaknesses.
Prior Coverage

During the last 5 years, the General Accounting Office (GAO), the Inspector General of the Department of Defense (IG DoD), the Naval Audit Service (NAS), and the Logistic Management Institute (LMI) have all issued reports related to the reporting of deferred maintenance. Unrestricted GAO reports can be accessed at http://www.gao.gov/. Unrestricted IG DoD reports can be accessed at http://www.dodig.osd.mil/audit/reports. Unrestricted Naval Audit Service reports can be accessed at http://hq.navy.mil/NavalAudit/. Unrestricted Logistics Management Institute reports can be accessed on the Internet at http://lmi.org/reports.html and may be ordered by emailing library@lmi.org.

GAO


IG DoD


NAS


LMI


Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General
Auditor General, Department of the Navy
Naval Postgraduate School

Other Defense Organizations

Defense Systems Management College
National Security Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform
MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE DIRECTORATE

Subj: REPORT ON FINANCIAL REPORTING OF DEFERRED MAINTENANCE INFORMATION ON NAVY WEAPON SYSTEMS (PROJECT NO. D2001PJ-0156.000)

Ref: (a) Draft Audit Report D2001PJ-0156.000

Encl: (1) Comments on Draft Audit Report D2001PJ-0156.000

As requested in reference (a), comments are provided at enclosure (1). For additional information, contact DC Plummer (PMB321) at plummer.donald@hq.navy.mil or 703-695-6833 or DSN 225-6833.

A.T. CHURCH, III
Rear Admiral, U.S. Navy
Director, Office of Budget
COMMENTS ON DRAFT AUDIT REPORT D2001J-0156.000

RECOMMENDATION A 1. We recommend that the Commander, Naval Air Systems Command establish procedures to collect and report deferred maintenance on aircraft to include all maintenance that was not performed when it should have been or maintenance that was scheduled and then delayed until a future period.

PARTIAL CONCUR. NAVAIR has procedures and methodology to collect and report deferred maintenance on aircraft depot maintenance. We will annotate in future deferred maintenance reports any changes in scheduled maintenance due to operational requirements or funding constraints.

Specific Comments:
Page 5, paragraph 2, Deferred Maintenance Reporting for Aircraft. “Understated Deferred Maintenance on Helicopters.”

Depot maintenance for the H-1 and H-33 aircraft was not removed. Depot maintenance was performed for these Type/Model/Series (TMS) aircraft under the Aircraft Service Period Adjustment/Standard Depot Level Maintenance (ASPA/SDLM) concept vice the Integrated Maintenance Concept (IMC). Since migration to IMC did not progress as planned, the maintenance requirements for these TMS and the funding required were not removed from the budget, but rather migrated from IMC to ASPA/SDLM.

Page 6, paragraph 1, Deferred Maintenance Reporting for Aircraft. “Understated Maintenance on F/A-18 Hornet Fighter and Attack Aircraft.”

The F/A-18 aircraft discussed are awaiting repair at NADEP North Island. These aircraft have major damage as a result of a crash, engine bay fire, or some other major mishap. These aircraft were not included in the depot maintenance budget for FY 2001 because the requirement was not fully identified when the FY 2001 budget was developed. As soon as the appropriate level of detail was available, NAVAIR worked to get the requirement addressed through the next budget cycle. Subsequent to that, NAVAIR was able to fund the majority of the aircraft with the Defense Emergency Response Fund provided through the FY 2002 Supplemental Appropriations process.

RECOMMENDATION A 2. We recommend that the Commander, Naval Air Forces, U.S. Atlantic Fleet establish a process to collect and report all deferred maintenance on aircraft carriers to include all maintenance that was not performed when it should have been or maintenance that was scheduled and then delayed until a future period.

CONCUR. We believe the Navy is properly utilizing the FASAB definition for reporting deferred maintenance. Specifically in the case of reporting the FY 2001 ship deferred maintenance, Navy reported that work which was identified as a requirement in FY 2001 (meaning maintenance needed to be performed in FY 2001) but which was not performed. Navy did not report items that were identified in FY 2001 and were intended/scheduled to be accomplished at a future date.

ENCL (1)
COMMENTS ON DRAFT AUDIT REPORT D2001FJ-0156.000

Based on a review of both the FY 2001 column of the FY2001 President's Budget and the FY 2002 President's Budget, Navy does not concur that $78.5M of ship maintenance should have been reported in the FY 2001 deferred maintenance report. Research found USS John F. Kennedy, USS Enterprise, and USS Theodore Roosevelt had no maintenance availability scheduled in FY 2001 in either budget. USS George Washington had a Planned Incremental Availability (PIA) scheduled with a requirement of $99M in the FY 2001 President's Budget. However, in the FY 2002 President's Budget, which reflected updated estimates, the availability was canceled. During execution, a PIA2 was performed at a cost of $96.5M. According to Navy records, all of the USS George Washington maintenance that should have been performed in FY 2001 was completed.

Navy agrees the USS Harry S. Truman FY 2001 availability was a September start and the unfunded portion of the availability was reported in the FY 2001 report. Since the availability was performed in a Navy Working Capital Funded Naval Shipyard, full funding had to be provided at the start of the availability. Due to financial constraints, it was known at the start of the availability that $17.7M of the requirement would not be performed. Therefore, the $17.7M should remain in the FY 2001 deferred maintenance report. Growth and/or new work that could not be performed by the completion of the FY 2002 portion of the availability was reported in the FY2002 deferred maintenance report.

RECOMMENDATION A.3. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) require the major commands to prepare and submit a reconciliation between the OP-30 President’s Budget exhibit and the deferred maintenance amounts.

CONCUR. The Department started to utilize a web page to improve the collection and roll up process for FY 2002 deferred maintenance data. The page will be modified to include corresponding OP-30 data submitted in January 2003 for the FY 2002 column of the FY 2004 President’s Budget. Budget guidance will be modified to require each Budget Submitting Office to explain any difference between amounts reported in the CFO statement and amounts reported for the OP-30. This narrative explanation will be recorded on the web page for future reference.

RECOMMENDATION A.4. We recommend that the Commander, Military Sealift Command:

a. establish the necessary management controls to measure, estimate and report deferred maintenance on Military Sealift Ships.

CONCUR. Military Sealift Command now reports deferred maintenance on Military Sealift Ships.

b. report the deferred maintenance on the Ready Reserve Force ships.

NON-CONCUR. Military Sealift Command does not have responsibility for Ready Reserve Force (RRF) ships. RRF ships are in the custody of and maintained by the Department of Transportation (DOT), Maritime Administration (MARAD). MARAD confirmed that they reported $34.4M of RRF ship deferred maintenance on DOT’s FY 2002 financial statement.

ENCL (1)
COMMENTS ON DRAFT AUDIT REPORT D2001FJ-0156.000

RECOMMENDATION D. We recommend that the Assistant Secretary of the Navy (Financial Management and Controller) include a narrative in the deferred maintenance amounts in the financial statement that describes the method of measuring deferred maintenance, the requirements or standards for acceptable condition, and the condition of assets, expressed as a narrative or as descriptive statistics, as required by generally accepted accounting practices.

NON-CONCUR. The maintenance cycles for the myriad weapons systems utilized by the DoN are each intricate and are managed by the appropriate community using very different approaches. It is a foregone conclusion that methodologies used across organizations for a specific type of weapon system can be standardized and the DoN continues to work on such standards. However, the recommendation suggests that the intricacies of numerous and complicated processes be explained as part of the financial report. These details are best described in separate documents which can be referenced as required. The level of explanation provided in the financial report appears appropriate. It should be pointed out that the data and narratives in the financial report are not collected and provided in accordance with “generally accepted accounting practices”. The data has been collected for years as part of the budgeting process as a stopgap measure. The application of accounting principles to data that is not a part of the accounting system is not appropriate. The DoN continues to make improvements that will make the reported budget data more accurate and more useful to DoD managers, the Congress and other interested parties. However, the DoN is not attempting to make the data to be of “accounting” quality.

ENCL (1)
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