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Marine Corps' Management of the Recovery and Reset Programs

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Acronyms and Abbreviations

| | |
|--------|--|
| GWOT | Global War on Terror |
| LAV-25 | Light Armored Vehicle-25mm |
| USD(C) | Under Secretary of Defense (Comptroller) |



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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April 1, 2009

MEMORANDUM FOR NAVAL INSPECTOR GENERAL FOR MARINE CORPS MATTERS
AUDITOR GENERAL, DEPARTMENT OF THE NAVY
INSPECTOR GENERAL OF THE MARINE CORPS

SUBJECT: Marine Corps' Management of the Recovery and Reset Programs
(Report No. D-2009-066)

We are providing this report for information and use. We considered comments from the Marine Corps when preparing the final report.

The Marine Corps comments on the draft report conformed to the requirements of DoD Directive 7650.3 and have left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8866 (DSN 664-8866).

A handwritten signature in cursive script, reading "Paul J. Granetto", is written over a horizontal line.

Paul J. Granetto
Assistant Inspector General
Readiness, Operations, and Support



Results in Brief: Marine Corps' Management of the Recovery and Reset Programs

What We Did

We evaluated the effectiveness of the Marine Corps' recovery and reset programs for selected equipment. Specifically, we examined how the Marine Corps met its equipment requirements through the recovery and reset programs; that is, whether it effectively repaired or replaced selected equipment and whether it used supplemental funds for their intended purpose.

What We Found

The Marine Corps recovery and reset efforts for the items of equipment reviewed were generally effective. For the recovery program, the Marine Corps received the supplemental funds it requested in FY 2007 and effectively overhauled the items of equipment we reviewed.

For the reset program, the Marine Corps also received the supplemental funds it requested from Congress for FY 2007. Further, the equipment requirement computations were supported in the Total Force Structure Management System database.

In addition, most of the \$6.9 billion in supplemental procurement fund requirements for FY 2007 were supported by documentation that included justifications and priorities. However, \$383.3 million in requirements, or approximately 5.6 percent of the supplemental funds requested, did not meet DoD or Marine Corps guidance for inclusion in its supplemental funds request.

Specifically, the Marine Corps requested:

- \$266.6 million in requirements that the Marine Corps categorized as low priority and desirable but not essential;
- \$61.8 million in estimated, not actual, combat losses;
- \$29.9 million in requirements that were based on inaccurate unit prices; and
- \$25 million in requirements that exceeded approved requirements.

In addition, about \$1.9 billion in requirements were not prioritized and \$138 million were not traceable to supporting documents. We identified an internal control weakness in that the Marine Corps officials did not follow the established guidance or provide sufficient oversight to ensure compliance with the guidance. As a result, the Marine Corps requirements for \$383.3 million in supplemental funds may have been put to better use, and \$138 million were unsupported.

What We Recommend

We recommend that the Director, Program Objectives Memorandum Branch, Marine Corps Combat Development Command validate equipment requirements to ensure that the requests for future supplemental funds exclude low-priority requirements and anticipated combat losses, use accurate unit prices, do not exceed approved acquisition objectives, and are prioritized and documented.

We also recommend that the Deputy Commandant, Programs and Resources, document changes made to the original funding requests submitted by the Combat Development Command and ensure that priorities are assigned.

Management Comments and Our Response

The Marine Corps agreed with the recommendations. They initiated actions to have supplemental fund requirements

- prioritized and meet DoD guidelines,
- include only actual combat losses,
- use accurate and supported unit prices,
- not exceed approved requirements, and
- be traceable to supporting documents.

The Marine Corps comments were responsive and meet the intent of the recommendations. The full text of these comments appears in the Management Comments section of the report.

Recommendations Table

| Management | Recommendation Requiring Comment | No Additional Comments Required |
|---|-------------------------------------|------------------------------------|
| Director, Program Objectives Memorandum Branch, Marine Corps Combat Development Command | | 1. |
| Deputy Commandant, Programs and Resources | | 2. |

Table of Contents

| | |
|--|----|
| Results in Brief | i |
| Introduction | 1 |
| Objectives | 1 |
| Background | 1 |
| Recovery Program Funding and Overhaul | 4 |
| Review of Internal Controls | 5 |
| Finding. Requests for Supplemental Funds for the Reset Program Did Not Always Follow Guidance | 7 |
| Management Comments on the Finding and Our Response | 14 |
| Recommendations, Management Comments, and Our Response | 16 |
| Appendices | |
| A. Scope and Methodology | 19 |
| Prior Coverage | 20 |
| B. Nine Items of Equipment Selected for Review | 23 |
| C. Funding and Support for Equipment Requirements | 27 |
| D. Equipment Requirements and Funding Determination Process | 31 |
| E. Requirements Based on Estimated Combat Losses | 33 |
| F. Requirements Based on Inaccurate Unit Prices | 35 |
| G. Requirements in Excess of Approved Quantities | 37 |
| H. Requirements Not Traceable to Supporting Documents | 39 |
| Management Comments | |
| Marine Corps | 41 |

Introduction

Operations in Iraq and Afghanistan have placed increasing demands on equipment that are beyond what is needed during training or home-station operations. The demands arise from higher usage rates, extended operations in harsh environmental conditions, and the losses sustained in combat operations. These demands on equipment result in higher maintenance, repair, and replacement costs. We examined the Marine Corps recovery and reset programs to determine whether they were working as intended.

Objectives

Our overall objective was to evaluate the effectiveness of the Marine Corps' recovery and reset programs for selected equipment. Specifically, we examined how the Marine Corps met its equipment requirements through the recovery and reset programs; that is, whether it effectively repaired or replaced selected equipment and whether it used supplemental funds for their intended purpose. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objective.

Background

This report uses the terms used by the Marine Corps and considers reset and recovery to be two separate programs. The Marine Corps commonly refers to depot-level repairing and maintaining equipment as recovery. The recovery program is a major overhaul or complete rebuilding of parts, assemblies, subassemblies, and end items to restore equipment to a mission-capable status. Reset means restoring combat capability to pre-Global War on Terror (GWOT) conditions. The Marine Corps commonly uses the term reset to refer to the procurement of equipment.

Initially, we judgmentally selected four items of ground equipment to audit. They included the Light Armored Vehicle-25mm, Reverse Osmosis Water Purification Unit, radio test set, and the telephone switching unit. We expanded our sample to nine items to incorporate newer models. The nine items of equipment include: one old and three new telephone switching units, two radio test sets, two water purification systems, and the light armored vehicle-25 mm. Appendix B illustrates eight of the items; we were unable to locate a picture of the old switching system. During December 2007 and January 2008, we obtained the total approved quantity recorded in the database for the nine items and verified that the approved quantity was supported by individual tables of organization and equipment. For results of our comparison, see Appendix C.

There are five offices involved in both the recovery and reset programs. We include a brief description of the responsibilities of those offices below. Also, to compensate for the higher repair and overhaul and procurement costs incurred during GWOT, DoD has requested an emergency supplemental appropriation from Congress. Those supplemental funds are discussed in the following paragraphs along with DoD and Marine Corps guidance on the use of supplemental funds. Funding and overhaul for the recovery program are discussed beginning on page 4. The finding in the report discusses only the

reset program and shows that, in some cases, requests for supplemental funds did not follow DoD or Marine Corps guidance. Funding and support for equipment requirements are discussed in Appendix C.

Marine Corps Responsibilities

The following offices are responsible to the Commandant of the Marine Corps for matters of acquisition, budget, logistics, and repair and overhaul of equipment.

- The Marine Corps Combat Development Command is responsible for the implementation, execution, and management of the combat development process. One of its primary functions for supplemental funding is determining equipment requirements and validating the quantities requested. The process works as follows.
 - Integration officers within the Command develop the requirements for the equipment they manage and submit them to the Program Objectives Memorandum Branch within the Command.
 - The Program Objectives Memorandum Branch consolidates the supplemental requirements and submits them to the Deputy Commandant, Programs and Resources.
- The Marine Corps Systems Command is the principal agent for acquiring and sustaining systems and equipment used by the operating forces to accomplish their mission.
- The Marine Corps Programs and Resources Department is the principal staff agency responsible for developing and defending the Marine Corps financial requirements, policies, and programs, including budget oversight.
- The Deputy Commandant, Installations and Logistics acts on behalf of the Commandant in matters of logistics policies, including maintaining the GWOT Attrition Summary Report.
- The Marine Corps Logistics Command provides integrated logistics management oversight, including the depot-level repair and overhaul of equipment and the strategic pre-positioning and planning of equipment capability in support of the operating forces. The repair and overhaul of equipment is primarily accomplished at the Maintenance Centers in Albany, Georgia, and Barstow, California.

Supplemental Funds

To compensate for the higher repair and overhaul and procurement costs incurred during GWOT, DoD has requested an emergency supplemental appropriation from Congress. Emergency supplemental appropriations for procurements are used to fund the incremental costs above the baseline budget that are necessary to replace equipment needed for ongoing operations. Emergency supplemental appropriations for operation and maintenance are used to fund the incremental costs above the baseline budget that are

necessary to repair and overhaul equipment. The FY 2007 supplemental consisted of two appropriations: the bridge supplemental and the full supplemental. To avoid a potential interruption in funding, which would have an adverse impact on the warfighter, Congress provided the Marine Corps with a 6-month bridge appropriation to cover the cost of combat operations for the first 6 months of the fiscal year, until full-year appropriations become available.

For FY 2007, the Marine Corps requested approximately \$6.9 billion in supplemental procurement funding. Congress appropriated approximately \$7.2 billion, or more than 100 percent of the supplemental funds requested. The \$7.2 billion was in addition to the \$891 million that Congress provided the Marine Corps in its annual or baseline procurement budget. See Appendix D for the process the Marine Corps uses to determine equipment and supplemental fund requirements.

DoD and Marine Corps Guidance

On July 19, 2006, the Under Secretary of Defense (Comptroller) (USD[C]) issued a memorandum, “Fiscal Year 2008-2013 Program and Budget Review,” which related to budgeting and included supplemental funding guidance for FY 2007. The guidance stated that supplemental funds would address only those incremental costs that are “emergency” in nature and specifically required to prosecute mission objectives during the fiscal year. The guidance further stated that submitting agencies are required to assign a numeric priority ranking that would enable USD(C) to determine the importance of new requirements. Also, the guidance provided that only actual combat losses should be included in the supplemental fund request.

On June 1, 2006, the Marine Corps Deputy Commandant for Programs and Resources issued a memorandum “Revalidation of Global War on Terrorism (GWOT) Reset and Cost of War Requirements.” The memorandum required Marine Corps activities to provide specific data elements (item name, budget information, cost breakdown, quantity, and total dollar amounts as well as who would be responsible for executing the funding) when requesting FY 2007 supplemental funding. In addition, all procurement costs for new equipment were to be supported by an updated approved acquisition objective, which was updated to reflect the current GWOT requirements. The approved acquisition objective is the total quantity of an item that is authorized by the Commanding General, Combat Development Command to equip and sustain the force. The guidance further directed that the requests for supplemental funds include only “bona fide” documented requirements for items necessary to maintain and sustain both current and future readiness rates within the Marine Corps. In addition, the FY 2007 guidance required activities to prioritize equipment requirements as either high, medium, or low priority and to include only actual combat losses in the supplemental fund request.

Marine Corps Order 4490.1, “Ground Class VII Materiel Requirements Determination; Approved Acquisition Objective (AAO),” May 7, 1997, provides the policy for determining materiel requirements for ground Class VII equipment (principal end items). The order described the methodology for calculating the maintenance float allowance and the war reserve materiel requirements. The maintenance float represents the quantity of

reserve equipment that allows Marine Corps units to maintain their readiness posture while repair and overhaul is being done. The war reserve is the quantity of materiel amassed in peacetime to meet the increase in military requirements upon an outbreak of war. War reserves are intended to provide the interim support essential to sustain operations until resupply can be effected. The order also prescribes that equipment is authorized to be pre-positioned on maritime ships and in Norway for contingency operations.

Recovery Program Funding and Overhaul

Funding

For FY 2007, the Marine Corps received all of the supplemental operation and maintenance funds that it requested for depot repair and overhaul. Congress appropriated \$447.3 million in supplemental operation and maintenance funds to repair and overhaul equipment. This was in addition to the \$87.9 million provided to the Marine Corps in the annual or baseline budget.¹ For the four items of equipment² we selected for review under the recovery program, the Marine Corps Logistics Command had requested a total of \$4.1 million in supplemental funds for repair and overhaul. However, the requirements and needs of the warfighter changed, and the Logistics Command Programs and Resources Department moved approximately \$45.5 million from other planned equipment repairs to repair or overhaul two of the four items of equipment included in our audit. Approximately \$44.3 million and \$1.2 million, respectively, was moved to repair or overhaul 98 Light Armored Vehicles-25mm (LAV-25s) and seven additional Reverse Osmosis Water Purification Units. In addition, approximately \$1.1 million was moved from repairing or overhauling radio test sets and telephone switching units to items of equipment not included in our audit.

Overhaul

For the recovery program, the Marine Corps effectively overhauled the items of equipment we reviewed. Our examination of planned FY 2007 work schedules and repair records at Albany, Georgia, and Barstow, California, Maintenance Centers showed that all four items of equipment were scheduled to be repaired during FY 2007. The Albany Maintenance Center had successfully repaired or overhauled 77 units for the four items, while the records for the Barstow Maintenance Center showed that from our sample of four items, only the LAV-25 was repaired or overhauled. Our discussion with a funding representative of the Logistics Command and review of a production report obtained from the Logistics Command in June 2008 showed that the Barstow Maintenance Center overhauled 51 LAV-25s using FY 2007 supplemental funds.

To determine the quality of work performed by the two Maintenance Centers, we examined the Product Quality Deficiency Report for the 1-year period ending

¹ The annual or baseline budget funds equipment maintenance for nondeployed equipment and for longer term equipment requirements.

² The four items include the Light Armored Vehicle-25mm, Reverse Osmosis Water Purification Unit, radio test set, and the telephone switching unit.

September 2007. The report is generated from a database that includes such fields as the item of equipment, deficiency description, and actions required to close the deficiency. It also identifies a defect or nonconforming condition detected on new or newly reworked Government-owned products, premature equipment failures, and products that do not fulfill their expected purpose because of deficiencies in design, specification, material, manufacturing, and workmanship.

Of the 1,707 deficiencies reported in the product quality database, 156 were applicable to three of the four items we selected for review. Of the 156, only 14 were attributed to the depot repairs and overhaul, and none of the 14 was considered a critical defect that could cause death, injury, severe occupational illness, or major damage to a weapon system. For example, one of the 14 deficiencies involved a low-battery power problem with the fire suppression system used on the LAV-25. An internal investigation recommended that maintenance personnel test the suppression system using the vehicle power when the test set battery is not fully charged.

Review of Internal Controls

We identified an internal control weakness for the Marine Corps in the request for FY 2007 supplemental funds to meet requirements for the acquisition of new equipment as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. The Marine Corps request sometimes included requirements that:

- did not satisfy DoD guidance to be emergency in nature and specifically required to prosecute mission objectives;
- were based on anticipated, not actual, combat losses;
- were computed using inaccurate unit prices;
- were in excess of the approved requirements; and
- either were not prioritized or were not traceable to supporting documents.

Implementing Recommendations 1 and 2 should improve the Marine Corps process for determining supplemental fund requests to acquire only needed equipment. A copy of the report will be provided to the senior Marine Corps official responsible for internal controls.

Finding. Requests for Supplemental Funds for the Reset Program Did Not Always Follow Guidance

Approximately \$383.3 million, or 5.6 percent, of the \$6.9 billion in supplemental procurement fund requirements for FY 2007 that were requested did not meet DoD or Marine Corps guidance for inclusion in its supplemental funds request.

Specifically, the Marine Corps requested:

- \$266.6 million in requirements that it categorized as low priority and desirable but not essential and deferrable until the following year without significant impact on combat operations,
- \$61.8 million in estimated combat losses that exceeded actual losses recorded in the database the Marine Corps used to track battle casualties,
- \$29.9 million in requirements that were based on inaccurate unit prices, and
- \$25 million in requirements that exceeded approved acquisition objectives for 19 items of equipment.

In addition, about \$1.9 billion in requirements were not prioritized, and \$138 million was not traceable to supporting documents. This occurred because Marine Corps officials did not follow the established guidance or provide sufficient oversight to ensure compliance with the guidance. As a result, the Marine Corps requirements for \$383.3 million in FY 2007 supplemental funds may have been put to better use, and \$138 million were unsupported.

Requests Included Low-Priority and Nonprioritized Requirements

The FY 2007 supplemental request for \$6.9 billion included approximately \$266.6 million in requirements that the Marine Corps identified as a low priority, not emergency in nature, and often supported by justifications stating that not funding the requirements would have minimal, if any, impact on operations. In addition, about \$1.9 billion in requirements were not prioritized.

Low-Priority Requirements

Our audit showed that the Marine Corps identified approximately \$266.6 million in supplemental fund requirements as a low priority. For example, the Marine Corps requested \$3.9 million in the bridge supplemental for 410 3/4-ton, two-wheeled chassis trailers. The justifications stated that not funding the requirement would have a low impact. In our opinion, this requirement clearly was not emergency in nature, and along with the other \$262.7 million low-priority requirements, should not have been included in the supplemental fund request. Only one of the nine items selected for review (three radio test sets valued at \$78,000) was categorized as a low priority and included in the \$266.6 million.

The DoD guidance of July 19, 2006, issued by USD(C) requires the Services to prioritize their requirements and only include those that are emergency in nature and specifically required to prosecute mission objectives during the fiscal year. Furthermore, the June 1, 2006, Marine Corps guidance issued by the Deputy Commandant for Programs and Resources requires prioritizing requirements as high, medium, or low. High priority is defined as an item that is essential to sustaining combat operations. Significant disruption to current operations would be experienced if these items were not funded. Medium is defined as an item with important impact on combat operations or those items previously determined necessary to reset the force. Low priority is defined as an item that is desirable but not essential and deferrable until the following fiscal year, if necessary, without significant impact on combat operations.

A Marine Corps official stated that the FY 2007 guidance pertaining to supplemental funds states that only bona fide documented requirements for items necessary to maintain and sustain both current and future readiness rates within the Marine Corps should be included. The official also stated that it would seem from that perspective that, generally, some items that were not emergency in nature could be required to ensure the sustainment of future equipment readiness rates. Furthermore, although some equipment might be perceived as a relatively low priority to the immediate fight, it could be important for long-term equipment readiness.

We agree that some items could be important to long-term equipment readiness. However, requesting funds for items that are not specifically required to prosecute mission objectives during the fiscal year is contrary to DoD guidance. The Marine Corps Combat Development Command should take steps to ensure that future requests for supplemental funding are prioritized and do not include low-priority requirements.

Requirements Not Prioritized

About \$1.9 billion of supplemental fund requirements were not prioritized as required by DoD and Marine Corps guidance. Our review showed that \$869.7 million in the bridge supplemental and \$1 billion in the full supplemental did not have priorities assigned. For example, in the bridge supplemental, the Marine Corps did not prioritize the requirement for 192 Truck, Tractors, 7 ton without a winch, valued at \$51.9 million. Of the nine items selected for review, two radio test sets and a telephone switching unit valued at \$398,846 were included in the \$1.9 billion.

Both the DoD guidance of July 19, 2006, issued by USD(C) and the Marine Corps guidance of June 1, 2006, issued by the Deputy Commandant for Programs and Resources require prioritizing requirements. The Marine Corps Combat Development Command is the responsible activity for assigning priorities for each requirement.

Marine Corps officials told us that the requirements that were not prioritized in the bridge supplemental reflected what they needed later in the fiscal year versus sooner and did not relate to criticality of the requirement. Furthermore, they did not want to give the impression that one item of equipment was more important than another.

Assigning priorities gives senior officials the opportunity to rank equipment requirements when resources are scarce and ensures that future funds are requested for only bona fide requirements. To ensure the latter, officials from the Marine Corps Programs and Resources Department need to ensure that all requirements are prioritized when requesting supplemental funds.

Requirements Included Estimated Combat Losses

The Marine Corps bridge supplemental request for FY 2007 included \$61.8 million in estimated combat losses that exceeded actual losses recorded in the database that the Marine Corps used to track equipment destroyed or heavily damaged in battle. Of the nine items of equipment we reviewed, the Marine Corps included anticipated combat losses in the requirements computation for the LAV-25. The Marine Corps full supplemental request for FY 2007 did not identify whether requirements included combat losses. Consequently, we could not determine whether any of the \$2.1 billion requested in the full supplemental included requirements for actual or estimated combat losses.

Estimated Losses on LAV-25s

The Marine Corps requested and received approximately \$10 million in supplemental funds for replacing four LAV-25s that were not actual combat losses. As of May 2007, the Marine Corps awarded contracts through the Army to replace 15 LAV-25s that were categorized as war losses. However, the Marine Corps had also issued a Military Interdepartmental Purchase Request of \$12.5 million to the Army in November 2006 to procure five additional combat loss LAV-25s. Subsequently, our review of the bridge supplemental request for FY 2007 showed that \$12.5 million was requested to replace five combat loss LAV-25s at a unit cost of \$2.5 million. Considering the 15 combat loss LAV-25s already on contract at the time, the request to fund five more combat losses indicated a total of 20 combat losses. However, the GWOT Attrition Summary Report used by the Marine Corps Installations and Logistics Department to track combat losses showed only 16 of the LAV-25s had been destroyed in battle as of June 2007. Consequently, the request included \$10 million for four combat loss LAV-25s that exceeded the number on the Attrition Report.

Estimated Combat Losses for FY 2007

Because of what we learned about the requests for replacement LAV-25s, we expanded our sample to include all combat losses included in the bridge supplemental request for FY 2007. Our audit showed that the Marine Corps requested a total of \$90.2 million for the replacement of combat losses representing 132 items of equipment. We compared the 132 items of equipment with the GWOT Attrition Summary Report dated June 2007. We identified 66 items of equipment for which estimated combat losses exceeded the actual losses shown on the Attrition Report. For these items, the Marine Corps requested \$51.8 million for requirements that were in excess of the actual losses. Appendix E is a listing of the 66 items of equipment.

For FY 2007, USD(C) issued a memorandum, "Fiscal Year 2008-2013 Program and Budget Review," dated July 19, 2006. The guidance issued in the memorandum also applied to supplemental funding for FY 2007. It stated that supplemental funds would address only those incremental costs that are emergency in nature and are specifically required to prosecute mission objectives during the fiscal year. The guidance further stated that submitting agencies are

required to assign a numeric priority ranking that enables USD(C) to determine the importance of new requirements. Also, the guidance permits requirements for actual combat losses to be included in the request for supplemental funding. It does not allow for estimated losses. To confirm that the guidance was still applicable, we contacted a USD(C) official, who told us that only actual combat losses, and not anticipated or estimated losses, should be included in supplemental requests.

Marine Corps officials stated that because of the timeline between first budget submission to DoD and final submission to Congress, which could range from 7 to 10 months, they have no choice but to estimate losses. In addition, they stated that there has been a great deal of discussion with DoD regarding combat losses on both the aviation side and the ground support side. Although they do not necessarily agree with the DoD policy, they informed us that they used only actual combat losses in preparing the FY 2009 request.

To ensure that future requests for supplemental funds include only actual combat losses, the Program Objectives Memorandum Branch must validate the requirements they receive.

Requirements Were Computed Using Inaccurate Unit Prices

The FY 2007 supplemental fund requirements for some items were computed using inaccurate unit prices. We looked at 41 items that were listed several times in the full supplemental requirement to determine whether fund requirements for the items were computed using the same price. The 41 items had fund requirements totaling \$229.4 million and were listed, with one exception, on a spreadsheet titled “battalion,” which was used to support the full supplemental request.

Our review showed that \$195.5 million in requirements for 28 of the 41 items were computed using different unit prices. For example, supplemental fund requirements for the handheld global positioning system were overstated by \$29.9 million (see Table 1) because inaccurate and unsupported unit prices were used to compute fund requirements for the systems. The bridge supplemental request included requirements for 70 systems based on a unit price of \$32,200. Further, the full supplemental request included two separate requirements; one for 966 systems based on a unit price of \$32,200 and another for 966 systems based on a unit price of \$100. The unit price of \$100 is what was shown in the Total Force Structure Management System database.³ None of the nine items we selected for review were included in the 28 items.

Marine Corps guidance did not specifically address procedures for determining unit prices. Regardless of the procedures used, we believe the unit prices should be accurate and supported. When asked about the current unit price for the global positioning systems in August 2008, Marine Corps Systems Command officials provided documentation showing that neither unit price was correct. Although the database showed a standard unit price of \$100, the contract that was awarded in August 2007, showed the Marine Corps procured 56 of the items at a unit price of \$1,767. Furthermore, Combat Development Command officials stated that the unit price of

³ The Total Force Structure Management System database is the repository for all Marine Corps peacetime and wartime equipment requirements.

\$32,200 was initially obtained from Systems Command in preparing the bridge supplemental request. At the time, they thought the unit price appeared excessive, and a “discrepancy note” was attached to the working spreadsheet. They further stated that the individual who prepared the spreadsheet did not return to correct the unit price after generating a note to do so. As that individual was no longer in the Command, officials could only assume that the \$32,200 unit price was a mistake.

Based on the contract unit price of \$1,767, we estimated that supplemental fund requirements for global positioning systems were overstated by \$29.9 million, as shown in Table 1.

Table 1. Overstated Requirements for Handheld Global Positioning Systems

| Equipment Control Number | Quantity | Unit Price Used in Supplemental Request | Supplemental Funds Requested | Contract Unit Price | Requirements Using Contract Price | Difference |
|--------------------------|--------------|---|------------------------------|---------------------|-----------------------------------|---------------------|
| A0131 | 1,036 | \$32,200 | \$33,359,200 | \$1,767 | \$1,830,612 | |
| A0131 | 966 | 100 | 96,600 | 1,767 | 1,706,922 | |
| Total | 2,002 | | \$33,455,800 | | \$3,537,534 | \$29,918,266 |

Contract unit prices for seven other items were also significantly different from many of the prices used in the supplemental fund request. We obtained contract unit prices for these items and the global positioning system from the Marine Corps Systems Command in August 2008. Supplemental fund requirements for the eight items varied largely based on the different unit prices used to compute fund requirements for the items. Appendix F illustrates how requested funds for the seven items appeared to be both overstated and understated because the unit prices used in the request were significantly different from the contract prices paid for the item. Overall, fund requirements for the seven items using contract prices were \$127.3 million less than requirements submitted. Marine Corps officials told us that, in some instances, the unit price varies significantly, depending on when the contract is placed, who supplies the equipment, and how many are requested.

We agree that unit prices vary depending on the quantity, vendors, and when the contract is placed; however, the cost variance on some items was significant, which suggests that better monitoring of the prices used in the supplemental request is needed. For example, the contract unit price for a digital camera was \$486, yet the unit prices of \$2,500 and \$14,000 were used for the item in the supplemental fund request. These prices represent an increase of 514 percent and 2,881 percent above the latest contract price. We did not review the methodology used to compute unit prices to determine whether it was sound and based on data current at the time the supplemental requests were prepared; however, considering the significant differences, we believe officials should do a better job of monitoring the unit prices used in future supplemental requests.

Requirements Exceeded Approved Quantities

The Marine Corps request for FY 2007 supplemental funds included equipment requirements totaling approximately \$25 million that were in excess of those documented in the approvals for 19 items of equipment. In addition, a 2006 Naval Audit Service Report, N2006-0019, "United States Marine Corps Demand on Equipment," March 23, 2006, documented similar excess in the Marine Corps' FY 2005 supplemental funding request.

Requirements Determination Process

The Commanding General, Combat Development Command is responsible for computing approved acquisition objectives and determining unfilled requirements. Unfilled requirements are included in either the baseline or supplemental fund request. The total procurement quantity should not exceed the difference between the approved quantity and those on-hand and on order.

Requirements in Excess of Approved Quantities

In April 2007, we judgmentally selected nine items of equipment and compared the approved quantity with the on-hand, on order, and planned procurement quantities. Of the nine items, only the Tactical Water Purification System requirements were greater than the approved amount. Our review of the Planned Procurement Report, July 24, 2007, showed that the total authorized quantity was 239 units for the Tactical Water Purification System. Our review of the contract files disclosed that the Army Tank and Automotive and Armament Command had purchased a total of 243 units before July 24, 2007. Further review showed that one unit was destroyed during testing, leaving the Marine Corps with 242 units, or three more than the approved amount, at a cost of \$1.2 million.

On the basis of our sample results, we expanded our review to include all 504 items of equipment for which the Marine Corps requested supplemental funds in FY 2007 and which had an approved quantity recorded in the database. This review identified an additional 18 items of equipment totaling \$23.8 million where the units requested was greater than the number of units approved and recorded in the database. For example, supplemental funds for a radio set (control number A0118) included 4,274 units in excess of the number of units approved and recorded in the database at a cost of \$10.7 million. Marine Corps officials stated that the number of units requested for the radio sets would not be considered excess because a higher quantity was pending approval. A list of the 18 items of equipment is shown in Appendix G.

The Deputy Commandant for Programs and Resources issued a memorandum "Revalidation of Global War on Terrorism (GWOT) Reset and Cost of War Requirements." June 1, 2006, related to supplemental funds. It stated that all procurement costs for new equipment were to be supported by an updated approved acquisition objective. The approved acquisition objective is the total quantity of an item that is authorized by the Commanding General, Combat Development Command to equip and sustain the force. The guidance further directed that the requests for supplemental funds include only "bona fide" documented requirements for items necessary to maintain and sustain both current and future readiness rates within the Marine Corps.

The same conditions we identified were noted in a prior Naval Audit Service Report of March 2006. The Naval Audit Service found in its March 23, 2006, report that the Marine Corps requested \$146.2 million in equipment that was in excess of the approved quantity for 26 items in the FY 2005 supplemental request. The Naval Audit Service recommended and the Marine Corps agreed to:

- validate the approved amounts for ground equipment and use that to develop the Program Objectives Memorandum and for future supplemental requests, and
- establish the reliability and integrity of the database by validating data entries.

As of March 2009, Naval Audit Service officials told us that the recommendations were still open.

The Marine Corps Combat Development Command must now take action to ensure that requests for future supplemental funds are for valid requirements. In addition, when the approved quantities are updated, they are to be loaded into the database in a timely manner.

Requirements Were Not Traceable to Supporting Documents

About \$138 million in adjustments made to the original budget submission for selected equipment requirements could not be tracked to supporting documents.

On October 17, 2007, and November 9, 2007, Programs and Resources officials provided us with spreadsheets that showed respective requirements of \$4.8 billion and \$2.1 billion for the FY 2007 bridge and full supplemental requests. Officials told us that they had received these requests from the Combat Development Command.

The Programs and Resources officials also provided us with two spreadsheets in August 2007 that they referred to as “side-by-sides.” They showed the total amounts requested for 47 budget line items totaling \$4.8 billion for the FY 2007 bridge supplemental and for 42 budget line items totaling \$2.1 billion for the FY 2007 full supplemental. Each line item could include several different items of equipment. The nine items we sampled were in four separate line items. For example, line item 203800 included eight different items of equipment, one of which was the LAV-25. The other seven were different models or variations of the LAV family.

We compared the spreadsheets, by line item, with the side-by-sides. Requirements for the 42 line items that totaled \$2.1 billion in the full supplemental agreed. However, requirements were different for 32 of the 47 line items in the bridge supplemental, as illustrated in Appendix H. Of the 32 line items, 25 were \$138 million more than the original request submitted by the Combat Development Command, and 7 were \$138 million less. For example, the Combat Development Command requested \$15.3 million for Air Operations and C2 Systems, and the request sent to Congress by the Programs and Resources Department was \$35.3 million, or \$20 million more than the Combat Development Command request. For another example, the Command requested \$217.4 million for training devices. However, the request that Programs and Resources sent to Congress was for \$165.7 million, or \$51.7 million less than requested.

The June 1, 2006, Marine Corps guidance “Revalidation of Global War on Terrorism (GWOT) Reset and Cost of War Requirements” requires that the request for supplemental funds include only bona fide requirements supported by documentation. Further, we believe when changes are made to the original request, the changes should be documented.

During our discussions with budget personnel at the Programs and Resources Department regarding the \$138 million difference, they could not explain the difference but stated that funds requested were for requirements that fully existed. They were concerned about their inability to explain the changes. They pointed out that the \$138 million represented only 2 percent of the total request, and should be viewed in that context. Furthermore, they stated that they have since taken steps to implement the Contingency Operations Reporting System, which will provide tracking of the supplemental request from infancy to submission.

We recognize that funding priorities and requirements change, and the Contingency Operations Reporting System may aid in tracking who made changes to the original submission and why. However, as we did not evaluate the adequacy of the reporting system, we are recommending that the Marine Corps Programs and Resources Department take action to ensure that changes to funding requirements are documented and supported.

Conclusions

Some requirements did not meet DoD or Marine Corps guidance for inclusion in the supplemental fund requests because they were low priority and not emergency in nature, based on estimated and not actual combat losses, and computed using inaccurate unit prices and for quantities in excess of approved requirements. In addition, some requirements were not prioritized and some could not be tracked to supporting documents.

According to DoD guidance, requirements that are not emergency in nature and estimated combat losses should not be included in supplemental requirements. Also, requirements should be computed using accurate unit prices, and not exceed approved amounts. Quantities in excess of approved amounts are beyond what is needed to meet mission requirements. Further, all requirements should be prioritized to provide senior officials the insight to rank equipment requirements when resources are scarce. Retaining supporting documentation allows senior officials to ensure that only bona fide, documented requirements are funded to sustain current and future readiness rates. As a result of the Marine Corps’ actions, approximately \$383.3 million in FY 2007 supplemental funds may have been put to better use, and \$138 million was unsupported.

Management Comments on the Finding and Audit Response

The Marine Corps provided the following technical comments for consideration.

Low-Priority Items

The Deputy Commandant, Programs and Resources Department, Headquarters, Marine Corps stated that the Marine Corps interprets the internal control environment associated with

submission of low priority from a different perspective than ours. He stated that the USD(C) asked that requirements that met the definition of low-priority items in the guidance be designated as such. This designation does not make a requirement nonemergency. Congress realized the impact of the war on the Service inventories and appropriated procurement funding as part of the supplemental process. Because of the contracting and production lead times before assets are delivered, they will not be immediately available in theater. Rather, the bulk of the procurement replenishes assets that are currently being used in theater.

Our Response

DoD issued guidance July 19, 2006, that requires the Services to prioritize their requirements and only include those that are emergency in nature and required to prosecute mission objectives during the fiscal year. The Marine Corps guidance of June 1, 2006, requires prioritizing requirements as high, medium, or low. Low priority is defined as an item that is desirable but not essential and deferrable until the following fiscal year, if necessary, without significant impact on combat operations. We agree that some items could be important to long-term equipment readiness. However, requesting funds for items that are not specifically required to prosecute mission objectives during the fiscal year is contrary to DoD guidance.

Prioritizing All Items

The Deputy Commandant, Programs and Resources Department, Headquarters Marine Corps also stated that the Marine Corps strives to comply with Departmental guidance and that when USD(C) calls for prioritized lists, the Marine Corps will comply and submit prioritized lists.

Our Response

We agree with the Marine Corps statements regarding prioritization, and as our audit showed, more than 70 percent of the requested supplemental funds for FY 2007 were prioritized.

Unit Pricing

The Director, Logistics Plans, Policies, and Strategic Mobility Division, Installations and Logistics Department, Headquarters, Marine Corps stated that the Marine Corps developed a reset cost model in 2008 to estimate future reset costs in support of ground equipment reset efforts. The Marine Corps uses these estimates to support reset budgeting and logistics planning efforts. Further, it uses the latest acquisition cost to estimate procurement costs.

Each quarter, the Marine Corps collect and updates from the Marine Corps Systems Command, the latest acquisition cost for every item recorded in the Total Force Structure Management System database. It captures changes in acquisition costs and resets cost estimates accordingly. If the latest acquisition cost is not available, it uses the Federal Logistics Information System unit costs in the reset cost model.

Our Response

We commend the Marine Corps for developing and using the reset cost model, and we believe that if it updates as required, requests for future supplemental funds will be more in line with the true replacement costs for the items.

Recommendations, Management Comments, and Our Response

1. We recommend that the Director of the Program Objectives Memorandum Branch, Marine Corps Combat Development Command validate investment requirements to ensure that the requests for future supplemental funds exclude low-priority requirements and anticipated combat losses, use accurate and supported unit prices, do not exceed approved acquisition objectives, and are prioritized and documented.

Marine Corps Combat Development Command Comments

The Director of the Program Objectives Memorandum Branch, Marine Corps Combat Development Command agreed with the recommendation and stated the following.

- Accurate and supported unit prices should be used, and the branch now has the Marine Corps Systems Command verify unit prices.
- The Marine Corps should not exceed the approved acquisition objective. At the time of the FY 2007 supplemental request, the Total Force Structure Management System used to record and officially maintain the approved acquisition objective had not yet been validated. The validation process started after the FY 2007 supplemental request was completed.
- Only actual combat losses should be included. This was corrected during the FY 2008 supplemental request by using a category of combat attrition, which covered equipment that was wearing out faster than the original life-cycle cost estimates because of extra armor, weight, and wear and tear of being in theater. Current supplemental submissions reflect actual losses reported by Headquarters Marine Corps Installation and Logistics.
- The branch will only prioritize and send forward items meeting the standards and guidelines established by USD(C).

Our Response

The comments of the Director, Program Objectives Memorandum Branch, Marine Corps Combat Development Command were responsive and conformed to requirements. The actions planned or taken satisfy the intent of the recommendation.

2. We recommend that the Deputy Commandant, Programs and Resources document any changes made to the original funding requests submitted by the Marine Corps Combat Development Command and ensure that priorities are assigned.

Marine Corps Programs and Resources Comments

The Deputy Commandant, Programs and Resources Department agreed with the recommendation and stated that the Department will document all changes made to the original submission by the Marine Corps Combat Development Command. Further, the Marine Corps will comply with USD(C) guidance regarding the requirement to prioritize.

Our Response

The comments of the Deputy Commandant, Marine Corps Programs and Resources were responsive and conformed to requirements. The actions planned or taken satisfy the intent of the recommendation.

Appendix A. Scope and Methodology

We conducted this performance audit from April 2007 through January 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We evaluated the effectiveness of the Marine Corps' management of the recovery and reset programs for selected ground equipment. We examined how the Marine Corps met its ground equipment requirements through the recovery and reset programs; that is, whether it effectively repaired or replaced selected equipment and whether it used supplemental funds for their intended purpose.

The Marine Corps is responsible for the overall management of its ground equipment, while the Navy has responsibility for managing the Marine Corps aviation equipment. Initially, we judgmentally selected four items of ground equipment to audit: the LAV-25mm, Reverse Osmosis Water Purification Unit, telephone switching unit, and the radio test set. The original four items were selected because funding documents showed that both operation and maintenance and procurement funds were used to repair and procure these items. However, as three of the four items were being replaced with newer models, we expanded our sample to include nine items of equipment.

We interviewed personnel responsible for developing the quantities and amounts required as well as those responsible for the funding and acquisition of the selected equipment. The offices included in our audit were the Marine Corps Headquarters, Installation and Logistics, Programs and Resources, Combat Development Command, and Systems Command. We also interviewed personnel from the Logistics Command and Maintenance Centers at Albany, Georgia, and Barstow, California.

We reviewed the guidance issued by the DoD and Marine Corps on supplemental fund requirements for FY 2007 and evaluated whether the Marine Corps' requests for supplemental funds complied with that guidance. Specifically, we reviewed requests for \$6.9 billion in supplemental funds to determine whether the requests:

- excluded requirements that were desirable but not essential and deferrable until the following year,
- included only actual combat losses,
- used accurate, supported unit prices,
- did not exceed approved quantities, and
- were prioritized and traceable to supporting documents.

The scope of our review of compliance with different parts of the guidance varied. For two parts evaluated (to determine whether requests were prioritized and traceable to supporting documents), we reviewed the entire \$6.9 billion in requirements. For other parts of the guidance we evaluated, the scope of review did not include the entire \$6.9 billion. For example, to evaluate whether requests included only actual combat losses, we reviewed bridge supplemental requirements of \$4.8 billion. We could not evaluate whether the Marine Corps' full supplemental request of \$2.1 billion included only actual combat losses because that request did not identify requirements that were combat losses. Details on the scope of our review of compliance with the guidance evaluated are discussed in the finding section of the report.

In addition, we examined selected budget, funding, and contractual documents, along with maintenance records related to funding, scheduling, and repairing equipment.

Use of Computer-Processed Data

For the reset portion of the audit, we relied on computer-processed data to perform our analysis. Our use of computer-processed data included spreadsheets provided by the Programs and Resources Department justifying requirements for the FY 2007 bridge and full supplemental requests; the GWOT Attrition Summary Report provided by the Installation and Logistics Department; selected information from the Total Force Structure Management System provided by the Combat Development Command; and the spreadsheet for the Command's FY 2007 full supplemental request, which it submitted to Programs and Resources. We performed limited tests on the reliability of the data and found that, with the exception of some unit prices used in supplemental fund requests and shown in the Total Force Structure Management System, the data were reliable.

For the recovery portion of the audit, we relied on the Product Quality Deficiency Report for analyzing the types of equipment defects being reported by the warfighter. The report was generated from the information contained in the Product Quality Deficiency Database. We did not test for reliability of the data contained in that database.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Naval Audit Service have issued seven reports discussing the Marine Corps' reset and recovery programs. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Naval Audit Service reports are listed at <http://secnavportal.donhq.navy.mil/portal/server.pt?space=CommunityPage&control=SetCommunity&CommunityID=303>.

GAO

GAO Report No. GAO-07-814, "Army and Marine Corps Cannot Be Assured That Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements," September 19, 2007

GAO Report No. GAO-07-76, "Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007," November 13, 2006

GAO Report No. GAO-06-604T, "Preliminary Observations on Equipment Reset Challenges and Issues for the Army and Marine Corps," March 30, 2006

GAO Report No. GAO-05-767, "DoD Should Consider All Funds Requested From the War When Determining Needs and Covering Expenses," September 28, 2005

GAO Report No. GAO-05-427, "Better Management and Oversight of Prepositioning Programs Needed to Reduce Risk and Improve Programs," September 6, 2005

GAO Report No. GAO-05-293, "Process to Estimate and Track Equipment Reconstitution Costs Can Be Improved," May 5, 2005

Navy

Naval Audit Service Report No. N2006-0019, "United States Marine Corps Demand on Equipment," March 23, 2006

Appendix B. Nine Items of Equipment Selected for Review

Radio Test Sets



This test set (A7082) is used at fixed facilities, such as repair depots and intermediate maintenance facilities.

Source: DME Corp.



This handheld model (A7080) is replacing the older test set and is used by Marine Corps units in the field.

Source: Aeroflex

Water Purification Systems



This Army-managed item (B2604) is being phased out and replaced by the Tactical Water Purification System.

Source: Marine Corps Logistics Command

Reverse Osmosis Water Purification Unit



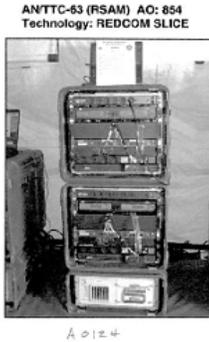
This Army-managed system (B2605) is replacing the old system. It is a self-contained and mobile system capable of producing 1,500 gallons of potable water per hour from fresh, brackish, salt, and nuclear, biological, and chemical contaminated fresh water.

Source: SFA Inc

Tactical Water Purification System

Telephone Switching Units

A0124



A0125



A0132



Source: Marine Corps Systems Command

The original telephone switching unit selected for review (A2508 – picture could not be located) is being replaced by three items of equipment.

- A0124: The Remote Subscriber Access Module extends telephone and dial-up services to remote subscribers.
- A0125: The Deployable End Office Suite provides basic circuit switching capability, subscriber access, and a call service attendant function.
- A0132: The Deployable Integrated Transport Suite is used in conjunction with the Deployable End Office Suite to provide bandwidth management, multiplexing, and technical control functions.

Light Armored Vehicle-25mm



The LAV-25mm (E0947) is an all-terrain, all-weather vehicle with night capabilities.
Source: Marine Corps Systems Command

Appendix C. Funding and Support for Equipment Requirements

For the nine items reviewed, the Marine Corps received the supplemental funds it requested from Congress for FY 2007. In addition, the Marine Corps computations for the items of equipment we judgmentally selected for review were supported in the Total Force Structure Management System database, which is the repository for all Marine Corps peacetime and wartime equipment requirements.

All FY 2007 Supplemental Funds Requested for the Items We Reviewed Were Received

For the nine items of equipment reviewed, the Marine Corps received the supplemental funds it requested for FY 2007. We reviewed the budget line items in the supplemental request for the nine items. The table shows the budget line item, item description, amount requested and received, and equipment control numbers for items reviewed.

Supplemental Funds Requested and Received by Budget Line Item

| Budget Line Item* | Item of Equipment Description | Amount Requested/Received (thousands) | Equipment Control Numbers for Items Reviewed** |
|--------------------------|---|--|---|
| 203800 | LAV Product Improvement Program | \$73,300 | E0947 |
| 418100 | Repair and Test Equipment | 101,823 | A7080 A7082 |
| 463400 | Communication Switching and Control Systems | 225,944 | A0124 A0125 A0132 A2508 |
| 627400 | Bulk Liquid Equipment | 20,202 | B2604 B2605 |
| Total | | \$421,269 | |

*The budget line item represents a family of equipment. For example, item 627400 represents bulk liquid equipment, which includes the tactical water purification system and water supply support equipment associated with storage and distribution of potable water, such as tanks, pumps, showers, water heaters, and water test sets.

**Appendix B provides a description of the items whose control numbers are listed in the table.

As illustrated in the table, the Marine Corps received 100 percent of the \$421.3 million requested for the line items that included the items of equipment we selected for audit. The Combat Development Command provides the Programs and Resources Department with supplemental fund requests by individual item of equipment and budget line item. The Programs and Resources Department consolidates supplemental request totals by budget line item and submits them to DoD, who in turn submits them to Congress for approval. Congress approves procurement totals by budget line item and provides them on funding documents through DoD to the Marine Corps Systems Command.

The table shows that the total amount of funds requested and received for the four budget line items were equal. Our analysis and conclusion that the Marine Corps received the supplemental funds it requested in FY 2007 for the nine items of equipment were based on the fact that the amount of funds requested and received for the applicable budget line items were identical.

Equipment Requirement Computations Were Supported in the Total Force Structure Management Database

The Marine Corps computations for the items of equipment we judgmentally selected for review were supported in the Total Force Structure Management System database.

The process begins when the Marine Corps identifies a need for new equipment or a requirement to modify existing equipment. One of the first steps in the overall management of a new or modified item of equipment is when the Combat Development Command assigns a control number to the item for management and planning purposes. For example, the LAV-25 is identified as control number E0947. Each item of equipment is recorded in the Total Force Structure Management System database.

The database shows the quantity for each item authorized by the Commanding General, Combat Development Command to equip and sustain the force. It includes:

- a listing of all authorized equipment for each Marine Corps unit depending upon its mission,
- the depot maintenance float allowance,
- the war reserve requirements, and
- the equipment authorized to be pre-positioned on maritime ships and in Norway for contingency operations.

Appendix D includes a flowchart depicting the equipment requirements and funding determination process the Marine Corps uses for the acquisition of new equipment.

Database Validation

The database as of June 2007 showed that it contained approximately 2,099 principal end items of equipment. Of those items, 1,685, or 80 percent, had an approved quantity. Marine Corps officials told us that they were in the process of reviewing, assigning, and updating the tables of organization and equipment and the database for the remaining 414 principal end items of equipment. These tables show the authorized quantities of equipment that the Marine Corps Combat Development Command develops for each Marine Corps unit depending upon its mission. The officials anticipated completing the review by early 2009.

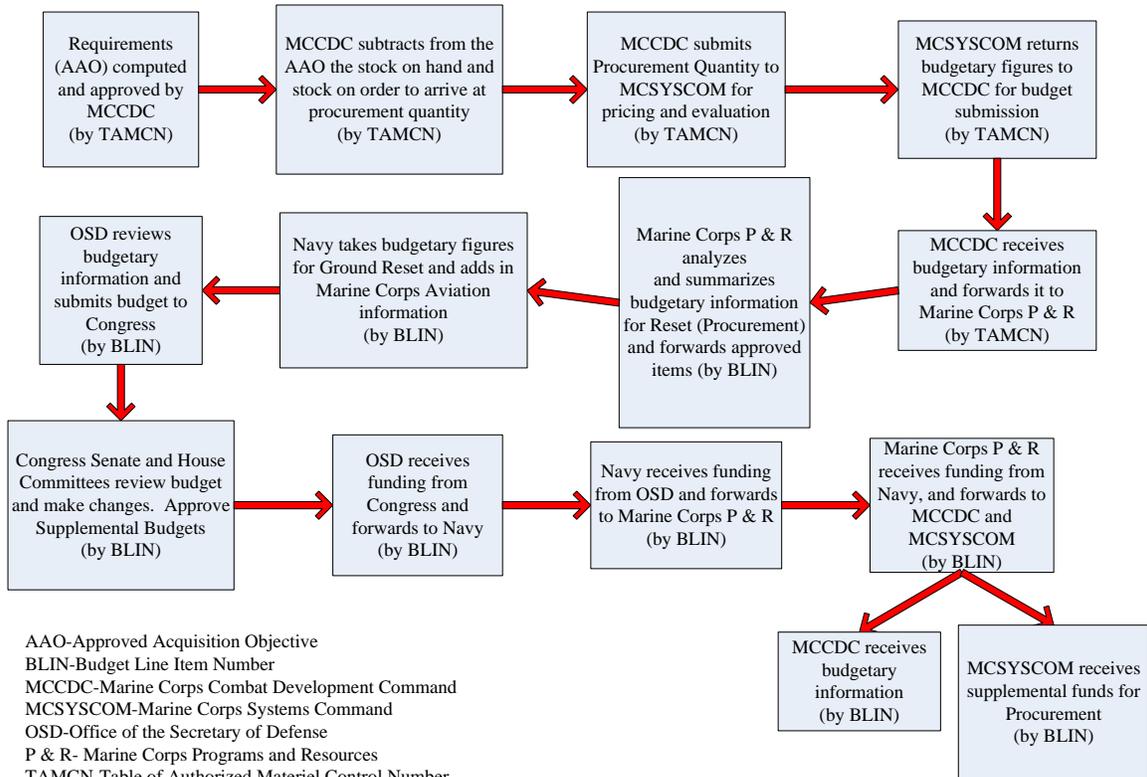
We judgmentally selected nine items of equipment to examine the approved quantity along with the supporting documentation.¹ Appendix B illustrates eight of the items; we were unable to locate a picture of the old switching system. During December 2007 and January 2008, we obtained the total approved quantity recorded in the database for the nine items and verified that the approved quantity was supported by individual tables of organization and equipment. Specifically, we compared approved quantities to a judgmental sample of 160 of 1,214 tables that included the items. Our comparisons found no discrepancies.

For example, the Approved Acquisition Objective Planned Procurement Report showed an authorized quantity of 548 for the LAV-25s. The 548 represented quantities that were authorized on 36 tables of organization and equipment. We judgmentally selected 20 tables representing an authorized quantity of 352 and verified that the quantity agreed with the recorded amount shown on the Planned Procurement Report.

¹ We judgmentally selected the nine items of equipment to audit: one old and three new telephone switching units, two radio test sets, two water purification systems, and the light armored vehicle-25 mm.

Appendix D. Equipment Requirements and Funding Determination Process

This flowchart depicts the Marine Corps' process for determining equipment and supplemental funds requirements.



Appendix E. Requirements Based on Estimated Combat Losses

| Equipment Control Number* | Combat Losses in Supplemental Requirements | Combat Losses in GWOT Attrition Summary Report | Quantity Difference | Cost Difference |
|---------------------------|--|--|---------------------|-----------------|
| A0285 | 619 | 0 | 619 | \$8,047,000 |
| A1275 | 5 | 0 | 5 | 37,950 |
| A1957 | 11 | 2 | 9 | 342,000 |
| A2069 | 7 | 2 | 5 | 90,000 |
| A2070 | 39 | 27 | 12 | 53,076 |
| A2079 | 33 | 11 | 22 | 616,000 |
| A2542 | 1 | 0 | 1 | 68,350 |
| A2545 | 1 | 0 | 1 | 68,350 |
| A2560 | 2 | 0 | 2 | 94,000 |
| A2635 | 37 | 2 | 35 | 35,000 |
| A3252 | 17 | 12 | 5 | 670,000 |
| A7021 | 4 | 2 | 2 | 2,547 |
| A7046 | 4 | 0 | 4 | 120,320 |
| A7055 | 5 | 0 | 5 | 14,335 |
| A7059 | 6 | 1 | 5 | 11,900 |
| A7060 | 19 | 0 | 19 | 150,157 |
| A7072 | 21 | 6 | 15 | 180,585 |
| A7081 | 6 | 4 | 2 | 52,000 |
| A7082 | 22 | 2 | 20 | 520,000 |
| A7596 | 8 | 0 | 8 | 4,456,000 |
| A7700 | 28 | 0 | 28 | 461,440 |
| A7705 | 12 | 3 | 9 | 39,600 |
| A7706 | 22 | 3 | 19 | 93,100 |
| A7900 | 16 | 1 | 15 | 24,750 |
| A8008 | 2 | 0 | 2 | 2,150 |
| A8023 | 9 | 5 | 4 | 16,000 |
| A8025 | 10 | 5 | 5 | 20,000 |
| A8082 | 2 | 0 | 2 | 10,144 |
| A8084 | 2 | 0 | 2 | 20,800 |
| B0471 | 2 | 0 | 2 | 42,490 |
| B0475 | 12 | 6 | 6 | 137,280 |
| B1016 | 5 | 0 | 5 | 152,665 |
| B1291 | 12 | 0 | 12 | 168,000 |
| B1300 | 1 | 0 | 1 | 7,000 |
| B1645 | 8 | 7 | 1 | 9,750 |
| B2464 | 1 | 0 | 1 | 70,975 |

| Equipment Control Number* | Combat Losses in Supplemental Requirements | Combat Losses in GWOT Attrition Summary Report | Quantity Difference | Cost Difference |
|----------------------------------|---|---|----------------------------|------------------------|
| C7073 | 4 | 1 | 3 | 225,000 |
| C7074 | 2 | 0 | 2 | 444,296 |
| C7920 | 2 | 0 | 2 | 54,000 |
| C7930 | 2 | 0 | 2 | 610,000 |
| D0022 (D1158) | 117 | 0 | 117 | 22,230,000 |
| D0030 (D1159) | 18 | 0 | 18 | 3,420,000 |
| D1002 | 10 | 1 | 9 | 1,440,000 |
| E0139 | 2 | 1 | 1 | 12,017 |
| E0207 | 14 | 3 | 11 | 550,000 |
| E0325 | 4 | 0 | 4 | 247,164 |
| E0960 | 171 | 94 | 77 | 273,024 |
| E0994 | 26 | 25 | 1 | 18,590 |
| E0998 | 18 | 17 | 1 | 9,000 |
| E1048 | 40 | 24 | 16 | 384,000 |
| E1123 | 1 | 0 | 1 | 2,200 |
| E1158 | 173 | 8 | 165 | 932,250 |
| E1159 | 43 | 26 | 17 | 59,500 |
| E1378 | 1 | 0 | 1 | 2,748,846 |
| E1460 | 23 | 9 | 14 | 85,400 |
| E1475 | 9 | 6 | 3 | 19,215 |
| E1761 | 4 | 3 | 1 | 1,200 |
| E1762 | 25 | 18 | 7 | 3,500 |
| E1779 | 165 | 30 | 135 | 202,500 |
| E1900 | 21 | 14 | 7 | 3,094 |
| E1911 | 4 | 0 | 4 | 160,000 |
| E1947 | 1 | 0 | 1 | 78,324 |
| E1976 | 42 | 11 | 31 | 598,486 |
| E2070 | 4 | 1 | 3 | 20,817 |
| E2208 | 3 | 0 | 3 | 5,850 |
| E7900 | 4 | 0 | 4 | 12,400 |
| Total | | | | \$51,756,388 |

* Items of equipment are referred to as equipment control numbers for the purpose of this appendix.

Appendix F. Requirements Based on Inaccurate Unit Prices

| Equipment Control Number* | Quantity | Unit Price Used In Supplemental Request | Supplemental Funds Requested | Contract Unit Price | Supplemental Fund Requirements Using Contract Price | Difference |
|---------------------------------|--------------|---|------------------------------|---------------------|---|-----------------------|
| A20447G | 6,301 | \$7,400 | \$46,627,400 | \$5,919 | \$37,295,619 | |
| | 597 | 7,500 | 4,477,500 | 5,919 | 3,533,643 | |
| | 597 | 4,700 | 2,805,900 | 5,919 | 3,533,643 | |
| Subtotal | 7,495 | | \$53,910,800 | | \$44,362,905 | \$9,547,895 |
| A20687G | 4,980 | \$32,000 | \$159,360,000 | \$14,500 | \$72,210,000 | |
| | 99 | 20,250 | 2,004,750 | 14,500 | 1,435,500 | |
| Subtotal | 5,079 | | \$161,364,750 | | \$73,645,500 | \$87,719,250 |
| A91002B | 6,739 | \$1,900 | \$12,804,100 | \$1,158 | \$7,803,762 | |
| | 509 | 1,944 | 989,496 | 1,158 | 589,422 | |
| | 216 | 5,000 | 1,080,000 | 1,158 | 250,128 | |
| Subtotal | 7,464 | | \$14,873,596 | | \$8,643,312 | \$6,230,284 |
| B02827B | 689 | \$14,000 | \$9,646,000 | \$486 | \$334,854 | |
| | 60 | 2,500 | 150,000 | 486 | 29,160 | |
| Subtotal | 749 | | \$9,796,000 | | \$364,014 | \$9,431,986 |
| D11587K | 220 | \$162,000 | \$35,640,000 | \$67,077 | \$14,756,940 | |
| | 15 | 82,000 | 1,230,000 | 67,077 | 1,006,155 | |
| Subtotal | 235 | | \$36,870,000 | | \$15,763,095 | \$21,106,905 |
| E00127G | 234 | \$ 24,150 | \$ 5,651,100 | \$11,828 | \$2,767,752 | |
| | 87 | 120,000 | 10,440,000 | 11,828 | 1,029,036 | |
| Subtotal | 321 | | \$16,091,100 | | \$3,796,788 | \$12,294,312 |
| Counter Sniper Vehicle System** | 30 | \$300,000 | \$9,000,000 | \$949,337 | \$28,480,110 | |
| Totals | 9 | 1,000,000 | 9,000,000 | 949,337 | 8,544,033 | |
| Subtotal | 39 | | \$18,000,000 | | \$37,024,143 | \$(19,024,143) |
| Total | | | \$310,906,246 | | \$183,599,757 | \$127,306,489 |

* Items of equipment are referred to as equipment control numbers for the purpose of this appendix.

** The Counter Sniper Vehicle System did not have a control number assigned.

Appendix G. Requirements in Excess of Approved Quantities

| Equipment Control Number* | Approved Quantity** | Quantity On Hand and On Order | FY 2007 Supplemental Requirements | Number Exceeding Approved Quantity | Amount Exceeding Approved Quantity |
|---------------------------|---------------------|-------------------------------|-----------------------------------|------------------------------------|------------------------------------|
| A0077 | 12 | 0 | 30 | 18 | \$ 117,000 |
| A0104 | 10 | 0 | 12 | 2 | 1,600 |
| A0118 | 45338 | 22001 | 27611 | 4274 | 10,685,000 |
| A0425 | 1836 | 0 | 1919 | 83 | 1,254,744 |
| A0501 | 33 | 0 | 41 | 8 | 664,000 |
| A0884 | 2 | 0 | 3 | 1 | 490,000 |
| A2043 | 18411 | 5007 | 13635 | 231 | 1,740,199 |
| A3264 | 65 | 0 | 188 | 123 | 1,912,896 |
| B0591 | 19 | 0 | 34 | 15 | 1,650,000 |
| B1300 | 30 | 0 | 31 | 1 | 7,000 |
| C4180 | 16 | 0 | 40 | 24 | 39,984 |
| E0030 | 24248 | 0 | 34364 | 10116 | 3,601,360 |
| E0207 | 412 | 0 | 436 | 24 | 1,200,000 |
| E0515 | 35 | 0 | 55 | 20 | 71,400 |
| E0870 | 21 | 0 | 63 | 42 | 204,918 |
| E1480 | 1 | 0 | 2 | 1 | 7,933 |
| E2250 | 100 | 0 | 109 | 9 | 140,612 |
| N6180 | 12 | 0 | 26 | 14 | 280 |
| Total | | | | | \$23,788,925 |

* Items of equipment are referred to as equipment control numbers for the purpose of this appendix.

**Approved quantities as of August 2006 from the Marine Requirements Oversight Council and the approved quantities recorded in the database as of June 2007.

Appendix H. Requirements Not Traceable to Supporting Documents

| Budget Line Item | Amount Request by Development Command | Description | Request Sent to Congress | Difference | Cumulative Difference |
|------------------|---------------------------------------|---|--------------------------|--------------|-----------------------|
| 202100 | \$6,948,000 | AAV7A1 PIP | \$39,448,000 | \$32,500,000 | |
| 504500 | 492,991,000 | 5/4T Truck HMMWV (MYP) | 521,321,000 | 28,330,000 | |
| 464000 | 15,279,000 | Air Operations C2 Systems | 35,279,000 | 20,000,000 | |
| 418100 | 88,674,000 | Repair and Test Equipment | 96,609,000 | 7,935,000 | |
| 463300 | 872,391,000 | Radio Systems | 879,969,000 | 7,578,000 | |
| 508800 | 7,925,000 | Medium Tactical Vehicle Replacement | 15,226,000 | 7,301,000 | |
| 463400 | 211,838,000 | Comm Switching & Control Systems | 218,671,000 | 6,833,000 | |
| 646200 | 62,749,000 | Material Handling Equipment | 68,818,000 | 6,069,000 | |
| 465200 | 38,982,000 | Modification Kits | 43,185,000 | 4,203,000 | |
| 493000 | 199,679,000 | Night Vision Equipment | 203,651,000 | 3,972,000 | |
| 206100 | 75,517,000 | Modification Kits | 78,266,000 | 2,749,000 | |
| 222000 | 120,581,000 | Weapons & Combat Vehicles Under \$5 Million | 122,493,000 | 1,912,000 | |
| 654400 | 97,051,000 | Family of Construction Equipment | 98,914,000 | 1,863,000 | |
| 509700 | 91,326,000 | Family of Tactical Trailers | 92,807,000 | 1,481,000 | |
| 627400 | 18,832,000 | Bulk Liquid Equipment | 20,174,000 | 1,342,000 | |
| 636600 | 11,254,000 | Power Equipment Assorted | 12,569,000 | 1,315,000 | |
| 473300 | 42,305,000 | Fire Support System | 43,265,000 | 960,000 | |
| 301100 | 45,800,000 | Javelin | 46,500,000 | 700,000 | |
| 627700 | 37,158,000 | Tactical Fuel Systems | 37,455,000 | 297,000 | |
| 312300 | 159,246,000 | Modification Kits | 159,434,000 | 188,000 | |
| 667000 | 26,723,000 | Items Less Than \$5 Million | 26,891,000 | 168,000 | |
| 605400 | 23,431,000 | Env Cntrl Equipment Assorted | 23,598,000 | 167,000 | |
| 233400 | 51,490,000 | Modular Weapon System | 51,590,000 | 100,000 | |
| 654500 | 10,800,000 | Family of Internally Transport Vehicles (ITV) | 10,845,000 | 45,000 | |
| 665400 | 0 | Modification Kits (Engineer) | 7,000 | 7,000 | \$138,000,000 |
| 209500 | 1,154,000 | M1A1 Firepower Enhancements | 1,154,000 | 0 | |
| 220800 | 2,703,000 | Weapons Enhancement Program | 2,703,000 | 0 | |
| 221200 | 163,350,000 | HIMARS | 163,350,000 | 0 | |

| Budget Line Item | Amount Request by Development Command | Description | Request Sent to Congress | Difference | Cumulative Difference |
|------------------|---------------------------------------|---|--------------------------|----------------|-----------------------|
| 300600 | 2,924,000 | Expeditionary Air Defense System | 2,924,000 | 0 | |
| 419000 | 267,200,000 | UOC | 267,200,000 | 0 | |
| 463500 | 53,580,000 | Communication & Electric Infrastructure | 53,580,000 | 0 | |
| 465000 | 21,093,000 | Radar Systems | 21,093,000 | 0 | |
| 505000 | 163,600,000 | Motor Transport Modifications | 163,600,000 | 0 | |
| 509300 | 48,000 | Logistics Vehicle System Rep | 48,000 | 0 | |
| 523000 | 775,000 | Items Less Than \$5 Million | 775,000 | 0 | |
| 651800 | 28,257,000 | Amphibious Support Equipment | 28,257,000 | 0 | |
| 652200 | 6,902,000 | Field Medical Equipment | 6,902,000 | 0 | |
| 654300 | 7,741,000 | Container Family | 7,741,000 | 0 | |
| 654800 | 22,717,000 | Bridge Boats | 22,717,000 | 0 | |
| 661300 | 2,598,000 | Family of Field Feeding Systems | 2,598,000 | 0 | |
| 462000 | 16,183,000 | Items Under \$5 Million (Comm & Elec) | 14,183,000 | -2,000,000 | |
| 474700 | 89,212,000 | Intelligence Support Equipment | 81,720,000 | -7,492,000 | |
| 463100 | 112,126,000 | Command Post Systems | 102,357,000 | -9,769,000 | |
| 203800 | 93,300,000 | LAV PIP | 73,300,000 | -20,000,000 | |
| 463000 | 63,634,000 | Common Computer Resources | 40,162,000 | -23,472,000 | |
| 652000 | 675,647,000 | EOD Systems | 652,067,000 | -23,580,000 | |
| 653200 | 217,353,000 | Training Devices | 165,653,000 | -51,700,000 | -\$138,000,000 |
| Total | \$4,821,067,000 | | \$4,821,069,000 | \$2,000 | |

Marine Corps Comments



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON, DC 20350-3000

IN REPLY REFER TO:
7LD-0129
RFR-80
9 Mar 09

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE DEPUTY
INSPECTOR GENERAL FOR AUDITING, READINESS
OPERATIONS, AND SUPPORT

Subj: Department of Defense Inspector General Draft Report
D-2007-D000LD-0129.000, "MARINE CORPS' MANAGEMENT OF THE
RECOVERY AND RESET PROGRAMS," dated January 30, 2009

Ref: (a) DODIG memo of January 30, 2009

Encl: (1) Marine Corps official comments

1. In accordance with reference (a), the Marine Corps has reviewed the subject draft report and provides comments at the enclosure.

2. For questions regarding this response, you may contact Mr. Charles K. Dove, Headquarters U. S. Marine Corps Senior Audit Liaison Officer, at (703) 614-4500, DSN 224-2595 or email charles.dove@usmc.mil.

A handwritten signature in black ink, appearing to read "C. K. Dove".

C. K. DOVE

By direction of the
Commandant of the Marine Corps

Department of Defense Inspector General Draft Report
D2007-D000LD-0129.000, "MARINE CORPS' MANAGEMENT OF THE RECOVERY
AND RESET PROGRAMS," dated January 30, 2009

1. The Marine Corps has reviewed the draft report and the following comments are provided:

Recommendation 1. DODIG recommends that the Director of the Program Objectives Memorandum Branch, Marine Corps Combat Development Command validate investment requirements to ensure that the requests for future supplemental funds exclude Low-priority requirements and anticipated combat losses, use accurate and supported unit prices, do not exceed approved acquisition objectives, and are prioritized and documented.

Marine Corps Response: Marine Corps Combat Development Command (MCCDC) Program Objective Memorandum (POM) Branch concurs that accurate and supported unit prices should be used. MCCDC POM Branch now has Marine Corps System Command (MCSC) verify unit pricing.

MCCDC POM Branch concurs that it should not exceed the Approved Acquisition Objective (AAO). The AAO is recorded and maintained officially within Total Force Structure Management System (TFSMS). At the time of the Fiscal Year 2007 (FY07) Supplemental Request, TFSMS had not yet been validated. The TFSMS validation process started after the FY07 Supplemental Request was completed.

MCCDC POM Branch concurs that only actual combat losses should be included and the category should not include anticipated combat losses. This was corrected during the FY08 Supplemental Request by using a category of Combat Attrition which covered equipment that was wearing out faster than the original Life Cycle Cost Estimates due to the extra armor, weight, and wear and tear of being in theater. In current supplemental submissions, combat losses reflect actual losses reported by HQMC, I&L, only.

MCCDC POM Branch concurs with prioritization and sending forward only items meeting the standards and guidelines established by the USD(C).

Recommendation 2. DODIG recommends that the Deputy Commandant, Programs and Resources document any changes made to the original funding requests submitted by the Marine Corps Combat Development Command and ensure that priorities are assigned.

Marine Corps Response: The Marine Corps concurs, with comment. All changes to original submissions by MCCDC will be documented; this corrective action is currently in place. With respect to

Encl (1)

Department of Defense Inspector General Draft Report
D2007-D000LD-0129.000, "MARINE CORPS' MANAGEMENT OF THE RECOVERY
AND RESET PROGRAMS," dated January 30, 2009

prioritizing requirements, the Marine Corps will comply with Departmental guidance.

2. The following Marine Corps technical comments are provided for consideration:

Low Priority Items: Concerning the DODIG position that submission of low priority items creates an internal control weakness, the Marine Corps interprets the internal control environment involving low priority items from a different perspective than DODIG. The USD(C) included a definition of low priority items in the requisite guidance, and asked that requirements that met that definition be designated as such. Designation as low priority does not make a requirement non-emergency. Congress has realized the impact of the Long War on the service inventories, and has been appropriating procurement funding as part of the supplemental process. None of this will produce assets that will be realized immediately in theater, as there are contracting and production lead times before assets are delivered. Rather, the bulk of the procurements replenish assets that are currently being used in theater.

Prioritizing All Items: The Marine Corps strives to comply with Departmental guidance; when prioritized lists are called for by the OSD Comptroller, the Marine Corps will comply and submit prioritized lists.

Unit Pricing: In response to the draft report referencing inaccurate unit pricing, in 2008 the Marine Corps developed a Reset Cost Model (RCM) to estimate future reset costs in support of ground equipment reset efforts. The estimates are used to support USMC reset budgeting and logistics planning efforts.

The latest acquisition cost is used in the RCM to estimate procurement costs. The latest acquisition cost for every TAMCN item in the CENTCOM AOR is collected and updated as applicable each quarter from MCSC and placed into the RCM. Changes in acquisition costs are captured, and reset cost estimates are changed accordingly each quarter. In the event the latest acquisition cost is not available, the RCM uses Federal Logistics Information System (FLIS) unit costs.



Inspector General Department of Defense

