



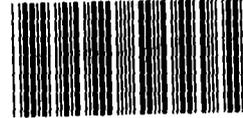
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-210814

DECEMBER 9, 1983



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The Honorable John O. Marsh, Jr.
The Secretary of the Army

Dear Mr. Secretary:

Subject: The Army's Retention of Overage Vehicles
(GAO/NSIAD-84-32)

We found during a recent survey that continuing cutbacks in procurement of nontactical vehicles are causing Army commands to adopt other, less economical means of keeping their nontactical fleets operating. The shortage of replacement vehicles is forcing commands to extensively repair vehicles that have exceeded their life expectancies and cannot be economically repaired. Major commands are also authorizing their installations to compensate for these shortages by leasing vehicles without determining that leasing is an economical alternative to procurement. In some cases, commands have also been forced to use tactical vehicles in nontactical roles, reportedly with adverse effects on both operating costs and combat readiness.

We conducted our survey at the U.S. Army Forces Command and the U.S. Army Training and Doctrine Command, which jointly have about one-third of the service's nontactical vehicles. Between November 1982 and February 1983, we worked at Fort McPherson, Georgia; Fort Monroe, Virginia; Fort Belvoir, Virginia; Fort Bragg, North Carolina; and Headquarters, Department of the Army, Washington, D.C.

Our objective was to assess the practice of retaining and extensively repairing overage vehicles rather than buying new ones. We made our assessment primarily by comparing the practice with Army policies and by comparing repair costs with replacement costs and present value of vehicles being extensively repaired. Also we identified alternative measures that commands are using to keep their nontactical fleets operating.

We performed our work in accordance with generally accepted government audit standards, except that we did not obtain official agency comments.

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SHORTAGES OF REPLACEMENT VEHICLES

Reduced procurement in recent years has led to shortages of replacement vehicles. Replacement requirements are determined in 5-year cycles and updated annually. The first-year requirements are the number authorized, less the number on hand and due in plus the number to be disposed of. These requirements submitted by major commands are then adjusted by Army headquarters to reflect the amount of funds budgeted for vehicles based on priority of allocation. As shown in the following table, the Army consistently bought fewer than half of the nontactical vehicles it had determined were needed requirements during fiscal years 1977-81.

<u>Fiscal year</u>	<u>Nontactical vehicles</u>		<u>Percentage of requirements purchased</u>
	<u>Required</u>	<u>Purchased</u>	
1977	16,434	7,805	47.5
1978	15,133	6,415	42.4
1979	16,972	1,956	11.5
1980	11,232	791	7.0
1981	15,041	2,484	16.5

In fiscal year 1982, the Army funded the full \$119 million requested for procuring nontactical vehicles. The increased funding that year was to have been the cornerstone of a program to modernize the fleet and ensure that by the end of fiscal year 1988, no more than 20 percent of the fleet would need to be replaced. However, the following year, the request for \$173 million was reduced by Army headquarters to \$76 million. Additional cuts reflected in the Program Objective Memorandum for fiscal years 1984-88 indicate that 25 to 35 percent of the fleet will still need to be replaced after procurement in each of these years. In the meantime, individual commands and installations are adopting other means of keeping their nontactical fleets operating, including retaining and repairing vehicles that are overdue for replacement.

UNECONOMICAL RETENTION AND REPAIR OF VEHICLES

The Army's policy is to retain nontactical vehicles only until they reach the end of their life expectancies and only as long as they can be economically repaired. Vehicles currently being overhauled by the Forces Command and the Training and Doctrine Command meet neither of these criteria.

Army regulations define the life expectancy, or replacement criteria, for each class of vehicles as a combination of age and mileage (e.g., 6 years and 72,000 miles for sedans). Prompt replacement of vehicles when they reach these milestones is cost effective because of lower maintenance costs, lower fuel

consumption, and higher return from disposal sales. For example, the greater efficiency of newer sedans can represent an annual savings of \$350 or more per vehicle in fuel costs alone.

Similarly, as Army regulations note, replacing vehicles in lieu of making expensive repairs "promotes more dependable operations at the lowest cost per mile and reduces maintenance workloads and maintenance support expenditures." The regulations further stipulate that repairs are uneconomical and should not be made when their cost is 50 percent or more of the vehicle's current wholesale value. Vehicles that have exceeded their life expectancies are considered to have a wholesale value equal to 20 percent of their replacement cost. Thus, a one-time repair on an average sedan that could be replaced for \$5,000 would be uneconomical if the cost were \$500 or more. The other services use similar repair criteria.

Major commands are authorized to waive these criteria when replacements are not readily available or continued use of uneconomically repairable vehicles is essential to the commands' missions. Because of the continuing shortage of replacement vehicles, such waivers have recently been granted in large numbers at the commands visited.

For example, in August 1981, the Training and Doctrine Command notified its installations that because of procurement shortages and corresponding deterioration of the nontactical fleet, exceptions to the Army's normal economic repair limits had to be considered. The command therefore directed that the operating lives of selected vehicles be extended at least 1 year by repairing and upgrading the vehicles' major components. Summary statistics were not readily available for all classes of vehicles, but a survey by the command in December 1982 showed that in the 16 months after the program began, 194 sedans were overhauled at a cost ranging from \$250 to \$6,850. Some of these overhauls exceeded not only the Army's normal repair limits but the entire replacement cost of a 1982 compact sedan¹ (\$5,367). The average cost of \$1,877 was more than double the 1-year prorated procurement cost of 1982 compact sedans ($\$5,367 \div 6 \text{ yrs.} = \895). And, as shown below, the average age and mileage of the overhauled vehicles far exceeded the Army's normal replacement criteria of 6 years and 72,000 miles.

¹Most of the vehicles procured by the Army are compact sedans.

Sedans Overhauled by the Training
and Doctrine Command
August 1981 to December 1982

<u>Cost of repairs</u>	<u>Number of sedans</u>	<u>Average age (years)</u>	<u>Average mileage</u>	<u>Average wholesale value (note a)</u>
\$ 0 - 999	50	7.5	87,911	\$ 1,503
1,000 - 1,999	73	7.7	89,879	1,342
2,000 - 2,999	46	7.6	94,852	1,316
3,000 - 3,999	13	7.6	101,520	1,127
4,000 - 4,999	4	7.0	89,159	1,073
5,000 - 5,999	5	8.8	104,566	1,213
6,000 or more	<u>3</u>	<u>9.7</u>	<u>83,716</u>	<u>1,073</u>
	<u>194</u>	<u>7.5</u>	<u>91,597</u>	<u>1,362</u>

^aThe Army uses a minimum wholesale value of \$1,073, regardless of age or condition.

In 1981 and 1982, the Forces Command also spent an average of \$1,697 extensively repairing 110 nontactical vehicles, most of which exceeded the age and mileage criteria for replacement.

OTHER QUESTIONABLE PRACTICES

The Army's policy is to buy most of the vehicles needed for its nontactical fleet and to use leased vehicles only for special circumstances. In practice, however, reductions in vehicle purchases in recent years have led major commands to adopt their own leasing programs as stopgap measures. In September 1981, for example, the Forces Command began leasing vehicles to fill shortages in its nontactical fleet. At the time of our visit in January 1983, the command was leasing 263 vehicles, including 245 of the 3,630 sedans, station wagons, and carryalls in its fleet.

The Training and Doctrine Command's endorsement of leasing as a substitute for procurement has been more recent. During our initial visit in November 1982, the command was continuing to reject requests from its installations to fill shortages with

leased vehicles, electing instead to rely on extensive repairs to keep old, high-mileage vehicles operating. By the time of our follow-up visit in February 1983, however, the command had notified its installations that, due to escalating repair costs, leasing would be considered an alternative means of keeping their fleets operating until the procurement situation improved.

Our 1978 study² and a 1980 study³ by the General Services Administration found that long-term leasing is more expensive than buying. Yet, as a stopgap measure, the Army has begun leasing vehicles without determining the cost effectiveness of leasing versus buying new vehicles or leasing versus repairing older vehicles.

At both commands we visited, tactical vehicles have been used as substitutes for nontactical vehicles. We do not know how widespread this practice may be, but two of the four installations visited had recently used tactical vehicles for military police duties and other nontactical roles. One of these installations had been able to terminate the practice only by retrieving 53 vehicles from property disposal offices. We also reviewed Army documents which indicate that other installations are using tactical vehicles as substitutes. These documents further indicate that the practice is affecting readiness and, because of the higher operating costs of tactical vehicles, is reducing efficiency.

CONCLUSIONS AND RECOMMENDATIONS

The practice of extensively repairing old, uneconomically repairable vehicles is not a cost effective alternative to procurement. Also, the Army has not determined that leasing is an economical alternative to buying new vehicles or repairing older vehicles. These practices have apparently evolved only as a means of compensating for shortages of replacement vehicles. We therefore recommend that you reassess the adequacy of planned funding for replacement of commercial vehicles, taking into consideration the uneconomical practices that prior underfunding has necessitated.

We did not obtain official Department of Defense comments on this report. However, we did discuss our conclusions and recommendation with headquarters officials at the Department of the

²Opportunities to Reduce the Cost of Government Vehicle Operations (LCD-77-215, Feb. 28, 1978).

³Lease Versus Government Ownership of Interagency Motor Pool System Sedans (Aug. 1980).

Army, the Forces Command, and the Training and Doctrine Command, and they generally concurred with our position.

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As you know, 31 U.S.C. § 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the above Committees; the Chairmen, House and Senate Committees on Armed Services; the Director, Office of Management and Budget; and the Secretary of Defense.

Sincerely yours,



Frank C. Conahan
Director