

**GAO**

Report to the Chairman, Subcommittee  
on Readiness, Committee on Armed  
Services, House of Representatives

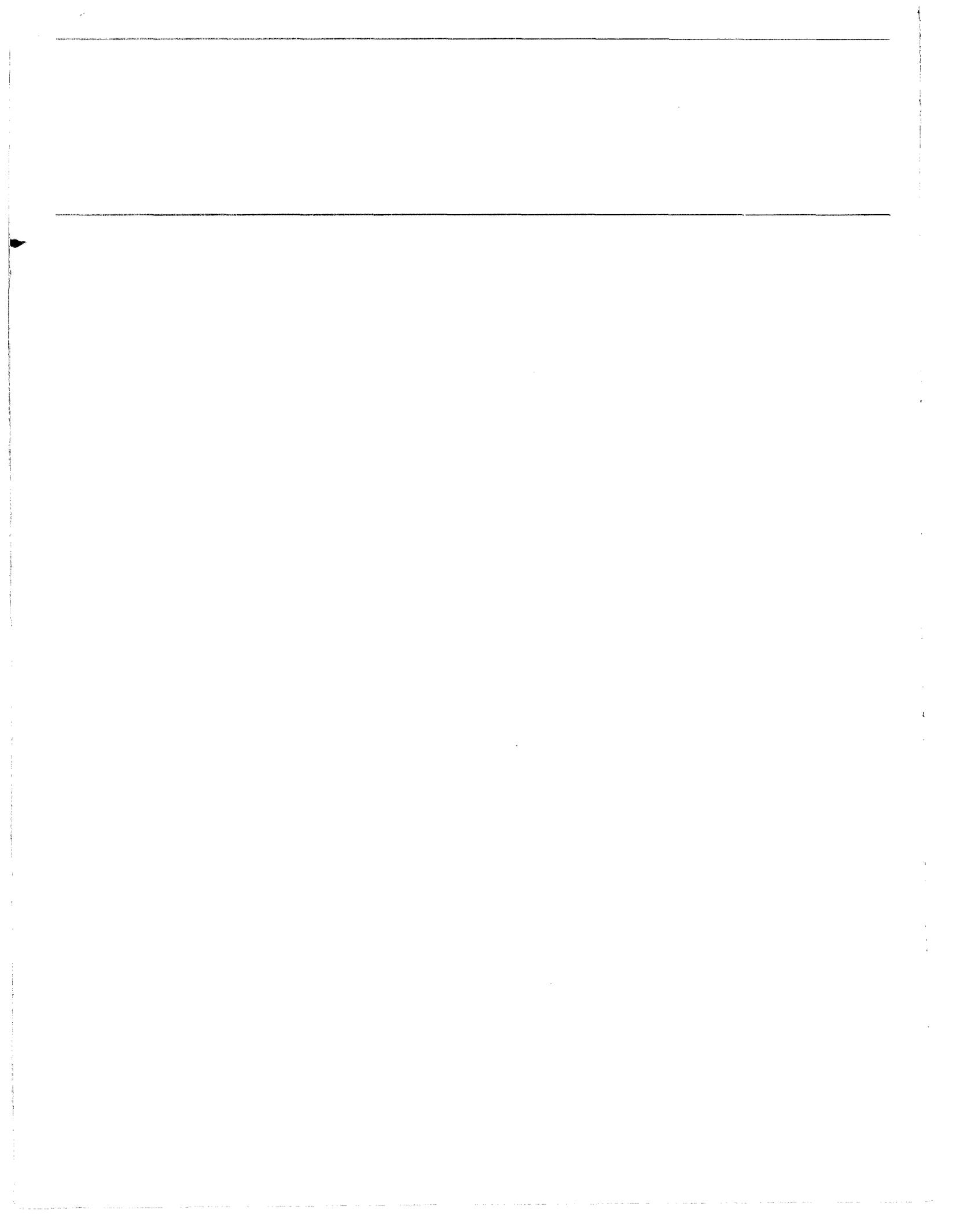
May 1991

# MOTOR VEHICLES

## Better Management of the Military Services' Vehicles Could Save Millions



144028





United States  
General Accounting Office  
Washington, D.C. 20548

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National Security and  
International Affairs Division

B-242623

May 24, 1991

The Honorable Earl Hutto  
Chairman, Subcommittee on  
Readiness  
Committee on Armed Services  
House of Representatives

Dear Mr. Chairman:

As requested, we have reviewed the military's management of its nontactical vehicles.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from its issue date. At that time, we will send copies to the Chairmen, Senate Committee on Armed Services, and House and Senate Committees on Appropriations; House Committee on Government Operations; Senate Committee on Governmental Affairs; the Secretaries of Defense and the Army, the Navy, and the Air Force; the Administrator, General Services Administration; and the Director, Office of Management and Budget. We will also make copies available to others on request.

If you have any questions concerning this report, please call me on (202) 275-8412. Other major contributors are listed in appendix I.

Sincerely yours,

Donna M. Heivilin  
Director, Logistics Issues

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# Executive Summary

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## Purpose

The Department of Defense (DOD) spent over \$330 million for fiscal year 1989 to operate and maintain general purpose vehicles, such as sedans, station wagons, buses, ambulances, and trucks, for the military services. In addition, the military services were appropriated about \$95 million for fiscal year 1989 to purchase new motor vehicles.

At the request of the Chairman, Subcommittee on Readiness, House Committee on Armed Services, GAO reviewed the military services' management of their motor vehicles to determine if they conducted cost analyses that considered other means for meeting their transportation needs. GAO also reviewed vehicle utilization and special purchase requirements for military vehicles.

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## Background

DOD uses commercially designed vehicles, bought from regular production lines, to carry passengers and material. The military services generally purchase their motor vehicles through the General Services Administration (GSA) and operate and maintain their own vehicles using their own personnel or contractors. In addition, about 28 percent of their motor vehicles are leased from GSA and about 2 percent are leased from private contractors.

Federal agencies are required by 40 U.S.C. 901 et seq., enacted on April 7, 1986, to improve the management of motor vehicles and to reduce agencies' vehicle costs. These actions include studying the costs, benefits, and feasibility of using various alternatives for meeting the agencies' motor vehicle requirements. The alternatives to be considered include using GSA or private contractor vehicles to meet transportation needs.

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## Results in Brief

The military services could better ensure more effective and efficient operation of their motor vehicles for the following reasons:

- Numerous studies show that military service conversion from service-owned motor vehicle fleets to GSA fleets will save millions of dollars. The military services, except for the Army, have only recently initiated studies that consider using vehicles provided by GSA or private contractors to reduce the cost of their motor vehicle fleets.
- Although servicewide statistics indicate vehicle mileage often meets, or even exceeds, DOD standards, the low annual mileage of many motor vehicles indicates the military services may have more vehicles than needed.

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- The military services' special purchase requirements (e.g., paint color, extra rust proofing) often result in DOD paying more for the same type of vehicle purchased by GSA for other federal agencies.

The Army and other agencies have increased their use of GSA vehicles as GSA's costs are lower. However, this demand has strained GSA's financial resources and its ability to provide low cost vehicles. As a result, GSA maintains that without additional funds it will not be able to provide the vehicles needed by the military services and other agencies at the lowest possible cost. Also, GSA officials said due to Office of Management and Budget (OMB) prohibitions on the transfer of personnel positions to support fleet management of added vehicles and financing concerns, GSA has suspended consolidation of the Army fleet and cannot consolidate other fleets.

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## Principal Findings

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### Motor Vehicle Costs Could Be Reduced

The military services, other than the Army, which is consolidating its fleet with GSA, have been slow to examine opportunities to reduce motor vehicle costs. Based on the Army's experience, significant cost savings can be realized by evaluating and implementing the most cost-effective alternative.

The Army finalized plans for converting its motor vehicles to GSA's fleet in 1986 and expects to finish the conversion of its U.S. fleet by fiscal year 1992. The Army estimates the annual reduction due to this conversion ranges from about \$25 million to \$52 million. The Air Force is considering converting about 40,000 of its vehicles to GSA management. The Navy and Marine Corps plan to study the most economical way for them to manage their motor vehicle fleets.

GSA's vehicle funding capacity had allowed for a fleet increase of about 10,000 to 12,000 vehicles a year. To handle the potential financial strain of converting more vehicles, GSA outlined five possible alternatives to OMB, including borrowing funds from the Federal Financing Bank and using contract authority capitalized leases, direct appropriations, multi-year contract authority capitalized leases, and operating leases. However, OMB has not approved any alternative funding method for GSA, which would require GSA to use operating leases—the most expensive alternative—to finance any expansions. In addition, OMB has imposed

additional limitations on GSA's ability to consolidate any additional motor vehicle fleets, such as the Air Force. On March 21, 1991, GSA informed the Army that its consolidations have been suspended because OMB (1) will no longer approve the transfer of personnel positions from the Army to GSA to manage the fleet and (2) rescinded GSA's authority to recognize multiyear lease costs over more than 1 year. GSA officials stated that as a result of OMB actions and a requirement for a comprehensive study of alternatives for meeting federal motor vehicle needs, all consolidations of DOD vehicles are suspended. OMB officials stated this study is necessary to determine if GSA's fleet best meets federal needs.

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### Vehicles Are Not Used and Bought Efficiently

Recent audit reviews by Army and Air Force audit agencies have reported that the military services had more vehicles than needed, and these vehicles were often not being used effectively. GAO's review of vehicles at selected installations substantiated that many vehicles did not meet DOD mileage goals for effective use.

The military services purchase most of their motor vehicles through GSA. However, because they include special requirements, their vehicles cost more than the same type of vehicles bought by GSA for other federal agencies. GAO believes these requirements may be unnecessary as they include special items, such as parts and technical manuals, extra rust proofing, and special paint color. Analysis of three types of vehicles purchased in fiscal year 1989 indicated these requirements increased the cost of about 5,700 vehicles by over \$4 million. Military service officials said they are considering eliminating these special requirements or, if they lease vehicles from GSA, these specifications will not be required.

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### Recommendations

GAO recommends that the Secretary of Defense

- direct the service secretaries to evaluate their vehicle use according to established DOD standards to ensure that vehicles are used effectively and excess vehicles are made available to activities needing additional vehicles, and
- direct the service secretaries to review vehicle requirements and eliminate, where possible, unnecessary specifications so as to enable their vehicles to be bought at lower cost.

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**Matter for  
Congressional  
Consideration**

Since the military services believe they can save millions of dollars by converting from more costly service vehicle fleet management to GSA's fleet, the Congress may wish to consider reviewing the use of one or more of the financial alternatives for handling any significant expansion of GSA's motor vehicle fleet.

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**Agency Comments**

In accordance with the Subcommittee's request, GAO did not obtain written agency comments on this report. However, GAO obtained informal comments from DOD and GSA officials and included their comments where appropriate.

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**Abbreviations**

DOD	Department of Defense
GAO	General Accounting Office
GSA	General Services Administration
OMB	Office of Management and Budget

# Introduction

The military services require an extensive fleet of commercially designed vehicles for administrative, mission, and operational support of military functions. Many of the vehicles are special purpose vehicles such as forklifts, cranes, fire trucks, and railroad rolling stock. The majority, however, are general purpose vehicles such as sedans, station wagons, buses, ambulances, and trucks. This report focuses on general purpose vehicles, called "motor vehicles" in this report.

The military services purchase most of their motor vehicles using procurement appropriations. They also use General Services Administration (GSA) and commercially leased vehicles. Table 1.1 shows the sources of motor vehicles among the military services.

**Table 1.1: Military Services' Domestic and Foreign Motor Vehicles as of September 30, 1990**

	Service owned	GSA leased	Commercially leased	Total
Air Force	57,547	5,515	110	63,172
Army	37,093	40,605	990	78,688
Navy	35,474	6,026	3,579	45,079
Marine Corps	7,770	2,844	93	10,707
<b>Total</b>	<b>137,884</b>	<b>54,990</b>	<b>4,772</b>	<b>197,646</b>
Percentage of total	70	28	2	100

## Motor Vehicles Owned by the Military Services

As shown in table 1.1, the military services own most (70 percent) of their motor vehicles. They procure these vehicles through GSA but operate and maintain the vehicles with their own personnel or through private contractors. For fiscal year 1989, the military services were appropriated about \$95 million to procure new vehicles.

The military services spent over \$330 million for fiscal year 1989 for operating and maintaining their motor vehicles at the installations. These costs do not include the cost of buying and disposing of the vehicles and overhead costs above the installation level associated with managing the fleet.

DOD regulations set criteria for the military services to replace their vehicles between 6 and 12 years or 60,000 and 300,000 miles, depending on the motor vehicle type. The military services dispose of their vehicles through the Defense Logistics Agency's Defense Reutilization and Marketing Service and receive no money for the vehicles.

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## GSA's Motor Vehicle Fleet

GSA's Interagency Fleet Management System was established in 1954 under the Federal Property and Administrative Services Act to provide economical interagency vehicle fleet services. The fleet operates under a revolving fund concept where customers pay a rental charge to cover GSA's fleet operations costs. Under this funding concept GSA need not receive direct appropriations.

The costs of procuring, operating, and maintaining vehicles are recovered through leasing revenues and vehicle resale proceeds. GSA buys its vehicles from major manufacturers to obtain quantity discounts, contracts with private firms to perform routine maintenance, and frequently relies on the manufacturers' warranties for major repairs. Operators of GSA vehicles are issued credit cards for purchasing fuel and oil and for obtaining minor or emergency services. The day-to-day care of the vehicle is the operator's responsibility. GSA monitors vehicle use and prescribes periodic maintenance. According to GSA officials, their goal is to sell passenger vehicles after about 3 years to optimize the combination of sales price and avoidance of later repair and maintenance costs. GSA uses the proceeds from these sales to help purchase replacement vehicles.

Service officials told us that due to motor vehicle funding shortages in recent years, they have increased their reliance on GSA vehicles. Funding for equipment needed to support missiles, ships, and aircraft has received priority and caused cutbacks in their procurement of motor vehicles.

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## Objectives, Scope, and Methodology

The Chairman, Subcommittee on Readiness, House Committee on Armed Services, asked us to examine the military services' management of their nontactical transportation. We focused on reviewing the potential for reducing the cost of motor vehicles used by the military services. We reviewed the completion of statutorily required cost analyses comparing the services' costs with those of GSA and private contractors, vehicle utilization, and special purchase requirements for military vehicles.

To determine if the military services were using the most cost-effective means of operating vehicles, we reviewed the military services' motor vehicle costs and their efforts to conduct cost comparison studies. These analyses included reviewing studies performed at several installations comparing service-owned vehicle costs with the cost of leasing GSA vehicles. We also reviewed a number of Army installation vehicle cost studies to determine if estimated savings agreed with actual costs when

GSA vehicles were used. Generally, information was not available to verify the service-owned vehicle costs used in the analyses. Information on the services' motor vehicle fleets was based on servicewide statistics and visits to various installations recommended by the services as representative examples of fleet operations. We obtained information on motor vehicle fleets for the following installations:

- Presidio of San Francisco (Army), San Francisco, California;
- McClellan Air Force Base, Sacramento, California;
- Naval Weapons Station, Concord, California;
- Naval Public Works Center, San Francisco Bay, Oakland, California;
- Naval Public Works Center, San Diego, California;
- Miramar Naval Air Station, Miramar, California;
- Camp Pendleton Marine Corps Base, Camp Pendleton, California; and
- Edwards Air Force Base, Edwards, California.

To assess vehicle utilization and procurement practices, we reviewed recent audit reports by the Air Force Audit Agency and the Army Audit Agency. We also discussed these issues with officials at OMB, DOD headquarters, several military commands, several military installations, GSA headquarters, and selected GSA local offices.

We conducted our work from September 1989 to March 1991 in accordance with generally accepted government auditing standards.

# Potential Exists to Reduce Motor Vehicle Costs

The Congress has passed several laws urging the effective and efficient operation of motor vehicles. Yet, DOD has been slow to examine opportunities for reducing motor vehicle costs. Based on the Army's experience in turning over management of its motor vehicle fleet to GSA, significant cost savings can be realized by more efficiently managing motor vehicles.

The Army began converting its motor vehicles in 1986 and plans to finish converting its continental U.S. fleet to GSA by fiscal year 1992. The Army estimates the annual reduction of motor vehicle costs due to this conversion ranges from about \$25 million to \$52 million. Based on House Committee on Armed Services action due to our preliminary results, the Air Force, Navy, and Marine Corps initiated actions to better manage their motor vehicles. Air Force officials said that they are considering converting about 40,000 vehicles to GSA management. The Navy and Marine Corps plan to do studies to determine the most economical way for them to manage their motor vehicle fleets.

## Legislation for Reducing Vehicle Costs

In September 1954, the Congress amended the Federal Property and Administrative Services Act of 1949 by adding 40 U.S.C. 491 to authorize the GSA Administrator to consolidate motor vehicle pools to the extent that doing so is advantageous to the government in terms of economy, efficiency, or service.

The Consolidated Omnibus Budget Reconciliation Act of 1985, enacted on April 7, 1986, added 40 U.S.C. 901 et seq. requiring federal agencies to reduce the cost and improve the efficiency of fleet operations by using the most cost-effective arrangement to acquire, operate, maintain, and dispose of motor vehicles. Agencies are to consider the following options:

- use their existing fleet management system,
- use a qualified private fleet management firm or other private contractor,
- increase reliance on GSA, or
- use any other means less costly to the government.

GSA, in consultation with GAO and OMB, issued Temporary Regulation, G-48<sup>1</sup> governing the establishment and operation of systems to identify,

<sup>1</sup>Originally issued on August 6, 1986, and currently extended through June 30, 1991.

collect, and analyze cost data. This regulation specifies that the agencies' studies shall compare the full costs, benefits, and feasibility of relying on the alternatives described above.

## Army Is Consolidating Its Motor Vehicles Under GSA

In 1986, the Army finalized plans for converting Army-owned vehicles to GSA vehicles by fiscal year 1992. The Army wanted to acquire new vehicles since approximately 40 percent of its fleet exceeded DOD's vehicle age and mileage criteria. At the same time it needed to compensate for the lack of procurement funds for vehicles. To determine the benefits and feasibility of relying on GSA vehicles, GSA prepared installation cost studies. It prepared these studies to provide a basis for a 40 U.S.C. 491 determination. Section 491 gives GSA the responsibility for reviewing and identifying interagency opportunities for consolidation of motor vehicles into its fleet.

In all, 127 of the 133 studies completed as of June 6, 1989, showed GSA costs would be lower than using Army-owned vehicles. One study showed the commercial sector to be more cost-effective, and five studies indicated the Army's operation was least costly. As a result, GSA received approval from OMB to use a historical average cost savings factor for comparisons evaluating cost savings by consolidating Army vehicles into the GSA fleet. Cost comparisons are now based upon an average savings of \$605 per vehicle at the installation level. The Army estimates that about \$450,000 in study costs will be saved by using this standard cost savings factor for future conversions.

The Army's plan to convert its continental U.S. motor fleet to GSA vehicles by fiscal year 1992 involves approximately 70 percent of the Army's worldwide fleet as of September 30, 1990. Use of GSA vehicles reduces the Army's capital investment in vehicles and related support equipment, as well as reducing costs associated with facility maintenance, vehicle maintenance, and management of the Army's domestic fleet. Although these savings are offset by the cost of leasing from GSA, the Army estimates a total annual cost reduction of about \$52 million (based on fiscal year 1989 dollars). This represents an estimated average annual savings of \$1,250 per vehicle, about \$645 more than the savings identified at the installation level. According to Army officials, this savings will be achieved by reducing personnel and facility costs. The \$605 per vehicle savings at the installation level would result in an annual cost reduction of about \$25 million.

**Chapter 2**  
**Potential Exists to Reduce Motor**  
**Vehicle Costs**

In January 1991, an Army official said the Army is reviewing its vehicle fleet, including overseas locations, for additional conversions to GSA where it is cost-effective and has already identified 13,000 vehicles for possible conversion.

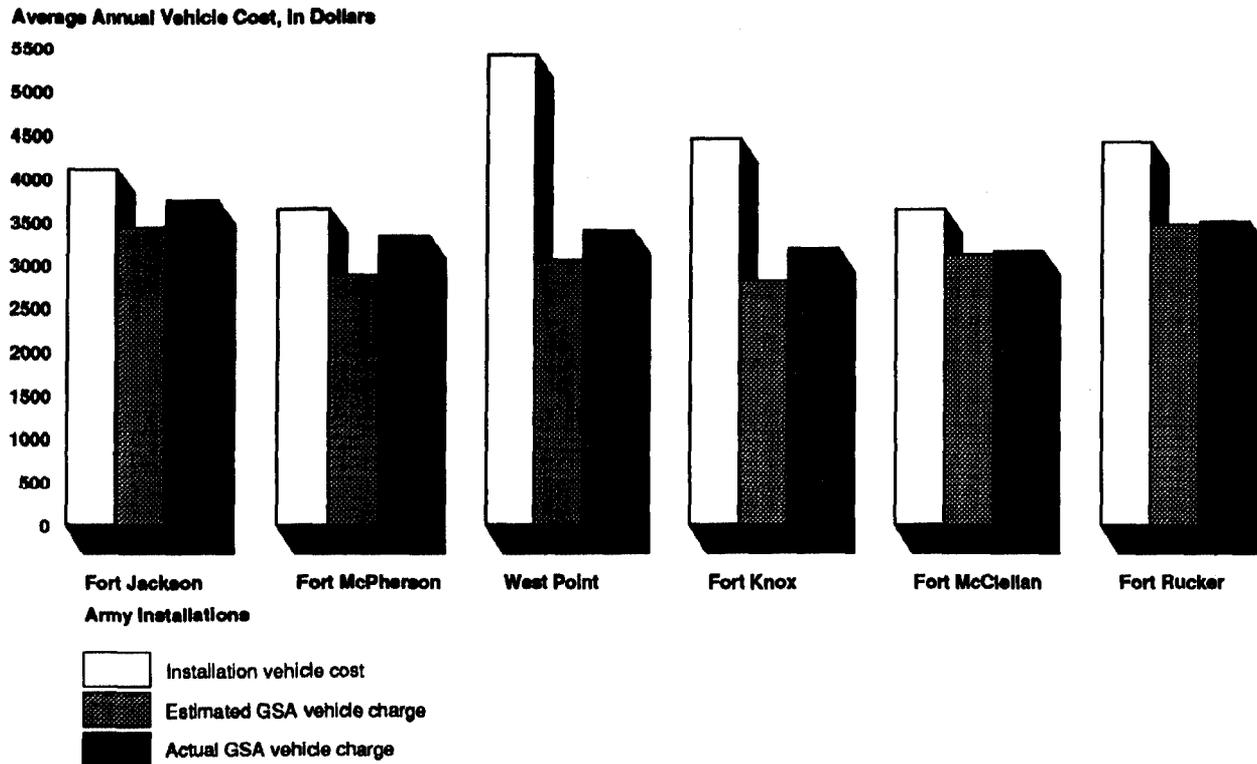
We reviewed cost studies conducted at several Army installations. These installations were selected on the basis of having 6 or more months of GSA charges and 100 or more vehicles and being comparable to the fleet originally studied. Table 2.1 summarizes the results of these studies.

**Table 2.1: Comparison of Army and GSA Vehicle Costs**

Installation	Number of vehicles	Annual cost		Annual savings	
		Service	GSA estimate	Total	Per vehicle
Fort Jackson	527	\$2,165,249	\$1,809,251	\$355,998	\$676
Fort McPherson	147	535,514	213,518	321,996	2,190
West Point	379	2,049,918	1,154,527	895,391	2,363
Fort Knox	914	4,060,250	2,576,419	1,483,831	1,623
Fort McClellan	337	1,225,947	1,048,851	177,096	526
Fort Rucker	410	1,806,270	1,418,325	387,945	946

We then compared the lease charges after converting to GSA vehicles with the installations' original transportation costs and the GSA-projected cost used for estimating potential savings. As shown in figure 2.1, the average annual vehicle cost after converting to GSA vehicles has decreased. GSA officials attribute the increased charges over their original study estimates to a 4 percent rate increase since their original studies were performed and charges for deferred maintenance.

Figure 2.1: Comparison of Vehicle Costs and Charges



According to Army headquarters and installation officials, besides lower costs, converting to GSA vehicles provides quality of life and other cost reduction benefits. They said that GSA vehicles are newer, safer, and more comfortable, as well as providing better gas mileage and reduced emissions. They also mentioned that GSA provided them with vehicle use reports, which help them manage their fleet. In addition, Army officials said that by using GSA's vehicles, they have reduced the number of vehicles needed at some installations because their service-owned fleet vehicles were often much older and unavailable a higher portion of the time due to maintenance and repairs. A transportation official said that his installation reduced the motor vehicle fleet by about 12 percent after converting to GSA vehicles because the fleet downtime was reduced.

Army and GSA officials told us that when the Army's vehicles are converted to GSA vehicles, GSA will include the Army's vehicles in its studies to fulfill the requirements of 40 U.S.C. 905.

## Air Force Plans to Consolidate Its Motor Vehicles Under GSA Where Advantageous

Air Force officials told us that to comply with 40 U.S.C. 905 they primarily relied on studies performed under OMB Circular A-76, "Performance of Commercial Activities." However, they explained these A-76 studies did not consider alternative means for motor transportation needs, such as GSA or private contractors, because their A-76 requirements specify use of service-owned vehicles. Air Force officials said they are in the process of changing how they study their motor vehicle costs and will no longer use A-76 studies to meet section 905 requirements.

The Air Force provided us with three studies performed under 40 U.S.C. 491 where use of GSA vehicles was considered. Table 2.2 summarizes the results of these studies and shows the potential savings identified by using GSA vehicles.

**Table 2.2: Vehicle Cost Comparisons**

Installation	Number of vehicles	Installation cost	Estimated GSA cost	Annual savings	
				Total	Per vehicle
Edwards Air Force Base	594	\$2,629,286	\$2,084,448	\$544,838	\$917
Vandenberg Air Force Base	548	1,167,241	921,264	245,977	449
Patrick Air Force Base	736	1,324,911	1,020,238	304,673	414

Note: These costs analyses were done in fiscal years 1985, 1985, and 1988, respectively.

Edwards Air Force Base converted to GSA vehicles in 1986. Air Force officials told us that Vandenberg Air Force Base has converted 37 percent of its motor vehicles to GSA-leased vehicles. Patrick Air Force Base did not convert because the Air Force would not transfer personnel spaces to GSA. Air Force officials explained that when an installation is converted to GSA vehicles, civilian personnel spaces are transferred to GSA for administering the installation's fleet. The personnel are transferred to GSA at a ratio of one full-time-equivalent per 100 vehicles converted. Air Force officials said that in the future they plan to use authorized but unfunded civilian personnel positions to satisfy the transfer of personnel to GSA. When that occurs they expect Patrick Air Force Base to convert to GSA-leased vehicles. They are working with GSA to consolidate Patrick Air Force Base motor vehicles with GSA's fleet.

Air Force officials told us that on the basis of the information we provided to the Subcommittee on Readiness, House Committee on Armed Services, in June 1990, together with the Committee's decision to reduce Air Force appropriations for new vehicles for fiscal year 1991, they are

considering converting about 40,000 vehicles to GSA. This planned conversion represents almost all of the Air Force's candidate vehicles for GSA consolidation in the United States.

## Navy and Marine Corps Plan Studies to Determine Best Alternative for Motor Vehicle Management

The four Navy and one Marine Corps activities we reviewed had not performed cost analyses comparing their motor vehicle costs with the cost of relying on GSA for their motor vehicle needs. As with the Air Force, Navy and Marine Corps officials told us they have relied on their A-76 studies to comply with section 905. We obtained cost data on vehicle operations from three of these activities, which is summarized in table 2.3. We did not obtain cost data on one activity we visited, Concord Naval Weapons Station, because its vehicle operations were recently taken over by the San Francisco Bay Public Works Center. At the other installation we visited, Miramar Naval Air Station, information was not readily available.

Table 2.3: Installation Vehicle Fleet Costs for Fiscal Year 1989

Installation	Number of vehicles	Total cost	Vehicle cost	
			Annual	Per mile
<b>Navy</b>				
San Francisco Bay Public Works Center	1,259	\$4,261,851	\$3,385	0.45
San Diego Public Works Center	2,785	6,401,660	2,299	0.44
<b>Marine Corps</b>				
Camp Pendleton	1,457 <sup>a</sup>	5,878,565	4,035	0.53

<sup>a</sup>Estimate based on information provided by the Marine Corps.

Based on the Army experience of converting to GSA, the average GSA annual charge for Army installations was about \$3,372 per vehicle and the average cost per mile was about \$0.39. Army figures indicate that their average cost per mile was \$0.31 for all vehicles leased from GSA for the month ending May 7, 1990. The Marine Corps costs indicate that this installation may be a candidate for conversion to GSA due to its relatively high vehicle expense.

Navy headquarters and public works center officials said that vehicle operations and maintenance costs at public works centers are competitive with GSA costs as they operate under a cost reimbursement system similar to GSA's. Under this system the public works center's customers, like GSA's, are charged for the transportation services provided. Each of the public works centers we reviewed are set up to support a number of

Navy activities in the adjacent area and charge these installations for services provided, which includes supporting their transportation needs. According to preliminary results of a Navy study on the costs of the San Francisco Bay Public Works Center, 1,607 vehicles would cost the center \$5.72 million a year, while GSA's costs would be \$5.77 million a year. The Navy is also currently conducting a vehicle cost study at the public works center in San Diego. Navy officials expressed concern about the time and cost to conduct these studies at every installation. It plans to conduct studies at selected installations representing the different types of Navy activities.

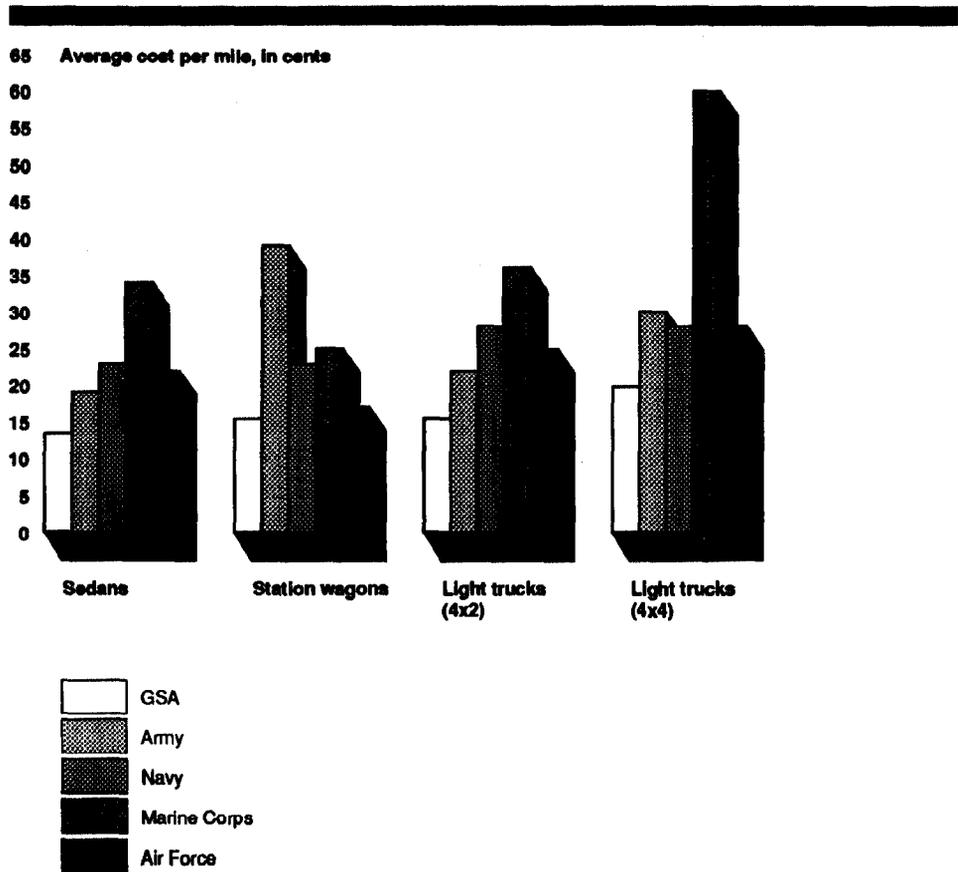
Marine Corps officials attribute the high cost for operating and maintaining their vehicles to the fleet's age. A Marine Corps official emphasized that the overall costs may not be excessively higher than other services because the Marine Corps retains its vehicles longer. Our review of Camp Pendleton's motor vehicle fleet showed that the operating and maintenance costs were high and many vehicles were older than the recommended DOD replacement age. A Marine Corps official told us they plan to use a private consultant to perform cost studies to compare their motor vehicle costs to the cost of using GSA or a private leasing contractor.

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## **Potential Savings Seem Available**

Analysis of the military services' overall expenses for operating and maintaining vehicles shows their costs are often significantly more than GSA's. These expenses include direct and indirect costs for such items as fuel and lubricants, replacement parts, maintenance personnel, and installation fleet management. Figure 2.2 compares the military services' costs with GSA charges for these expenses.

Figure 2.2: Comparison of Operation and Maintenance Costs for Fiscal Year 1989



Note: GSA cost based on average of high and low rate charged for each type of vehicle.

Potential savings using the Army's cost reduction estimates for the services' U.S. fleet indicates that savings could range from \$60 million to \$123 million annually. The low range projection is based on the Army's estimate of an annual \$605 savings per vehicle. The high range projection is based on the Army's estimate of an overall annual savings of \$1,250 per vehicle, which includes personnel and other savings not considered at the installations.

### Inadequate Funds Limit GSA Vehicle Consolidations

GSA's vehicle funding capacity allowed for a fleet increase of about 10,000 to 12,000 vehicles per year, according to GSA officials. GSA's commitment to convert the Army's fleet, at a rate of about 7,000 vehicles per year, had placed an added burden on its expansion capacity. Also, GSA informed the Army on March 21, 1991, that consolidations have

been suspended because (1) OMB has decided they will no longer approve transfer of personnel positions from the Army to GSA and (2) OMB's Bulletin 91-02, issued October 18, 1990, rescinded GSA's authority to recognize multiyear lease costs over more than 1 year. GSA stated that it cannot absorb the remaining Army vehicles, an estimated 14,400 units, without the transfer of these positions. According to GSA, the use of multiyear leases has allowed it to replace vehicles and permitted cost-effective vehicle acquisition. Under OMB Bulletin 91-02, GSA must now consider the full obligation of its multiyear leases in the first year of the lease, with offsetting income limited to 1 year's worth of lease charges. GSA officials said that the imbalance between obligations and income results in insufficient budgetary resources, which precludes executing new multiyear leases. GSA officials said that even in the absence of this circular, if the military services were to request the conversion of their fleets at a more accelerated rate, GSA could not accommodate these needs without additional capital resources.

On August 23, 1989, GSA wrote to the Director of OMB concerning relief for the potential strain on its General Supply Fund if as many as 176,000 vehicles were converted to GSA's Interagency Fleet Management System. GSA outlined five possible ways to alleviate the financial strain:

- finance vehicle purchases by borrowing needed funds from the Department of Treasury's Federal Financing Bank, which has been established to coordinate the sale of credit instruments, such as bonds, between federal agencies and the public;
- use contract authority capitalized leases, whereby GSA would be permitted to enter into fixed-term multiyear contracts;
- obtain needed funds from direct appropriations;
- use multiyear contract authority capitalized leases, whereby GSA would be permitted to obligate only the first year's costs under the contract and subsequent costs in the years they occur; and
- use operating leases, whereby GSA contracts for, but does not own the vehicle, thus losing the advantage of disposal sales to the public to offset government costs.

For illustration purposes, GSA assumed that the vehicles would be kept for 3 years and then sold and that 25,000 vehicles would be acquired (or leased). The least costly alternative was direct appropriations purchase with an annual charge to GSA's rental customers of about \$30.4 million. The most expensive method was annual operating leases with an annual customer rental fee of \$68.7 million. Each of the alternatives has advantages and disadvantages that need to be considered in choosing the best

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method for financing GSA's fleet expansion. GSA officials told us the most expensive option, operating leases, is the only alternative currently available to GSA.

OMB has not approved any alternative funding method for GSA. Initially, this was because GSA had not completed its solicitations for private industry participation under 40 U.S.C 905. Now that these studies have been completed and did not result in any private industry participation, OMB officials still do not believe GSA has demonstrated that increasing GSA's fleet is the best way to reduce motor vehicle fleet management costs. Because OMB believes GSA's approach was overly restrictive, it has proposed that an alternative study design be done either by GSA or the President's Council on Management Improvement.

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## Conclusions

Numerous studies have shown that using GSA vehicles can significantly reduce motor vehicle costs because its operation and maintenance costs are lower due to having newer vehicles. However, with the exception of the Army, the military services are just now beginning to identify the most cost-effective means for operating their fleets. The Army's experience indicates that millions of dollars can be saved by identifying fleets with high costs and converting them to lower cost vehicle management alternatives.

GSA's funding capacity is severely limited and, while several alternatives exist for handling any significant expansion, some of the least expensive options require congressional action. OMB is not convinced that increasing GSA's fleet is the best way to reduce federal motor vehicle fleet costs. Therefore, it has not approved any of these options, which financially limits GSA's consolidation of the services' vehicles. In addition, OMB's decision to not allow the transfer of personnel positions from the Army to GSA prevents GSA from absorbing the remaining Army fleet of about 14,400 vehicles.

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## Matter for Congressional Consideration

Since the military services believe they can save millions of dollars by converting from more costly service vehicle fleet management to GSA's fleet, the Congress may wish to consider reviewing the use of one or more of the financial alternatives for handling any significant expansion of GSA's motor vehicle fleet.

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# Some Vehicles Are Not Effectively Used or Procured

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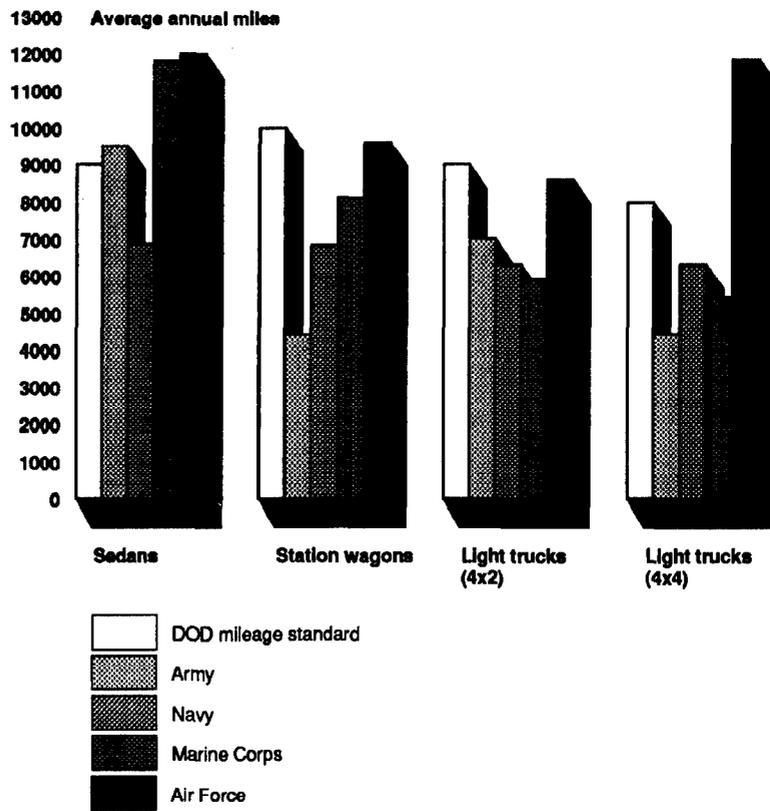
Mileage statistics and audit reports indicate that some DOD installations have more vehicles than needed and are not using vehicles effectively. As a result, the military services are incurring excess costs for vehicle procurement, operations, and maintenance. Also, we believe that by acquiring unneeded vehicles the military services can incur unnecessary costs for vehicle replacement and acquisitions that could be fulfilled by use of existing, underutilized vehicles. We also found that the services pay more than other federal agencies for similar motor vehicles. These excess costs occur because the services' vehicle purchase specifications include special requirements, such as special paint color and rust proofing, that appear to be unnecessary.

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## Some DOD Installations May Have Too Many Vehicles

DOD specifies utilization standards for motor vehicles to ensure that vehicles are effectively used and that installations have the minimum number of vehicles needed for essential transportation services. Also, how much vehicles are used and how they are distributed serves as a basis for determining vehicle requirements and the need for additional allocations. Figure 3.1 compares DOD mileage standards with the military services' average vehicle use during fiscal year 1989.

Figure 3.1: DOD Mileage Standard Compared With Military Services' Average Mileage for Fiscal Year 1989



Although the services' fleet statistics in figure 3.1 indicate that they often meet or exceed DOD's mileage goals, reviews and studies of vehicle use at various installations have shown that many vehicles are underutilized.

In a recent report,<sup>1</sup> we observed that at the Navy's Atlantic Undersea Test and Evaluation Center, the contractor providing motor vehicle services was allowed up to 63 vehicles but continually added additional vehicles without providing formal justification to the Navy. As of August 1990, there were 99 government administrative vehicles on the base, far more than the 63 allowed under the contract.

Our analysis at one Navy installation during this review found that the average annual mileage for sedans was 3,686 miles. This installation had

<sup>1</sup>Logistics Support: Controls at Navy's Andros Island Test Range Need Improvement (GAO/NSIAD-91-75, Jan. 28, 1991).

13 sedans, and 10 of them did not meet the installation's annual mileage goal of 5,538 miles. The installation's light trucks averaged 4,972 miles for the year, although the installation's goal was 6,008 miles. In total, 124 of this installation's 164 light trucks did not meet their mileage goals. Installation officials explained that many of their vehicles are used to support maintenance functions and are needed, even though they incur low mileage. For example, they explained that a maintenance truck may be sent out on a job and remain at the job site for the day, which results in low mileage. However, Navy transportation officials said that effective use of low mileage vehicles can be accomplished by proper rotation of low and high mileage vehicles.

In addition, recent reviews by the Army and Air Force found that these services have more vehicles than needed. For example:

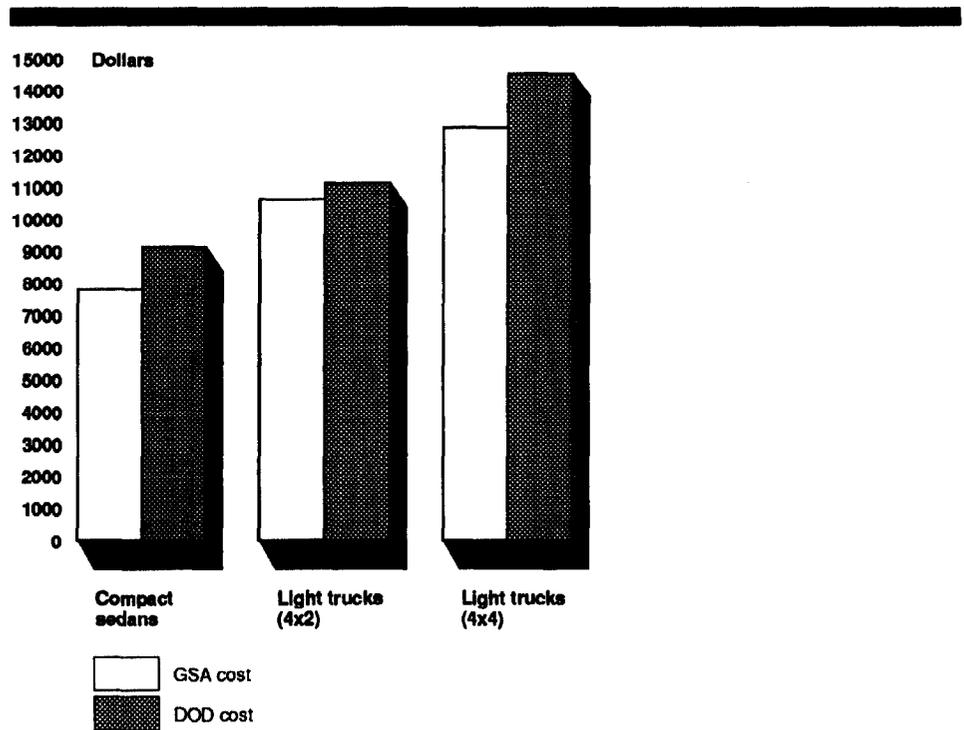
- A January 1989 Air Force audit report noted that the average annual mileage of vehicles reviewed at eight bases was about 7,000 miles, 78 percent of the fleet goal of about 9,000 miles.
- A study at an Air Force installation found that the average use of motor vehicles during fiscal year 1989 was only 57 percent of the established goal. For example, the established annual goal for sedans was 8,228 miles; however, their average annual mileage was 4,604 miles.
- The Army Audit Agency conducted reviews of various installations' use of Army vehicles during 1989. At these installations, procedures and controls were not adequate to ensure optimum assignment and use of vehicles. For example, 156 of 201 vehicles (78 percent) reviewed at one installation did not achieve the Army's mileage goals. At another installation, only 463 of 614 vehicles (75 percent) were justified, and 85 of 564 vehicles reviewed were noted as being idle more than 15 percent of available workdays.

Air Force and Army officials said that unique situations can cause low utilization of vehicles, but this is not characteristic of their fleet. Air Force officials noted that DOD and the Air Force have mileage goals, not requirements, and it is recognized that some base functions will not achieve mileage goals. These officials also stated that by relying on GSA to provide their vehicles, they expect vehicle utilization will improve. They explained that installation commanders will be paying for GSA vehicles out of local operations and maintenance funds, which will focus more management attention on vehicle use and better ensure that vehicles are effectively used.

## DOD Special Requirements Increase Vehicle Purchase Costs

The military services often pay more than other federal agencies for the same type of motor vehicles because of their special requirements. A GSA analysis of three types of vehicles purchased during fiscal year 1989 indicated that DOD paid an additional \$4.1 million for 5,673 vehicles, an average of \$732 more per vehicle, for the same types of vehicles purchased by GSA for other federal agencies. Figure 3.2 shows that, depending on the type of vehicle purchased, the average additional cost ranges from \$515 to \$1,697 per vehicle.

Figure 3.2: Comparison of Vehicle Acquisition Costs



GSA officials told us that the military services require special contract requirements when ordering motor vehicles. These specifications require special attention from the manufacturers, and GSA must develop separate invitations for bids, apart from those used to obtain GSA's fleet. The special requirements result in these vehicles not being part of GSA's volume purchase agreement with the major vehicle manufacturers. For example, the Air Force's special paint and marking requirements are estimated to cost about \$100 per vehicle, and a set of shop manuals and parts catalogs cost about \$125 when ordered with the vehicle. Yet, automotive industry representatives maintain that these manuals would cost

one-third to one-half as much if they were ordered separately. The special requirements mentioned by GSA officials include

- the Air Force's requirement for a nonstandard blue color;
- rust proofing, although most new vehicles already have sufficient anti-corrosion protection sufficient for most areas;
- extra delivery documentation;
- requiring maintenance manuals and parts catalogs as part of vehicle bid solicitation; and
- requiring maintenance manuals and parts catalogs for each vehicle, even though a number of vehicles may be consigned to the same location.

Military service officials told us that they are reconsidering or have eliminated rust proofing and special paint color. Also, Air Force, Navy, and Marine Corps officials told us they have reduced the number of maintenance manuals and parts catalogs required. However, service officials believe they need existing delivery documentation to maintain accountability and need manuals to be part of the bid solicitations because separating these purchases would require additional procurement and coordination efforts. Also, Air Force officials explained that because they are planning to lease GSA vehicles, they will no longer have special purchase requirements.

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## Conclusions

DOD is incurring unnecessary costs for vehicle replacement and acquisition that could be fulfilled by the redistribution of existing, underutilized vehicles. Reducing the number of the vehicles would have a direct and immediate effect on decreasing the military services' vehicle procurement and operating costs. Also, by more effectively using existing vehicles, the services may be able to reduce the number of vehicles needed from GSA, thereby reducing their leasing expenditure.

DOD's decision not to coordinate and consolidate military services' vehicle purchases with GSA's normal fleet buying program unnecessarily contributes to excess vehicle costs. Special purchase requirements result in the military services paying more for the same types of vehicles purchased by other federal agencies.

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## Recommendations

We recommend that the Secretary of Defense direct the service secretaries to evaluate their vehicle use according to established DOD standards to ensure that vehicles are used effectively and excess vehicles are made available to activities needing additional vehicles. Also, we

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**Chapter 3**  
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**or Procured**

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recommend that the Secretary of Defense direct the service secretaries to continue to review vehicle requirements and eliminate, where possible, unnecessary specifications so as to enable their vehicles to be bought at lower cost.



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