

September 1996

1997 DOD BUDGET

Potential Reductions to Operation and Maintenance Program





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

**National Security and
International Affairs Division**

B-274141

September 18, 1996

Congressional Committees

This report evaluates the military services' and Department of Defense's (DOD) fiscal year 1997 operation and maintenance (O&M) budget requests, which total \$79 billion. Our objective was to determine whether the O&M accounts should be funded in the amounts requested.

We reviewed selected O&M activities managed by the Army, the Navy, the Air Force, and DOD at the headquarters level. We also reviewed O&M activities managed by U.S. Army, Europe (USAREUR); U.S. Forces Command (FORSCOM); Air Combat Command; and the Atlantic and Pacific Fleets. The command and activities were selected for review because (1) O&M funding levels are increasing, (2) ongoing and issued reports by us and DOD audit agencies disclosed programmatic issues with O&M implications, or (3) congressional committees' expressed interest.

As shown in table 1, we identified potential budget reductions of about \$3.4 billion to the fiscal year 1997 O&M budget requests.

Table 1: Potential Reductions to the Fiscal Year 1997 O&M Budget Requests by Program Category

Dollars in millions

Category	Army	Navy	Marine Corps	Air Force	Defense	National Guard	Total
Inventory management	\$188.0	\$67.0		\$468.0			\$723.0
Bulk fuel	113.8	166.3		242.2			522.3
Unobligated funds	200.2	150.4		151.6			502.2
Aircraft storage				376.2			376.2
O&M pass-through to Defense business operating fund	58.9			194.5			253.4
Civilian personnel	33.3	108.3		70.0	\$33.9		245.5
Operating Tempo	235.0						235.0
Transportation	92.5	25.0	12.5	55.0	65.0		250.0
Environmental restoration					80.0		80.0
Flying hours	40.3				18.0		58.3
Air Force basing strategy				48.0			48.0
Real property maintenance		27.9					27.9
Hunter unmanned aerial vehicle system	19.5						19.5
Training rotations at the National Training Center and Joint Readiness Training Center	8.1					\$8.6	16.7
Prepositioning ship program	13.7						13.7
Fuel tax refunds	2.3			8.5			10.8
Bosnia operations				5.6			5.6
Ammunition maintenance	1.3		3.9				5.2
Mine hunter ships		4.7					4.7
Moral, welfare, and recreation subsidy	2.1						2.1
Total	\$1,009.0	\$549.6	\$16.4	\$1,619.6	\$196.9	\$8.6	\$3,400.1

In April, May, and June 1996, we provided your staffs with the preliminary results of our work. This report summarizes and updates that information, but does not include any actions that may have been taken by the Committees during their reviews of the services' budget requests. The following sections briefly discuss each of the potential reductions.

Inventory Management

The fiscal year 1997 Army, Navy, and Air Force budgets for spare parts can be reduced by \$723 million for the following reasons:

-
- A 1993 Air Force Audit Agency (AFAA) report¹ found that program directors maintained aircraft in reconstitutable storage categories (i.e., aircraft with potential contingency, mobilization, or conversion use) even though they had not identified future requirements for the aircraft and had not regenerated an aircraft from reconstitutable storage for the active force in 25 years. AFAA recommended that the Air Force Materiel Command delay procurement of current and future spare parts requirements, valued at \$388 million, that were available for reclamation² and initiate screening of excess aircraft and engines containing parts that could satisfy spare parts requirements. In a February 1996 follow-up report,³ AFAA found that Air Force personnel did not release excess aircraft for programmed reclamation screening as recommended. Additionally, the Air Force Materiel Command did not initiate screening of excess aircraft and engines for serviceable spare parts. As a result, timely reclamation was not scheduled for 816 aircraft classified as having no future operational use.

Air Force management has initiated action to correct this problem. However, the changes are not reflected in the fiscal year 1997 budget request. Therefore, Congress could reduce the Air Force's fiscal year 1997 budget request by \$388 million to reflect the value of reclaimed spare parts that could be used to satisfy other requirements.

- The Air Force, in determining its spare and repair parts budget request, does not consider parts on hand at the depot maintenance facilities as an offset to spare and repair parts requirements. Although Congressional Committees have made several attempts to change this policy, the Air Force continues to exclude depot-level assets in its requirements data and budget computations.⁴ Our analysis showed that the Air Force overstated its fiscal year 1996 spare parts budget request by \$72 million because parts on hand for depot maintenance were not offset against budget requirements.

In our March 1996 report, we also reported that the Navy spare parts requirements and budget request for fiscal year 1997 were overstated by at

¹Management of Air Force Reclamation Program (Project 93061013, May 26, 1993).

²Reclamation is the process of removing serviceable and economically repairable components and materiel from excess or surplus property to satisfy valid requirements. Reclamation is limited to aircraft with no identified future use.

³Follow-up Audit —Management of the Air Force Reclamation Program (Project 95061010, Feb. 16, 1996).

⁴Defense Logistics: Requirement Determinations for Aviation Spare Parts Need to Be Improved (GAO/NSIAD-96-70, Mar. 19, 1996).

least \$60 million. This occurred because the Navy duplicated depot maintenance requirements in its requirements and budget computations. The depot-level assets were included once as recurring demands, based on past depot maintenance usage, and again in a planned program requirements category that is not based on recurring demands. As a result of these duplications, the Navy's fiscal year 1997 requirements and budget estimates were overstated by at least \$60 million.

- The Air Force and the Navy overstated their spare parts budget requests because inaccurate lead times, demand rates, due-out quantities, and inventory on hand and on order were used in the requirements determination process. The use of inaccurate data resulted in overstated requirements of \$8 million and \$7 million for the Air Force and the Navy, respectively.
- The Army budget stratification reports that are used to determine spare and repair parts budget requests are based on inaccurate data. When an item's available inventory is not sufficient to meet the requirements, the item is considered to be in a deficit position and the aggregate value of items in a deficit position is the basis for determining the budget request.

Our review⁵ of 258 items with a reported deficit value of \$519 million showed that the deficit position for \$211 million of the items was incorrect. If accurate requirements and inventory data had been used, the inventory deficit for these items would have been \$23 million rather than the \$211 million reported. As a result, the fiscal year 1996 budget request included \$188 million (\$211 million minus \$23 million) for items that were not in a deficit position.

Because corrective actions were not taken in time to affect the fiscal year 1997 budget request, we believe the fiscal year 1997 request is also overstated. Therefore, Congress may want to reduce the Army's spare and repair parts budget request by the \$188 million it was overstated in fiscal year 1996.

Bulk Fuel Requirements

The Army, the Navy, and the Air Force O&M budget requests for bulk fuel could be reduced by \$522.3 million for the following reasons:

⁵Army Inventory: Budget Requests for Spare and Repair Parts Are Not Reliable (GAO/NSIAD-96-3, Dec. 29, 1995).

- In September 1995,⁶ we reported that for fiscal year 1996, the Army, the Navy, and the Air Force budget requests for bulk fuel totaled about \$4.12 billion. Of this, \$4.01 billion was to be used to buy fuel from the Defense Fuel Supply Center (DFSC), with the remaining \$107 million used to buy fuel from commercial sources. Based on historical usage data, DFSC estimated that the services' fuel purchases would be about \$3.57 billion, or about \$440 million less than the services requested in their budgets, as shown below.

Table 2: Bulk Fuel Requirements in the Fiscal Year 1996 Budget Request and DFSC's Estimate of Sales to the Services

Dollars and numbers in millions

Service	Budget estimate		DFSC estimated sales		Difference	
	Barrels	Dollars	Barrels	Dollars	Barrels	Dollars
Army	10.5	\$316.9	7.5	\$236.2	3.0	\$80.7
Navy	46.5	1,461.2	39.3	1,236.6	7.2	224.6
Air Force	69.7	2,235.2	66.7	2,100.9	3.0	134.3
Total	126.7	\$4,013.3	113.5	\$3,573.7	13.2	\$439.6

As a result of the information in our September 1995 report, Congress reduced the Navy's fiscal year 1996 fuel budget by \$100 million. However, in February 1996 we found that the services' fuel requirements had been reduced, and there is still about \$340 million in the services' fiscal year 1996 budgets that exceeds their fuel needs.

In view of the above, Congress may want to offset the \$340 million against the fiscal year 1997 request as follows: Army—\$80.7 million, Navy—\$124.6 million, and Air Force—\$134.3 million.

- For fiscal year 1997, the services have again requested more funds for fuel than they will need. They budgeted for 117.8 million barrels of fuel at a cost of \$3.796 billion. However, DFSC estimates that the services will buy 113.2 million barrels at a cost of about \$3.613 billion, or \$183 million less than the services estimate. As a result, Congress may want to reduce the services' fiscal year 1997 budget requests by the amounts shown in table 3. This reduction would be in addition to the off-set to the fiscal year 1996 budget.

⁶1996 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-95-200BR, Sept. 26, 1995).

Table 3: Bulk Fuel Requirements in the Fiscal Year 1997 Budget Request and DFSC's Estimate of Sales to the Services

Dollars and numbers in millions

Service	Budget estimate		DFSC estimated sales		Difference	
	Barrels	Dollars	Barrels	Dollars	Barrels	Dollars
Army	9.2	\$294.8	8.2	\$261.7	1.0	\$33.1
Navy	43.7	1,398.3	42.5	1,356.6	1.2	41.7
Air Force	64.9	2,102.9	62.5	1,995.0	2.4	107.9
Total	117.8	\$3,796.0	113.2	\$3,613.3	4.6	\$182.7

Unobligated Balances From Prior Years' O&M Appropriations

Unobligated balances of expired prior years' O&M appropriations are generally not available for new obligations but may be used for upward adjustments to existing obligations for the specific fiscal year of the appropriation. These expired unobligated balances may be used to fund upward adjustments for 5 fiscal years after the year of appropriation. At the end of 5 years, the remaining balances are canceled.

As of September 30, 1995, the Army, the Navy, and the Air Force had unobligated balances from prior year appropriations totaling \$2.2 billion. Service officials stated that the unobligated balances were needed to satisfy upward adjustments to obligations that were incurred in the specific fiscal year but have not yet been liquidated.

Our analysis shows that unobligated balances have been increasing rather than decreasing and that the average annual increase over the last 4 years has been \$200.24 million for the Army, \$150.42 million for the Navy, and \$151.57 million for the Air Force. The reason for the increasing balances is that the amount of the liquidations is generally less than the amount initially obligated.

Our analysis showed that the average annual increase in unobligated balances was \$502 million. In view of this overall trend in inaccurately establishing either requested amounts or obligations for specific projects, Congress could reduce the services' O&M funding request to amounts that more accurately reflect what is actually needed.

Aircraft Storage

The Air Force's O&M budget request could be reduced by \$376.2 million if some aircraft were retired and others placed in storage until needed.

- The Air Force plans to upgrade its B-1B bombers to play a greater role in combat interdiction. In a recent report,⁷ we suggested that instead of upgrading the bombers, the Air Force should retire them. We reported that upgrading the bombers will only marginally increase combat interdiction when compared to total interdiction capabilities that already exist. On the other hand, retiring the aircraft could save the Air Force about \$1 billion annually in operating costs, including approximately \$366.7 million in O&M costs.
- The Air Force currently assigns attrition aircraft⁸ to active and reserve units where they are flown and maintained as combat designated aircraft. In fiscal year 1997, the Air Force plans to have 126 attrition attack and fighter aircraft in the active force inventory.

In 1995, we reported⁹ that storing attrition aircraft could be a money-saving alternative to assigning aircraft to active units. A 1992 Air Force study concluded that the costs to store and reconstitute F-15 and F-16 aircraft were 1.9 percent and 2.1 percent of the aircraft's operation and maintenance costs, respectively. In addition, the Navy found that storing excess aircraft was the most cost-effective way of managing them. Historical attrition rates indicate that some of the attrition aircraft will not be needed until the year 2002. Therefore, Congress may want to reduce the Air Force's fiscal year 1997 budget by \$9.5 million (\$75,000 multiplied by 126 aircraft) to encourage the Air Force to store its attrition aircraft. Our analyses of the operating and maintenance costs is based on the funding the Air Force gave Air National Guard units for additional attrition aircraft—about \$75,000 per aircraft.

Defense Business Operating Fund Pass-throughs

The Defense Business Operating Fund (DBOF) is a revolving account that provides various types of services and materials to the military, which pays for these items with O&M funds.

⁷U.S. Combat Air Power: Reassessing Plans to Modernize Interdiction Capabilities Could Save Billions (GAO/NSIAD-96-72, May 13, 1996).

⁸Attrition aircraft are aircraft that are used to replace aircraft lost while performing peacetime missions.

⁹Aircraft Requirements: Air Force and Navy Need to Establish Realistic Criteria for Backup Aircraft (GAO/NSIAD-95-180, Sept. 29, 1995).

The Air Force's fiscal year 1997 O&M budget request includes a one-time increase of \$194.5 million that will be passed through to DBOF so that it can recover prior years' operating losses and will not have to increase the surcharge rate it charges its customers.

Additionally, the Army's fiscal year 1997 O&M budget request includes \$58.9 million for pass-through to DBOF to cover the cost of unutilized plants. According to an Army official, the Army requested the pass-through rather than having to pass the costs on to its customers through increased surcharge rates. For fiscal year 1997, the Army changed its policy regarding unutilized plants. The change in policy is intended to encourage DBOF activities to put unused plants and equipment into standby, idle, or layaway status. Prior to fiscal year 1997, the Army could pass the costs of unutilized plants on to customers through increased DBOF rates.

We have previously reported¹⁰ that we do not agree with the practice of using the O&M appropriation process to finance DBOF losses. Doing so fails to focus on DBOF's actual results of operations, diminishes its incentive to operate efficiently, and makes it more difficult to evaluate and monitor DBOF operations. Our long-standing position has been that DBOF managers should be required to request funds for and justify the need to recover the prior years' losses to Congress rather than covering such losses with an O&M pass-through to DBOF.

In view of our long-standing position that DBOF managers be required to request supplemental appropriations to cover losses associated with Air Force and Army DBOF activities, Congress may want to reduce the Air Force's O&M budget request by \$194.5 million and the Army's O&M budget request by \$58.9 million.

Civilian Personnel Requirements

The Army's, the Navy's, the Air Force's, and DOD's fiscal year 1997 budget requests for civilian personnel could be reduced by \$245.5 million because (1) the projected civilian personnel levels at the beginning of fiscal year 1997 will be less than those the services used to determine their budget requests (\$185.5 million) and (2) the amount requested in the budget submission differs from the amount shown in the budget justification documents (\$60 million).

¹⁰Defense Business Operations Fund: Improved Pricing Practices and Financial Reports Are Needed to Set Accurate Prices (GAO/AIMD-94-132, June 22, 1994).

Based on the number of Navy and DOD personnel onboard as of April 1996, and Army and Air Force personnel onboard as of May 1996, we estimate that the actual end strength at the end of fiscal year 1996—the beginning figure for fiscal year 1997—will be 7,331¹¹ personnel less than the number used by the services to determine their fiscal year 1997 budget request. Because the services used a larger beginning figure, the number of work years used in the budget request is also overstated by 3,665 work years, or \$185.5 million.

Additionally, we found that the amount shown in the President’s budget for civilian personnel was \$60 million more than the amount shown in the justification documents.

Table 4 shows the effect of the overstatement of work years and the variance between the President’s budget presentation and the supporting documentation.

Table 4: Civilian Personnel Overstatement for Fiscal Year 1997

Dollars in millions

Service	Our estimated beginning strength for FY 1997 ^a	Beginning strength used in FY 1997 budget request	Difference between our estimate and estimate in budget request	Overstated ^b		Difference between amount in President’s budget and supporting documentation	Total overstatement
				Work years	Value		
Army	258,590	259,462	872	436	\$28.3	\$5.0	\$33.3
Navy	235,373	239,961	4,588	2,294	111.3	(3.0)	108.3
Air Force	182,926	183,357	431	216	12.0	58.0	70.0^c
Other DOD	101,933	103,373	1,440	719	33.9		33.9
Total	778,822	786,153	7,331	3,665	\$185.5	\$60.0	\$245.5

^aActual attrition rate for fiscal year 1996 to date projected to the end of the fiscal year. The projected figure was then adjusted downward to compensate for unknown events that could affect attrition during the remainder of the fiscal year.

^bEquivalent work years multiplied by the average annual compensation rate.

^cAir Force officials said that the \$58 million overstatement is offset by a \$58-million understatement in contract and services. If this is the case, the total Air Force overstatement would be \$12 million.

In view of the overstated personnel requirements, Congress may want to reduce the Army’s budget request for civilian personnel by \$33.3 million,

¹¹This equates to 3,665 work years.

the Navy's by \$108.3 million, the Air Force's by \$70 million, and other DOD agencies by \$33.9 million.

Army Operating Tempo

The Army uses the Training Resource Model (TRM) to compute its operating tempo (OPTEMPO) requirements. OPTEMPO refers to the pace of operations and training that units need in order to achieve a prescribed level of readiness. We reported¹² that TRM contained outdated assumptions that resulted in an overstatement of training requirements. Although the Army is in the process of implementing corrective measures, TRM remains outdated and the Army continues to overestimate the amount of OPTEMPO funds it needs.

For fiscal year 1997, the Army requested \$2.61 billion for ground OPTEMPO based on a training rate of 800 miles per vehicle per year. However, the Army only obligated 91 percent of its OPTEMPO funds in fiscal year 1995. In addition, one of the Army's major commands planned to execute a training rate of only 720 miles for fiscal year 1996.

Based on the fact that TRM has not been updated to more accurately reflect actual training requirements and the Army's average percentage of OPTEMPO funds obligated for fiscal year 1995 was 9 percent less than the Army planned to spend, we estimate the Army's fiscal year 1997 request could be reduced about \$235 million (\$2.61 billion multiplied by 9 percent).

U.S. Transportation Command

The U.S. Transportation Command (USTRANSCOM) is responsible for providing air, land, and sea transportation services to the military forces. These services are provided through USTRANSCOM's three component commands: the Military Traffic Command (MTMC), the Air Mobility Command (AMC), and the Military Sealift Command (MSC). USTRANSCOM operates under the DBOF system of financial management whereby DOD customers request transportation services from USTRANSCOM's component commands, which contract for the services and bill the customers for those services. DOD guidance requires that USTRANSCOM recover its total cost from its customers. Customers generally pay for the transportation services with O&M funds.

¹²Army Training: One-Third of 1993 and 1994 Budgeted Funds Were Used for Other Purposes (GAO/NSIAD-95-71, Apr. 7, 1995).

In February 1996,¹³ we reported that DOD customers pay USTRANSCOM substantially more—from 24 percent to 201 percent—than it costs USTRANSCOM to provide the transportation services. For example, customers may pay MTMC and MSC \$3,800 to arrange for shipment of a container load from California to Korea. However, the commercial carrier may charge USTRANSCOM only \$1,250 for providing the transportation service.

Factors that increase the transportation costs to the customers include (1) fragmented transportation processes, (2) multiple organizational elements to implement these processes, and (3) component commands' organizational structure that requires duplicative administrative and support activities.

DOD and USTRANSCOM are reengineering the component commands' transportation business processes, but are delaying organizational changes that would eliminate duplicative and redundant functions existing among the component commands. We believe that waiting to address the issues of organizational structure will be a significant barrier to achieving the full benefits of the reengineering efforts.

In order to encourage USTRANSCOM to make the needed organizational changes, Congress may want to reduce USTRANSCOM's DBOF budget by \$250 million, or 5 percent. If the changes are made, the services would need less O&M funds to pay for the more efficient and less costly USTRANSCOM transportation services. The reduction should be made based on the percent of total transportation services that each of the military services obtain from USTRANSCOM: Army \$92.5 million, Navy \$25 million, Marine Corps \$12.5 million, Air Force \$55 million, and Defense-wide \$65 million.

DOD officials said that reducing the services' O&M budgets has the effect of penalizing the services for USTRANSCOM's inefficient operations. They recommended and we agree that if the services' O&M budget requests are reduced, USTRANSCOM should rebate a like amount to each service.

¹³Defense Transportation: Streamlining of the U.S. Transportation Command Is Needed (GAO/NSIAD-96-60, Feb. 22, 1996).

Environmental Restoration

In March 1996,¹⁴ we reported that the Army's budget request does not consider the funds contributed by the Shell Oil Company for its share of the cleanup costs at the Rocky Mountain Arsenal. According to Army officials, there is about \$80 million in the Shell account and these funds are used to supplement funds transferred to O&M from the Defense Environmental Restoration Account (DERA).¹⁵

The Army rolls up the Arsenal's requirements for appropriated funds into a consolidated DOD budget request and according to Army officials, the Shell funds are not visible in the budgeting process and do not influence funding decisions. Army officials also said that, in most instances, it is not feasible to use the Shell funds to offset budget requirements because the funds do not represent a steady fixed flow and are not fiscal year specific.

Although the Shell contribution may not represent a fixed flow of funds, there are about \$80 million in the account, and this is more than the Arsenal's allocation for environmental cleanup in fiscal year 1996—about \$75 million. In view of the fact that the \$80 million Shell contribution to the cleanup costs at the Arsenal has not been considered in determining total requirements, Congress may want to reduce the amount of funds transferred to Army O&M from the Environmental Restoration Account in the fiscal year 1997 budget request by \$80 million.

Flying Hours

The Army and the Defense-wide fiscal year 1997 O&M budget requests for flying hours can be reduced by \$58.3 million for the following reasons:

- The Army traditionally requests more funds for its flying hour program than it obligates. For example, in fiscal year 1995, the Army planned to fly 807,000 hours but only flew 748,419 hours, a 7-percent reduction. In fiscal year 1996, the Army's budget request was based on 690,667 flying hours. However, after the budget was submitted, the Army adjusted its flying hour program downward by 5 percent. Additionally, the Army flew about 5 percent fewer hours in the first quarter of fiscal year 1996 than it planned.

¹⁴Environmental Cleanup: Progress in Resolving Long-standing Issues at the Rocky Mountain Arsenal (GAO/NSIAD-96-32, Mar. 29, 1996).

¹⁵Congress established DERA in 1984 to fund the cleanup of inactive contaminated sites on DOD installations. DERA is a transfer account, that is, funds in the account are available for transfer by the Secretary of Defense to any appropriation account or fund for obligation.

In view of the fact that the Army flew fewer hours than funded in fiscal year 1995 and it appears that the Army will fly fewer hours than funded in fiscal year 1996, Congress may wish to reduce the Army's fiscal year 1997 flying hour budget by \$40.3 million (5 percent of the \$805 million requested).

- The Defense Health Program's flying hour program supports the aeromedical evacuation system, which provides air transportation for injured, sick, and wounded active-duty members of the armed forces in the United States.

A joint review conducted by the DOD Inspector General (DOD-IG) and the Air Force Audit Agency¹⁶ concluded that the Defense Health Program's aircraft were being flown in excess of previous and current training requirements and that the flying hour program should be reduced from 17,211 hours to 8,550 hours—a savings of \$20.2 million. In response to the report, the DOD Comptroller reviewed the aeromedical flying hour program budget request for fiscal year 1997 and reduced the aeromedical flying hour program by 3,500 hours—a reduction of \$2.2 million.

Because the DOD-IG recommended a \$20.2 million reduction and the DOD Comptroller only reduced the flying hour program by \$2.2 million, Congress may want to further reduce the program's fiscal year 1997 flying hour program by \$18 million.

Air Force Aircraft Basing

Until 1992, Air Force F-15 and F-16 aircraft wings consisted of 3 squadrons, with 24 combat aircraft in each squadron. In 1992, the Air Force began reducing each squadron to 18 combat aircraft, or 54 combat aircraft in each wing.

Our May 1996¹⁷ report showed that the current F-15 and F-16 squadron configuration is less efficient and more costly than the former configuration of 24 aircraft in each squadron. Our review of Air Force base closure capacity data indicated that most fighter wings in the United States could increase squadron size to previous levels with little or no additional costs. In fact, wing personnel at 2 Air Force bases indicated that their installations could absorb 18 aircraft per wing at no additional cost. If

¹⁶DOD Inspector General Report No. 95-225, Aeromedical Evacuation System, June 9, 1995.

¹⁷Air Force Aircraft: Consolidating Fighter Squadrons Could Reduce Costs (GAO/NSIAD-96-82, May 6, 1996).

the Air Force changed its wing configuration back to the previous level of 72 aircraft, it could close 1 base, reduce maintenance personnel and equipment requirements, and save about \$48 million in fiscal year 1997. Accordingly, Congress may want to reduce the Air Force's fiscal year 1997 O&M request by \$48 million.

Real Property Maintenance

The real property maintenance program funds the maintenance, repair, and minor construction of facilities and properties. The Navy's Pacific Fleet's real property maintenance account is divided into 19 categories, 18 of which identify specific projects in areas such as troop housing, utility systems, and maintenance. The remaining category is identified as "other." For fiscal year 1997, the Navy's budget request included \$27.9 million for the other category.

We requested the list of projects to be funded from the other category. Pacific Fleet officials told us that a list does not exist for the other category. We also asked Navy Comptroller officials to provide documentation to support the \$27.9 million request. At the time we completed our review in July 1996, the requested documentation had not been provided nor could the Navy explain how the money would be used. Therefore, Congress may wish to reduce the Navy's O&M request by \$27.9 million.

Hunter Unmanned Aerial Vehicle System

The Army's fiscal year 1997 O&M budget request includes \$20 million to operate, support, and store the Hunter Unmanned Aerial Vehicle system. In 1995, the Joint Chiefs of Staff (JCS) and the Joint Requirements Oversight Council (JROC) recommended terminating the Hunter program and reprogramming the funds to other warfighting priorities. Their memorandum directed that equipment already delivered should be placed in an inactive storage status.

In January 1996, the DOD Acquisition Decision Memorandum approved termination of the Hunter program after delivery of seven systems. The memorandum also approved the operational use of one system until a new unmanned aerial vehicle becomes available and authorized the use of other assets for testing as well as operator and maintenance training.

Our evaluations of the Hunter program disclosed numerous deficiencies. In December 1993,¹⁸ we reported that test results identified deficiencies that could jeopardize the system's ability to meet military requirements. In March 1995,¹⁹ we reported that the Hunter system was logistically unsupportable and that tests had identified serious performance problems that adversely impacted the system's effectiveness.

Our analysis showed that \$19.5 million of the \$20 million the Army requested will be used for depot operations, field training support, and logistics support. The remaining \$500,000 will be used for inactive storage. In view of the numerous logistics and operational problems highlighted in our reports and the fact that the JCS and the JROC recommended that the Hunter program be terminated, Congress may want to reduce the Army's budget by \$19.5 million.

Training Rotations at the National Training Center and the Joint Readiness Training Center

The fiscal year 1997 Army and National Guard O&M budget requests for training rotations can be reduced by \$16.7 million for the following reasons:

- Two Army units (one active unit and one National Guard unit) that were scheduled to attend the National Training Center (NTC) in fiscal year 1997 are not ready for NTC training and will not go. Because other units will not be sent in place of the two units, the number of NTC training rotations has been reduced to 10 instead of 12 during fiscal year 1997. As a result, the Army will not incur about \$7.2 million of O&M training costs related to transportation, maintenance, and sending opposing force augmentees to NTC.
- The National Guard planned to send a brigade to the Army's Joint Readiness Training Center (JRTC) in fiscal year 1997. After the Army submitted its operating budget for JRTC, a decision was made to not send the brigade and no other unit will be sent in its place. As a result, the Army will not incur about \$900,000 of costs that were included in the fiscal year 1997 budget.

The Army agrees that its budget request is overstated by \$8.1 million due to changes in training rotations. However, Army officials said that they

¹⁸Unmanned Aerial Vehicles: Performance of Short Range System Still in Question (GAO/NSIAD-94-65, Dec. 15, 1993).

¹⁹Unmanned Aerial Vehicles: No More Hunter Systems Should Be Bought Until Problems Are Fixed (GAO/NSIAD-95-52, Mar. 1, 1995).

would like to retain \$3 million of the \$8.1 million to meet other unfunded requirements.

In addition to the costs incurred by the active Army for sending units to the training centers, the National Guard also incurs costs for sending its units to the training centers.

- The Army National Guard is allocated a training rotation each year at NTC and JRTC. According to the National Guard Bureau, it costs the National Guard about \$8.6 million more than normal annual training expenses to send two brigades to the training centers. Because of the decision not to send a brigade to NTC and JRTC in fiscal year 1997, the National Guard budget could be reduced by \$8.6 million.

Army Prepositioning Afloat Program

The Army currently has seven prepositioning ships that were activated from the Ready Reserve Force (RRF). The Army plans to use these ships until it takes delivery of five large, medium speed, roll-on/roll-off (LMSR) ships. At that time, the Army will transfer the materials from the seven existing ships to the five LMSR ships and return the seven ships to RRF.

The Army's fiscal year 1997 O&M budget request includes \$173.8 million to lease and operate the prepositioning ships. Included in the \$173.8 million is \$12.6 million to lease and operate six ships for 30 days to 92 days from the date the ships are unloaded until they are returned to RRF.²⁰ The Army added costs for 30 to 92 additional days between the unloading date and the date the ships are scheduled for return to RRF, because, according to an Army official, the additional days would be needed if LMSRs are not delivered as scheduled.

In addition, the Army's budget includes \$1.1 million to deactivate one ship on the last day of the fiscal year even though the Military Sealift Command has included the deactivation cost for the ship in its fiscal year 1998 budget.

In view of the fact that the Army included \$12.6 million for additional ship lease and operating costs and \$1.1 million for deactivation, which is scheduled for fiscal year 1998, Congress could reduce the Army's fiscal year 1997 O&M budget request by \$13.7 million.

²⁰The Army pays the Military Sealift Command for the lease and operation of the prepositioning ships.

Fuel Tax Refunds

The Internal Revenue code imposes a federal excise tax on gasoline and diesel fuel purchased. However, the military services are entitled to a refund for that portion of the fuel used on base. In September 1995, the Air Force Audit Agency²¹ and the Army Audit Agency²² reported that neither service is receiving all the refunds they are entitled to.

The Air Force Audit Agency estimated that because the Air Force had not established effective controls to ensure timely filing for the tax refunds, the Air Force could lose about \$8.5 million in fiscal year 1997 if corrective actions are not taken. The Army Audit Agency similarly reported that the Army could lose as much as \$2.3 million in fiscal year 1997 because of its failure to seek and obtain fuel tax refunds. Therefore, Congress may want to reduce the Air Force's fiscal year 1997 budget by \$8.5 million and the Army's by \$2.3 million to encourage them to improve their fuel tax refund filing procedures.

Bosnia Operations

The Air Force included \$74.4 million in its fiscal year 1997 O&M budget request for ongoing operations in Bosnia based on fiscal year 1996 cost estimates. In March 1996, we reported²³ that the Air Force's fiscal year 1996 costs may be significantly less than estimated because (1) per diem costs were less than planned (\$89 million instead of \$128 million) and (2) the number of flying hours in fiscal year 1996 was reduced by 1,900 hours.

We computed the estimated costs for fiscal year 1997 using the Air Force's updated fiscal year 1996 costs for per diem and transportation, and added an inflation factor of 3 percent. Our computation was \$4.7 million less than the Air Force's estimate.

In addition, the Air Force's cost estimate for the fiscal year 1997 air operations is overstated because the Air Force based its estimate on the fiscal year 1996 program before it was reduced by 1,900 hours (475 per quarter). As a result, air operations, which are planned to end after the first quarter of fiscal year 1997, are overstated by 475 hours, or \$910,695. Therefore, Congress may want to reduce the Air Force's fiscal year 1997 budget request by \$5.6 million (\$4.7 million plus \$900,000).

²¹Follow-up Audit—Management of Ground Fuel Tax Refunds (Air Force Audit Agency Project 94077011, Sept. 8, 1995).

²²Fuel Tax Refunds (Army Audit Agency NR-95-211, Sept. 8, 1995).

²³Bosnia: Costs Are Uncertain but Seem Likely to Exceed DOD's Estimate (GAO/NSIAD-96-120BR, Mar. 14, 1996).

Ammunition Maintenance

The Army, as the single manager for conventional ammunition, is responsible for managing and maintaining wholesale stocks of conventional ammunition for all the services. Each service provides O&M funds to the Army to pay for maintenance and repair of its ammunition.

In June 1996,²⁴ we reported that the Army plans to spend \$1.3 million and the Marine Corps \$3.9 million in fiscal year 1997 to restore ammunition items to a usable condition when, at the same time, there are already sufficient excess ammunition items in a ready-to-use condition. Table 5 shows the planned maintenance expenditures and the existing excess ammunition items.

Table 5: Fiscal Year 1997 Ammunition Maintenance Expenditures for Like-Type Excess Ammunition Items

Description	Excess inventory quantity	Planned maintenance	
		Quantity	Cost
5.56mm cartridge	22,301.8	288.1	\$86.4
40mm cartridge	727.7	50.0	112.5
40mm cartridge	1,049.0	350.0	1,118.5
155mm projectile	839.7	50.0	1,560.0
Fuze	3,773.6	245.0	2,290.8
Total	28,691.8	983.1	\$5,168.2

In view of the above, Congress may want to reduce the Army's and the Marine Corps' fiscal year 1997 O&M requests by \$1.3 million and \$3.9 million, respectively.

Mine Hunter Ships

The Navy plans to acquire 12 coastal mine hunter ships (MHC) by the end of fiscal year 1999 at a total cost of about \$1.5 billion. Although these ships were initially designed for U.S. coastal protection from Soviet mines, the need for them has greatly diminished with the breakup of the Soviet Union. In May 1995, the DOD-IG reported²⁵ that the Navy could deactivate 5 of the 12 MHC ships and achieve O&M cost avoidance of \$69.2 million²⁶

²⁴Defense Ammunition: Significant Problems Left Unattended Will Get Worse (GAO/NSIAD-96-129, June 21, 1996).

²⁵This report is classified.

²⁶The cost avoidance is the difference between the total O&M cost (\$76.2 million) for the 6-year period and the cost of inactivating the ships (\$7 million).

during fiscal years 1996-2001. In March 1996, we recommended²⁷ that the Navy consider deactivating and storing the five unneeded ships or transferring them to other allied navies through the foreign military sales program. The Navy is currently exploring these options.

By the end of fiscal year 1997, the Navy will have received 10 of the 12 ships and has identified a requirement for 7 of them. Our analysis showed that if the Navy deactivated three ships—the number of ships on hand by the end of fiscal year 1997 less the identified requirement—it could save about \$4.7 million (\$6.9 million total o&m costs less \$2.2 million for deactivating the ships). Therefore, Congress may want to consider reducing the Navy's o&m request by \$4.7 million to encourage the Navy to deactivate the unneeded ships.

Moral, Welfare, and Recreation

The Army's morale, welfare, and recreation (MWR) programs are quality-of-life programs that provide a variety of community, soldier, family, recreational, educational, and other support activities. The programs are funded by appropriated funds and/or nonappropriated funds. Appropriated fund support for the MWR programs is included in the Army's o&m budget request.

The Army Audit Agency reported²⁸ that the Army's Training and Doctrine Command could reduce its annual MWR overhead costs by \$2.1 million if it would transfer MWR accounting functions to a centralized accounting facility at the Red River Army Depot. The Army Audit Agency also reported that the Training and Doctrine Command was the only major Army command in the United States that had not transferred its MWR accounting functions to Red River.

In February 1996, the Command agreed to transfer its MWR accounting functions to Red River Army Depot. The transfer will save \$2.1 million, which will be available to fund other MWR programs. Because the fiscal year 1997 budget request does not reflect the transfer of accounting functions, Congress could reduce MWR appropriated fund support to the Army by \$2.1 million and not adversely affect MWR services.

²⁷Navy Mine Warfare: Budget Realignment Can Help Improve Countermine Capabilities (GAO/NSIAD-96-104, Mar. 13, 1996).

²⁸Morale, Welfare, and Recreation Overhead and Layering (Army Audit Agency SR 95-710, Aug. 9, 1995).

Scope and Methodology

This review is one of a series that examines defense budget issues. Our review approach consisted of interviews with program and budget officials responsible for managing the programs and/or preparing the budget requests; reviews and analyses of financial, budget support, and program documents related to the O&M issues being reviewed; and analysis of prior-year funding levels and obligations to identify trends. In addition, we reviewed our ongoing assignments and recently issued reports as well as recently issued reports of the DOD-IG and the service audit agencies to identify issues with O&M ramifications.

Our review was performed at Army, Navy, Air Force, and DOD headquarters; USAREUR; FORSCOM; Atlantic and Pacific Fleets; and Air Combat Command. We performed our review from January to June 1996 in accordance with generally accepted government auditing standards.

Representatives of the services and DOD were given an opportunity to comment on the issues in this report. Their comments were incorporated in the report where appropriate.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Director of the Office of Management and Budget; the Chairmen and Ranking Minority Members of the House and Senate Committees on Appropriations, Senate Committee on Armed Services, and House Committee on National Security; and other interested congressional committees. Copies will be made available to others upon request.

This report was prepared under the direction of Mark E. Gebicke, Director, Military Operations and Capabilities Issues, who may be reached on (202) 512-5140 if you or your staff have any questions. Major contributors to this report are listed in appendix I.



Henry L. Hinton, Jr.
Assistant Comptroller General

List of Congressional Committees

The Honorable Ted Stevens
Chairman
The Honorable Daniel K. Inouye
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable John McCain
Chairman
The Honorable John Glenn
Ranking Minority Member
Subcommittee on Readiness
Committee on Armed Services
United States Senate

The Honorable John R. Kasich
Chairman
The Honorable Martin Olav Sabo
Ranking Minority Member
Committee on the Budget
House of Representatives

The Honorable Herbert H. Bateman
Chairman
The Honorable Norman Sisisky
Ranking Minority Member
Subcommittee on Military Readiness
Committee on National Security
House of Representatives

The Honorable C. W. Bill Young
Chairman
The Honorable John P. Murtha
Ranking Minority Member
Subcommittee on National Security
Committee on Appropriations
House of Representatives

Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

Robert J. Lane
Carole F. Coffey
Donna M. Rogers

**Atlanta Regional
Office**

Robert M. Crowl
Harry F. Jobes

**Kansas City Regional
Office**

Leonard C. Hill
Robert C. Sommer
Mark T. Amo

**Los Angeles Regional
Office**

Revae E. Steinman
Dale M. Yuge
Yelena K. Thompson

**Norfolk Regional
Office**

Thomas A. Pantelides
Robert C. Mandigo, Jr.
Cora M Bowman
Raul S. Cajulis
Linda H. Koetter
Jeanett H. Reid

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

