

GAO

Transition Series

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Defense Issues



Comptroller General
of the United States

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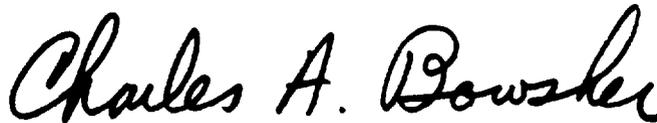
November 1988

The President of the Senate
The Speaker of the House of Representatives
The Secretary-designate of Defense

This transition report is one in a series of reports that address critical program management issues facing the new administration and the Congress. These issues, the problems associated with each, and recommended actions are based on the results of our work in the Department of Defense. Some of these concerns are new, whereas others represent long-standing and unresolved problems over many years.

This report identifies five important issues we believe should be included in whatever agenda the Congress and the Secretary of Defense set for our nation's defense program. These issues are (1) reducing defense costs, (2) maintaining readiness and sustainability of defense forces, (3) improving the weapon systems acquisition process, (4) improving peacetime inventory management, and (5) ensuring a first-rate management team.

These issues are discussed in detail in the reports listed at the end of this report.



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Reducing Defense Costs

Between 1980 and 1985, the annual defense budget doubled. Since then, it has declined in real terms. For 1989, it stands at \$300 billion and the Department of Defense (DOD) will likely have to live with constrained or no growth budgets for some time to come. Yet, each of the services says it needs many billions of dollars more to complete its modernization and expansion programs. For example, DOD recently estimated the cost of the first strategic defense system at \$69 billion, while other estimates of the cost for deploying a full population protection strategic defense system range as high as a trillion dollars. In addition to the high costs to acquire weapons, additional billions of dollars will be needed to operate and maintain them. In short, DOD needs to balance strength with affordability.

DOD must adjust its proposed programs and spending patterns to recognize current fiscal realities. Its 1988-1992 five-year defense plan contained programs which would cost about \$200 billion more than DOD can expect to receive during that period. And even this inflated plan would not complete all planned programs.

In November 1987, Congress and the administration reached agreement on the

fiscal year 1989 budget, beginning a collaborative effort to constrain the defense budget. But much remains to be done. Steps that DOD and the Congress will need to take include the following.

- Reduce and realign planned programs. In so doing, cancel marginal systems and delay systems not ready for production. Do not continue to buy new weapons at inefficient production rates which increase costs. Also, avoid the tendency to cut operation and support funds, which results in weapons that cannot be adequately supported.
- The Secretary of Defense must provide sound fiscal guidance to the services. This will help ensure that requirements are realistically balanced with funding availability and that the five-year defense program reflects achievable goals. Fiscally achievable defense plans contribute to greater program stability. Program instability has long been recognized as a severe problem in managing weapon system programs.
- Look for common missions and families of equipment to achieve greater efficiency. In the past, for example, we have developed a variety of systems—land based to aircraft to attack tanks. While some variety

may be desirable, we must exercise greater restraint because we cannot afford to replace weapon systems on a one-for-one basis.

- Assess manpower and compensation systems, including retirement, with the goal of reducing costs. The cost of military personnel, including retirement, represents about 26 percent of the DOD budget. It is becoming too expensive to recruit, train, and retain highly skilled personnel and then have them retire at the peak of their careers. The average retirement age for enlisted personnel in 1987 was 41. The average for officers was 45.
- The Secretary of Defense needs to carefully consider the long-term cost implications of adding new weapon systems to the DOD inventory. This need is perhaps best illustrated by the decision made in the early 1980s, at a time when DOD expected continued budgetary growth, to bring four World War II battleships back into the fleet. While the activation costs for these battleships were significant (nearly \$2 billion), it will cost even more to operate and maintain them. For example, this year alone, three of the reactivated battleships will cost over \$150 million to operate and will require about 4,600 Naval personnel. This comes at a time when defense costs

must be contained. It also comes at a time of personnel shortages.

- Rethink the viability of U.S. worldwide commitments and current levels of U.S. allies' burdensharing. The rising costs of our worldwide commitments, in the absence of increased burdensharing by our allies, may simply be unaffordable. Any reassessment of our commitments should consider force structure reductions.

Maintaining Readiness and Sustainability of Defense Forces

As DOD and the Congress look for ways to reduce the cost of defense, it is important not to shortchange the readiness and sustainability of our forces. There continues to be a sizable disparity between requirements and the resources available to meet them. For example, airlift and sealift capability are significantly below stated requirements and forces may not be able to deploy within needed timeframes. The major warfighting commands, moreover, have reservations about their ability to sustain their forces, once deployed.

There are serious shortages of sustainability items, particularly high tech, sophisticated munitions, such as air-to-air and air-to-ground missiles in the Air Force and Navy and surface-to-air munitions in the Army. Certain U.S. forces may exhaust their medical and petroleum, oil, and lubricant supplies before the first major battle is concluded. At the same time, there are billions of dollars of unneeded inventories of other items. The answer is thus not necessarily the need for more money, but the need to better manage and allocate existing funds.

A fairly recent phenomenon which deserves special scrutiny is the steady shift of missions from the active forces to the reserve forces in an attempt to reduce

defense costs. There will likely be a tendency for this to continue because reserve forces cost less than active forces. The ability of the reserves to carry out their missions and support active forces is questionable. For example, about 70 percent of the Army's combat support/combat service support units are in the reserve components. However, due to personnel, equipment, and training problems, these vital support forces are not well prepared and may not be able to deploy as required. Decisionmakers should assess the readiness implications before making additional transfers of missions from the active to the reserve forces.

Improving the Weapon Systems Acquisition Process

The procurement of weapons takes a large portion of the DOD budget. With the recent revelations of fraud, waste, and abuse, the public and the Congress are seriously questioning DOD's ability to effectively manage its acquisition programs. Cost growth, extremely long acquisition times, and program stretchouts resulting in inefficient production rates remain common problems. Of the many reforms that are needed, the following stand out.

- To be efficient, the acquisition process must be stabilized. Without stability, the process will continually face uneconomical program stretchouts, cost overruns, and management inefficiencies. Since the mid-1960s, the DOD budget has been characterized by rapid growth followed by austerity followed by rapid growth again. This instability inhibits managers from making sound decisions. The incentive is to procure as much as possible while money is available. Achieving greater budget stability will go a long way toward providing the underlying foundation for sound management of defense resources and reducing the opportunities for fraud, waste, and abuse.
- Along with funding stability is the need for sound management and internal control systems. DOD is often too reactive

rather than proactive in implementing its internal control programs. Industry also needs to be closely examined to ensure that it has adequate internal control systems. It may be time to consider legislation which would require annual management reports by defense contractors on their internal controls and an independent public accountant's opinion on management's representation.

- DOD needs to increase the professionalism of its procurement workforce. Frequently, key acquisition positions are filled with people who are unprepared for their assignments, especially at the program office level.
- Operational test and evaluation (OT&E) of weapon systems conducted by the military services' independent test agencies needs to be improved. The usefulness of OT&E in estimating a weapon system's performance has been limited because of insufficient resources to conduct testing, deferral of certain critical tests until after the production decision, failure to simulate realistic battlefield conditions during testing, and acceptance of products which do not meet the test criteria. There is a need for greater vigor in OT&E and greater oversight over OT&E by the Office of the Secretary of

Defense's Office of the Director of Operational Test and Evaluation.

- Over the years, congressionally required Selected Acquisition Reports (SARS), which are intended to provide data on the status of major weapon programs, have been subjected to many revisions in attempts to make them more useful and informative to decisionmakers. Unfortunately, the net effect of these changes has made the SARS rather voluminous and somewhat difficult to understand. They need to be revamped.

Improving Peacetime Inventory Management

To support its weapon systems, base operations, and other activities, DOD's supply systems contain almost 5 million different items. The sheer magnitude of these inventories makes it imperative that the military services and defense agencies maintain sound management and internal control systems which promote efficient and effective operations, support military missions, and protect inventories from fraud, waste, and abuse.

DOD's inventory of secondary items, such as spare and repair parts, is at an all-time high. At the depot level alone, the value of these items grew from \$43 billion in 1980 to \$94 billion in 1987. While much of this growth resulted from increased costs due to inflation and the need to support weapon systems modernization, a sizable portion represented unneeded inventories. The amount of unneeded secondary items increased from \$10.1 billion in 1980 to \$28.9 billion in 1988, much faster than needed items. In 1987, unneeded inventory represented 31 percent of total inventory compared with 23 percent in 1980. More efficient inventory management by the military services and defense agencies should reduce these inventories, which could free defense dollars for other areas without reducing readiness.

In the last several years, GAO and DOD have reported on serious inventory management deficiencies, such as inaccurate records, poor physical safeguards, and inadequate controls and accountability over government property furnished to contractors. While the military services and defense agencies have taken steps to address many of these problems, more needs to be done, such as

- improving systems and procedures for determining inventory requirements,
- developing better criteria for measuring and reporting on inventory management effectiveness,
- improving methods of identifying inventory inaccuracies and their causes, and
- evaluating alternative management strategies to reduce the government's inventory investment.

Ensuring a First-Rate Management Team

DOD is perhaps the largest and most complex organization in the world. Effective management of DOD has always been formidable. The unprecedented peacetime buildup of defense during this decade, coupled with disclosures of excessive prices paid for defense parts, followed by the current procurement scandal has magnified DOD's management challenges. Central to meeting these challenges is the need for a DOD management team of high quality and integrity and with sound qualifications and experience. A first-rate management team is key to effective control of the military establishment and, in turn, an efficient, effective, and economical national defense for our citizenry. Also, the Secretary of Defense must have a central role in the selection of his management team.

Related GAO Products

U.S. Defense Burden Sharing with Japan and NATO Allies (GAO/T-NSIAD-88-31, May 10, 1988).

Defense Budget and Program Issues, Fiscal Year 1989 Budget (GAO/T-NSIAD-88-18, Mar. 14, 1988).

Navy Ships: Status of the Navy's Fleet Expansion Efforts (GAO/C-NSIAD-88-3, Oct. 27, 1987).

Navy Contracting: Cost Overruns and Claims Potential on Navy Shipbuilding Contracts (GAO/NSIAD-88-15, Oct. 16, 1987).

Navy Ships: Information on Benefits and Costs of Establishing New Homeports (GAO/NSIAD-86-146, June 3, 1986).

Readiness of Army Guard and Reserve Support Forces (GAO/T-NSIAD-88-25A, Apr. 13, 1988).

Military Draft: Potential Impacts and Other Issues (GAO/NSIAD-88-102, Mar. 10, 1988).

Army Ability to Support Initial Combat Operations in Europe (GAO/T-NSIAD-88-11A, Mar. 9, 1988).

Weapons Testing: Quality of DOD Operational Testing and Reporting (GAO/PEMD-88-32BR, July 26, 1988).

Strategic Bombers: B-1B Parts Problems Continue to Impede Operations (GAO/NSIAD-88-190, July 26, 1988).

DOD Acquisition Programs: Status of Selected Systems (GAO/NSIAD-88-160, June 30, 1988).

SDI Program: Status of Phase I Strategic Defense System (GAO/C-NSIAD-88-18, June 27, 1988).

Aquila Remotely Piloted Vehicle: Its Potential Battlefield Contribution Still in Doubt (GAO/NSIAD-88-19, Oct. 26, 1987).

DOD Acquisition: Strengthening Capabilities of Key Personnel in Systems Acquisition (GAO/NSIAD-86-45, May 1988).

Defense Inventory: Growth in Secondary Items (GAO/NSIAD-88-189BR, July 19, 1988).

DOD Inventory Management: Revised Policies Needed (GAO/NSIAD-88-75, Jan. 14, 1988).

Contract Pricing: Defense Contractor Cost Estimating Systems (GAO/NSIAD-88-7, Jan. 5, 1988).

Defense Management and Procurement
Issues (GAO/T-NSIAD-88-38, July 11, 1988).

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The Budget Deficit (GAO/OCG-89-1TR)

The Public Service (GAO/OCG-89-2TR)

Revenue Options (GAO/OCG-89-3TR)

Financial Services Industry Issues (GAO/OCG-89-4TR)

International Trade Issues (GAO/OCG-89-5TR)

Information Technology Issues (GAO/OCG-89-6TR)

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Department of Labor Issues (GAO/OCG-89-21TR)