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Subject: 1998 DOD Budget: Operation and Maintenance Program

This report evaluates the military services' and the Department of Defense's (DOD) fiscal year 1998 operation and maintenance (O&M) budget requests, which total about $94 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. The 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.

In March, April, and June 1997, 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. We have not acknowledged these committee actions because in some cases House and Senate actions have varied and conference actions are still pending.** Further, this report does not include issues such as bulk fuel that no longer warrant a potential reduction based on updated information. The following sections briefly discuss each of the potential reductions.

As shown in table 1, we identified potential budget reductions of about $3.7 billion to the fiscal year 1998 O&M budget requests.

Table 1: Potential Reductions to the Fiscal Year 1998 O&M Budget Requests by Program Category

(Dollars in millions)

Category	Army	Navy	Marine Corps	Air Force	Defense	Total
Inventory Management						
Secondary inventory purchases	$301 3	$343 6		$ 962 9		**$1,607.8**
Inventory holding costs	57 7	319.5		4 5		**381.7**
Navy supplies		24.0				**24.0**
Army supply items	15 0					**15.0**
Unobligated funds	146 4	128.1		145 1		**419.6**
Medical care delivery					$305 0	**305.0**
Civilian personnel	120 5	2.8		28 1	17 7	**169.1**
Training infrastructure		55.0	$2 9	98 5	12 0	**168.4**
Pilot training requirements	2 6	59.7		56 3		**118.6**
Transportation	38 1	10.7	3 2	20 8	27 3	**100.1**
Environmental restoration					73 0	**73.0**
Operating Tempo	72 5					**72.5**
Training aircraft				67 0		**67.0**
Maintenance operations	65 0					**65.0**
Aircraft storage				42 4		**42.4**
Aircraft engine repairs				37 5		**37.5**
Depot maintenance	27 0					**27.0**
Combat ammunition system				14 3		**14.3**
Air defense units	11 7					**11.7**
Medium launch vehicles				8 1		**8.1**
B-1B bomber				[a]		[a]
Total	**$857.8**	**$943.4**	**$6.1**	**$1,485.5**[b]	**$435.0**	**$3,727.8**[b]

[a]O&M savings would depend on whether DOD adopted any of the three B-1B options that GAO proposed.

[b]Figure does not include potential budget reduction for B-1B bomber.

INVENTORY MANAGEMENT

The fiscal year 1998 budgets for spare parts for the Army, the Navy, and the Air Force can be reduced by $2,028.5 billion for secondary inventory purchases, inventory holding costs, Navy supplies, and Army supply items. These issues are summarized below.

Secondary Inventory Purchases

In our February 1997 report on defense logistics,[1] we noted that $34 billion of DOD's $69.6 billion secondary inventory on hand as of September 30, 1995, exceeded then-current operating and war reserve requirements. Although DOD had reduced its inventory from $77.5 billion since September 30, 1993, about half of the inventory continues to exceed current operating and war reserve requirements.

Further analysis showed that inventory valued at $1.1 billion represented 100 or more years of supply. Officials cited changing requirements as a contributing factor for accumulating most of the inventory on hand that exceeds current needs.

Our analyses of past DOD inventory reports show that the purchase of inventory in excess of current requirements is a continuing problem. For example, as of September 30, 1991, $3.6 billion, or 20.3 percent, of the $17.6 billion in inventory on contract or on purchase request exceeded then-current operating and war reserve requirements. As of September 30, 1995, $1.8 billion, or 21.4 percent, of the $8.6 billion in inventory on contract or on purchase request exceeded then-current operating and war reserve requirements. Our analysis of DOD's inventory reports as of September 30, 1996, showed that at that time, the Army, the Navy, the Air Force, and the Defense Logistics Agency had $8.6 billion of inventory either on contract or on purchase request. These reports showed that $1.6 billion, or 18.8 percent, of the $8.6 billion exceeded then-current operating and war reserve requirements.

In commenting on a draft of this report, DOD officials stated that applying the criteria used to buy new items to existing inventory is not appropriate. They reasoned that if decisions are made to dispose of items that are going to be

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[1]Defense Logistics: Much of the Inventory Exceeds Current Needs (GAO/NSIAD-97-71, Feb. 28, 1997).

needed in the future, resource requirements would actually increase significantly. According to DOD officials, the budget request for fiscal year 1998 already includes inventory reductions during the year of $2.8 billion. Prices have been reduced to reflect these savings. DOD officials stated that further reductions cannot be absorbed within supply management cash and income levels and must be passed to customers where it will drastically affect their programs.

We recognize that DOD is cutting back its inventories due to downsizing and other factors. However, as we indicated, even though DOD has made reductions in inventory purchases to reflect this downsizing, over time it continues to have items on contract that are beyond its needs. Further, DOD officials could not provide documentation to show that the fiscal year 1998 budget had been reduced by $2.8 billion to reflect inventory reductions they said were taken during the year. We believe further reductions in this area are possible. As we pointed out, DOD purchases that are excess to current needs run at about 20 percent. We consistently reported that more modern inventory practices such as the use of a prime vendor concept for consumable hardware items would help to avoid this situation. Therefore, DOD's fiscal year 1998 O&M budget request could be reduced by $1.6 billion to minimize the amount of inventory excess to current needs. The individual reductions are $301.3 million for the Army, $343.6 million for the Navy, and $962.9 million for the Air Force.

Inventory Holding Costs

In January 1997,[2] we reported that most of the services' inventory items stored at nonmajor locations were in small quantities. In fact, over 53 percent of the items were in quantities of three or fewer, while only 25 percent were in quantities of 11 or more. The inventory at the nonmajor locations was valued at over $8.3 billion. Of the $8.3 billion of inventory at the nonmajor locations, $2.7 billion of it was not needed to meet the services' then-current operating and war reserve requirements. Our analysis also showed that many of the Army items[3] were infrequently issued over the 2-year period ending August

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[2]Defense Inventory: Spare and Repair Parts Inventory Costs Can Be Reduced (GAO/NSIAD-97-47, Jan. 17, 1997).

[3]Information was not readily available from the Air Force and the Navy to determine the number of inventory issues on an item-by-item basis at each storage location.

1996. Over 53 percent of the items at nonmajor storage locations had no issues, and an additional 33 percent of the items had fewer than five issues during the same time period.

On the basis of our analysis of the holding costs assigned to each inventory item, we determined the services could reduce their annual inventory holding costs by about $382 million by eliminating inventory at nonmajor locations that is not needed to meet current operating and war reserve requirements. Our analysis indicated that the Army was paying holding costs for 4,735 line items of inventory that were excess to then-current operating and war reserve requirements; the Navy was paying holding costs for 95,989 of such excess line items; and the Air Force was paying holding costs for 822 of these excess line items. We calculated the holding costs for these excess line items using the services' variable holding costs per item.

The services' fiscal year 1998 O&M budget requests could be reduced by about $382 million to eliminate inventory excess to current requirements at the nonmajor storage locations by attrition, consolidation, or disposal. The Army's, the Navy's, and the Air Force's requests could be reduced by $57.7 million, $319.5 million, and $4.5 million, respectively.

Navy Supplies

We reported in August 1996,[4] that the Navy's item managers did not have adequate visibility over the $5.7 billion in operating materials and supplies on board ships and at its 17 redistribution sites. We found that, because of this lack of visibility, materials and supplies valued at $883 million, or 15 percent, were excess to then-current operating allowances or needs. Lacking adequate visibility, item managers incurred unnecessary costs of about $27 million in the first half of fiscal year 1995 as a result of ordering or purchasing items that were on hand at operating locations and classified as excess. Our review of item managers' forecasted spending plans for the second half of fiscal year 1995 and fiscal years 1996 and 1997 found planned purchases of items considered excess at the operating level that could result in the Navy's incurring about $38 million in unnecessary costs. This means that over a 3-year period, the Navy purchased or planned to purchase $65 million in items that were excess to

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[4]Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, Aug. 16, 1996).

then-current needs. Assuming that future planned purchases follow this pattern, we estimate that for fiscal year 1998, the Navy will purchase items in excess of current requirements costing over $21 million.

In this same report, we also recommended that the Navy close its 17 redistribution sites, which are consumer-level storage facilities located in the same general geographical areas as the wholesale supply activities. According to Congressional Budget Office (CBO) estimates, eliminating the 17 sites would reduce associated operating costs by $3 million in fiscal year 1998.

In June 1997, the Navy told us it was implementing automated initiatives to improve the visibility of assets on ships and at redistribution sites. It also said that it had incorporated these anticipated improvements into its fiscal year 1998 budget request. However, the Navy did not provide us with sufficient data to verify its reductions to the fiscal year 1998 request or the cost savings anticipated as a result of its planned improvements. Therefore, we continue to believe that the Navy's fiscal year 1998 O&M budget request could be reduced by $24 million ($21 million for operating materials and supplies in excess of current requirements and $3 million for its redundant redistribution sites) to improve its visibility over operating materials and supplies and eliminate the redundancy in distributing these supplies.

Army Supply Items

A March 1997 U.S. Army Audit Agency report found that the acquisition data in the Army's Total Asset Visibility capability were inaccurate or incomplete.[5] For example, at the U.S. Army Aviation and Troop Command and the U.S. Army Communications-Electronics Command, acquisition data for about $7.7 billion in assets ordered by project and product managers were not in the Total Asset Visibility capability. The U.S. Army Audit Agency also found that project and product manager personnel generally were not using the Total Asset Visibility capability to make buy, repair, or redistribution decisions. For example, at two commodity commands, the U.S. Army Audit Agency used the Total Asset Visibility capability to identify about $13.3 million in excess assets on hand at retail and wholesale activities that the two commands could have used to reduce planned acquisitions or fill back-ordered requisitions. Also, materiel managers at the commodity commands did not consider excess assets

[5]Total Asset Visibility Acquisition Data, U.S. Army Audit Agency (AA 97-135, Mar. 3, 1997).

stored at a redistribution center operated by U.S. Army Forces Command before they made buy or distribution decisions. The U.S. Army Audit Agency used the Total Asset Visibility capability to identify about $1.7 million in excess assets stored at the distribution center that the commodity commands could have used to reduce planned acquisitions or fill back orders.

In June 1997, the Army reported that it was working to resolve issues discussed in the U.S. Army Audit Agency report and to validate its data. The Army said that it believed that making reductions in fiscal year 1998 would be premature. However, we continue to believe that the Army's fiscal year 1998 O&M budget request could be reduced by $15 million ($13.3 million for excess assets on hand at retail and wholesale activities and $1.7 million for excess assets stored at the distribution center operated by Forces Command).

UNOBLIGATED FUNDS

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, 1996, the Army, the Navy, and the Air Force had unobligated balances from prior year appropriations totaling $1.9 billion ($713.20 million for the Army, $563.52 million for the Navy, and $626.22 million for the Air Force). Service officials have stated that unobligated balances are needed to satisfy upward adjustments to obligations that have not yet been liquidated. Our analysis shows that unobligated balances have been increasing rather than decreasing and that the average annual increase for each service over the last 4 years has been $146.36 million for the Army, $128.05 million for the Navy, and $145.06 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 the unobligated balances was $419.6 million. In view of this overall trend in inaccurately establishing either requested amounts or obligations for specific projects, the services' fiscal year 1998 O&M budget requests could be reduced by this amount to more accurately reflect what is actually needed. The individual reductions

are $146.4 million for the Army, $128.1 million for the Navy, and $145.1 million for the Air Force.

MEDICAL CARE DELIVERY

DOD's managed care system--TRICARE--is intended to make health care benefits uniform regardless of venue, but some cost sharing is still based on where patients receive their care. Under TRICARE, beneficiaries pay the same enrollment fees whether they are enrolled with a military or civilian primary care manager. However, subsequent cost sharing--in the form of copayments for visits--is not required for care provided in military clinics but is required for care from civilian providers. We have testified and issued several reports[6] about problems controlling costs as well as the inequities in the military health service system.

According to CBO estimates, DOD could save $305 million in its Defense Health Program in fiscal year 1998 by establishing beneficiary cost-sharing requirements for care received in military hospitals that are similar to the cost sharing for care that beneficiaries receive from civilian providers. Therefore, Congress could direct DOD to effect this change and correspondingly reduce DOD's fiscal year 1998 request for its Defense Health Program by $305 million or use this amount to offset any shortfall in that program.

CIVILIAN PERSONNEL

The services' and DOD's fiscal year 1998 budget requests for civilian personnel could be reduced by $169.1 million[7] because (1) the projected civilian personnel

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[6]Defense Health Care: New Managed Care Plan Progressing, but Cost and Performance Issues Remain (GAO/HEHS-96-128, June 14, 1996); Defense Health Care: Despite TRICARE Procurement Improvements, Problems Remain (GAO/HEHS-95-142, Aug. 3, 1995); Defense Health Care: DOD's Managed Care Program Continues to Face Challenges (GAO/T-HEHS-95-117, Mar. 28, 1995); Defense Health Care: Issues and Challenges Confronting Military Medicine (GAO/HEHS-95-104, Mar. 22, 1995); Defense Health Care: Lessons Learned From DOD's Managed Health Care Initiatives (GAO/T-HRD-93-21, May 10, 1993).

[7]While the majority of the reductions apply to the O&M appropriation, there are reductions that apply to other direct appropriations.

levels at the beginning of fiscal year 1998 will be less than those the services used to determine their 1998 budget requests and (2) the amount requested in the budget requests differs from the amount shown in the budget justification documents.

Based on the number of Army, Navy, Air Force, and DOD civilian personnel on-board as of June 30, 1997, we estimate that the end strength at the end of fiscal year 1997--the beginning figure for fiscal year 1998--will be 11,091 personnel less than the figure used by the services to determine their fiscal year 1998 budget requests. Because the services estimated that more personnel will be on board at the beginning of fiscal year 1998, the requested work years are overstated by about 5,547 work years.

Additionally, we found that the total amount shown in the President's budget for civilian personnel was $8 million less than the amount shown in justification documents, for a net overstatement of $169.1 million (see table 2).

Table 2: Civilian Personnel Overstatement for Fiscal Year 1998

(Dollars in millions)

Service	Our estimated beginning strength for fiscal year 1998[a]	Beginning strength used in fiscal year 1998 budget request	Difference between our estimate and estimate in budget request	Work years	Overstatement value (direct funding only)[b]	Difference between amount in President's budget and supporting documentation	Total overstatement
Army	244,357	252,516	8,159	4,080	$127 5	($7)	$120.5
Navy	216,016	217,860	1,844	922	17 8	(15)	2.8
Air Force	176,372	177,138	766	383	14 1	14	28.1
Other DOD[c]	78,078	78,400	322	162	17 7	[c]	17.7
Total	**714,823**	**725,914**	**11,091**	**5,547**	**$177.1**	**($8)**	**$169.1**

[a]Actual end strength for fiscal year 1997 as of June 1997 is projected based on historical staffing patterns that account for end-of-month reporting of temporary hires and retirements.

[b]Equivalent work years multiplied by the applicable average annual compensation rates; these rates differ by service and the appropriation used to fund civilian positions, such as Army Military Construction ($41,832) and Army Research, Development, Test and Evaluation ($61,016).

[c]Selected DOD agencies (Defense Logistics Agency, Defense Investigative Service, DOD Inspector General, Defense Information Systems Agency, Defense Contract Audit Agency, and Defense Dependents Education). Some DOD agencies are presented in the President's budget in total under Defensewide appropriations and cannot be broken out separately for this analysis.

Because of the overstated personnel requirements, the services' fiscal year 1998 civilian personnel budget requests could be reduced by $169.1 million. The individual reductions are $120.5 million for the Army, $2.8 million for the Navy, $28.1 million for the Air Force, and $17.7 million for other DOD agencies.

TRAINING INFRASTRUCTURE

In our March 1996 report,[8] we reported that the cost of providing formal military training and education to individuals increased significantly from fiscal years 1987 through 1995. During that period, the training cost per student increased by over $19,000--from about $53,194 to $72,546. (After considering the effect of inflation, the cost per student increased by about $4,200 a year.) This cost differential when multiplied by the fiscal year 1995 training workload

[8]DOD Training: Opportunities Exist to Reduce the Training Infrastructure (GAO/NSIAD-96-93, Mar. 29, 1996).

shows that training costs since fiscal year 1987 have increased about $745 million more than normal inflation, even though the training workload has decreased.

DOD and the services have completed several actions to reduce the training infrastructure, and even more actions will be implemented over the next several years. The actions are intended to (1) reduce the number of locations where a particular course is taught, (2) increase interservice training, and (3) increase the use of private sector instructors and facilities. Additionally, the Base Realignment and Closure Commission's actions to close and realign bases where training is conducted are also expected to reduce the training infrastructure. However, an overall plan to guide and measure the progress of reducing the training infrastructure is lacking.

The lack of a management information system with reliable cost data within the various training categories makes it difficult for DOD to evaluate the overall effectiveness of alternate methods of providing training and to assess whether actions taken to reduce costs are achieving the expected results. The need for reliable data and a system for evaluating it has become even more critical because excess training infrastructure identified in the future will be difficult to eliminate in the absence of a BRAC-like process.

Congress could ensure that DOD addresses these problems by capping the funding level for formal education and training at the fiscal year 1997 appropriation level. Therefore, the services' and DOD's fiscal year 1998 O&M budget requests could be reduced as shown in table 3.

Table 3: Potential Reductions to DOD's and the Services' Fiscal Year 1998 O&M Request for Training

(Dollars in millions)

	Fiscal year 1997 O&M funding level	Fiscal year 1998 request	Potential reduction
Navy	$639.2	$694.2	$55.0
Marine Corps	41.1	44.0	2.9
Air Force	636.8	735.3	98.5
Defense-wide[a]	152.2	164.2	12.0
Total[b]	**$1,469.3**	**$1,637.7**	**$168.4**

[a]Defense-wide figures include recruiting costs.

[b]Totals exclude the Army because the Army's fiscal year 1998 request of $592 million has been reduced from the fiscal year 1997 appropriated level of $614.4 million. Thus, we have not recommended a reduction.

PILOT TRAINING REQUIREMENTS

Our February 1997 report[9] showed that for fiscal year 1996, the Army, the Navy, the Marine Corps, and the Air Force had designated 11,336 positions, or about 25 percent of all aviator positions, as nonflying positions to be filled by aviators. In determining their aviator training requirements, the services consider both flying and nonflying positions. Including nonflying positions increases the total aviator requirements and results in the services' projecting aviator shortages in the upcoming fiscal years. To compensate for this perceived shortage, the services plan to increase the number of pilots it trains between fiscal year 1997 and 2001, as shown in table 4.

[9]DOD Aviator Positions: Training Requirements and Incentive Pay Could Be Reduced (GAO/NSIAD-97-60, Feb. 19, 1997).

Table 4: Number of Pilots to Be Trained

Fiscal year	Army	Navy	Marine Corps	Air Force
1997	436	569	307	654
1998	576	633	322	900
1999	570	645	322	1,025
2000	570	645	322	1,025
2001	570	645	322	1,050
Total	**2,722**	**3,137**	**1,595**	**4,654**

As shown in table 5, there are more than enough aviators available to satisfy all flying position requirements through fiscal year 2001.

Table 5: Flying Requirements Versus Available Pilots

Fiscal year	Service	Pilots		
		Inventory	Flying requirement	Difference
1997	Air Force	14,492	11,162	3,330
	Navy	7,768	5,766	2,002
	Marine Corps	3,229	2,641	588
	Army	10,382	8,998	1,384
1998	Air Force	13,785	11,040	2,745
	Navy	7,821	5,780	2,041
	Marine Corps	3,250	2,618	632
	Army	10,017	9,162	855
1999	Air Force	13,270	11,051	2,219
	Navy	7,822	5,780	2,042
	Marine Corps	3,257	2,618	639
	Army	9,817	9,162	655
2000	Air Force	13,085	11,051	2,034
	Navy	7,864	5,780	2,084
	Marine Corps	3,250	2,618	632
	Army	9,679	9,162	517
2001	Air Force	13,074	11,168	1,906
	Navy	7,912	5,788	2,124
	Marine Corps	3,240	2,618	622
	Army	9,583	9,162	421

To the extent that the number of nonflying pilot positions could be filled by nonaviators, the pilot training requirements could be reduced. About $5 million in cost savings could be achieved over several years for each Navy, Marine Corps, and Air Force pilot candidate and about $366,000 for each Army helicopter pilot candidate not trained.

The services have not reviewed their nonflying positions to determine which ones could be filled by nonaviators. However, even if only 5 percent of the positions could be converted to nonaviator positions, the savings in pilot training costs would be significant. For example, assuming that the number of pilots the services plan to train in fiscal year 1998 were reduced by 5 percent--about 122 pilot candidates--and the average training cost is $5 million for the Navy, the Marine Corps, and the Air Force and $366,000 for the Army, the total reduction in pilot training costs would be about $474.3 million. According to service officials, it takes about 4 years to fully train a pilot. Therefore, on average, the $474.3 million in reduced training costs equates to about $118.6 million a year.

The services' fiscal year 1998 O&M budget requests could be reduced by $118.6 million based on a 5-percent reduction of pilots to be trained and the services' average training cost per pilot. The individual amounts are $2.6 million for the Army, $59.7 million for the Navy, and $56.3 million for the Air Force.[10]

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 Management Command, the Air Mobility Command, and the Military Sealift Command. USTRANSCOM operates under the Air Force Working Capital Fund, formerly the Defense Business Operations

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[10]For example, the Army plans to train 576 pilots in fiscal year 1998. The total pilot reduction for fiscal year 1998 would be 28.8, or 5 percent, of 576 pilots. Total training costs would be $10.5 million (28.8 pilot reduction multiplied by the $366,000 average training cost). The average training cost per year would be $2.6 million ($10.5 million divided by the 4 years it takes to fully train a pilot). The Navy receives the training funds and pays the pilot training costs for the Marine Corps. Therefore, the Navy's potential reduction of $59.7 million includes $20.1 million for the Marine Corps.

Fund system of financial management. Under this arrangement, 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.

In February 1996,[11] 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 the Military Traffic Management Command and the Military Sealift Command $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. The increased transportation costs are due to factors such as (1) fragmented transportation processes, (2) multiple organizational elements to implement these processes, and (3) component commands' organizational structures that require duplicative administrative and support activities.

The Fiscal Year 1996 Defense Appropriation and Authorization Conference Reports requested that DOD report on measures being taken to improve the efficiency of the transportation organizations and infrastructure under USTRANSCOM's control. DOD reported that USTRANSCOM, the Joint Staff, the services, the Office of the Secretary of Defense, and worldwide customers had aggressively implemented a wide range of organizational and process efforts to reduce overhead, improve efficiency, and ensure a defense transportation system capable of meeting the challenges of the twenty-first century. DOD stated that for fiscal years 1993 through 1999, these efforts will result in savings in excess of $500 million.

If USTRANSCOM makes the needed organizational changes and realizes anticipated savings, the services will need fewer O&M funds to pay for the more efficient and less costly USTRANSCOM transportation services. In our September 1996 report on DOD's fiscal year 1997 O&M budget, we suggested that Congress might wish to reduce USTRANSCOM's Defense Business Operating Fund budget by $250 million, or 5 percent, to encourage

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

USTRANSCOM to make the needed organizational changes.[12] The Fiscal Year 1997 Appropriations Act reduced the services' O&M accounts by $100 million to reflect anticipated USTRANSCOM reengineering and streamlining savings.

Based on the fact that USTRANSCOM anticipates savings in fiscal year 1998, USTRANSCOM's fiscal year 1998 O&M budget request could be reduced by $100 million. This amount represents a level of savings roughly commensurate with USTRANSCOM savings estimates.[13] The reduction should be allocated among the services based on the percentage of total transportation services that each of the military services and other DOD activities obtains from USTRANSCOM. The individual reductions are $38.1 million for the Army, $10.7 million for the Navy, $3.2 million for the Marine Corps, $20.8 million for the Air Force, and $27.3 million for other DOD activities.

DOD officials commented on a draft of this report that the fiscal year 1998 budget reflects the cumulative fiscal years 1993-1997 savings in the fiscal year 1997 funding level and a final savings increment of $44.3 million in fiscal year 1998. DOD stated that the additional $100 million reduction will not result in saving any more actual transportation costs and will result in significant underfunding of the transportation accounts. According to DOD officials, insufficient transportation funds will impact training and could curtail troop rotations which will adversely affect morale and readiness.

We recognize DOD and USTRANSCOM have taken steps intended to improve defense transportation processes and achieve savings. However, if DOD is making reductions in USTRANSCOM's budget to reflect savings, we have no evidence that savings of approximately $500 million in transportation costs have resulted in lowered transportation rates to O&M defense customers. Our preliminary analysis shows that transportation rates have continued to increase through fiscal year 1997. The rates for fiscal year 1998 are not available to us at this time. The intent of our recommendation is to encourage USTRANSCOM to pass on the savings in transportation costs to defense customers so more transportation capabilities can be procured with existing funds.

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[12]1997 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-96-220, Sept. 18, 1996).

[13]Calculation of $100 million potential budget reduction based on USTRANSCOM's projected savings of over $500 million divided by 6 years (fiscal years 1993 through 1999).

ENVIRONMENTAL RESTORATION

In March 1996,[14] we reported that the Army, in estimating its budget needs, does not consider the funds contributed by the Shell Oil Company for its share of the cleanup costs at the Rocky Mountain Arsenal. We also reported this issue in our report on DOD's fiscal year 1997 budget. According to Army officials, the funds in the Shell account are used to supplement appropriated funds transferred from the Defense Environmental Restoration Account and are generally not used to offset budget requirements. The Army includes the Rocky Mountain Arsenal's requirements for appropriated funds into a consolidated DOD budget request. Therefore, according to these officials, the Shell funds are not visible in the budgeting process and do not influence funding decisions. Army officials commented that it is not feasible to use the Shell funds to offset budget requirements in most instances because the funds do not represent a steady fixed flow and are not fiscal year specific. The Defense Environmental Restoration Program's planned execution for fiscal year 1997 was about $73 million, which is less than the fiscal year 1997 balance in the Shell account (about $92 million).

The amount of funds the Army transfers to O&M from the Defense Environmental Restoration Account in fiscal year 1998 could be reduced by $73 million and the remaining $19 million of the Shell account balance could be considered by the Army when submitting its fiscal year 1999 O&M budget request.

OPERATING TEMPO

The Army uses the Training Resource Model to compute its operation 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 reported in 1995 that the training model contained outdated assumptions that resulted in an overstatement of training requirements.[15] Although the Army is in the process of implementing corrective measures, the model remains outdated

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

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

and the Army continues to overestimate the amount of OPTEMPO funds it needs.

For fiscal year 1998, the Army requested about $2.42 billion for ground OPTEMPO based on a rate of 800 miles. However, we found that the Army consistently underexecuted OPTEMPO miles for fiscal years 1994 to 1996. For example, the Army executed only 642 miles in fiscal year 1996, the last full year for which information was available. In addition, the Army funded only 97 percent of the amount requested in the fiscal year 1997 President's budget.

Because the training model has not been updated to more accurately reflect actual training requirements and the Army has consistently underexecuted the stated OPTEMPO requirement of 800 miles, we estimate the Army's fiscal year 1998 request could be reduced about $72.5 million ($2.42 billion multiplied by 3 percent).

TRAINING AIRCRAFT

A 1996 Air Force Audit Agency report stated that the Air Force could reduce its cost for aircraft parts by better managing its training aircraft and their related parts.[16] The Agency reported that two Air Education and Training Command training wings maintained 23 permanently grounded training aircraft that were underused. The 23 aircraft contained parts and engines valued at over $135.2 million that the Air Force could use for current buy requirements totaling $36.8 million.

The Agency also reported that two Air Education and Training Command training wings did not complete reclamation screening for about 74 permanently grounded training aircraft that were needed for training. These aircraft contained $279.3 million of parts, components, and engines. The Air Force Audit Agency stated that some of these items could be used to fill part of the current $96.4 million in buy requirements.

Air Force Audit recommendations directed the Air Education and Training Command to (1) review and adjust the size of the fleet of permanently grounded training aircraft to the level needed to support student training requirements and (2) direct the training wings to screen, identify, remove, and turn in all

[16]Permanently Grounded Training Aircraft, Project 95051027 (Aug. 9, 1996).

aircraft parts that are not needed in training programs and that do not disfigure the exterior appearance of the aircraft.

As of December 1996, the Air Education and Training Command had reviewed its need for training aircraft and declared four of its aircraft excess at two training wings. However, it did not identify any resulting savings. As of January 1997, the Air Education and Training Command had rewritten its guidance to mandate that wings remove components, engines, and parts whose removal will not cause training degradation or disfigure the exterior appearance of the aircraft and turn them into base supply. Again, the Air Education and Training Command did not calculate any possible savings as a result of implementing the revised guidance.

DOD officials commented that the Air Force budget reflects a $38 million reduction in spare part buys associated with reclamation efforts. DOD officials stated that the savings directly attributable to the training aircraft we address are relatively small. Many of the parts available from these specific aircraft were not being purchased because sufficient inventories already existed or the parts were obsolete. In addition, some of the parts that were actually needed had already been removed from these aircraft. According to DOD officials, the savings from reclaiming additional parts were reflected in DOD's budget request.

While we recognize that DOD has made some reductions in spare part buys associated with reclamation efforts, we continue to believe that further savings through reclamation for these aircraft are possible. Based on the Air Force Audit Agency followup as of January 1997, the Air Education and Training Command did not identify any resulting savings from actions taken. Therefore, the Air Force's fiscal year 1998 O&M budget request could be reduced by about $67 million (50 percent of $133.2 million--$36.8 million for the 23 underused training aircraft's parts and engines and $96.4 million for the parts that can be used from the 74 aircraft still needed for training).

MAINTENANCE OPERATIONS

A March 1997 U.S. Army Audit Agency report stated that the process Army depots used to obtain, store, and issue repair parts for maintenance and fabrication programs did not provide the most cost-effective support to

maintenance operations.[17] The report stated that this process had three separate levels of retail inventory that were not cost-effective: (1) materiel in installation supply accounts, (2) materiel in automated storage and retrieval systems (mechanized warehouses in maintenance facilities), and (3) maintenance shop stocks. The report also concluded that the three levels of inventory were not necessary and resulted in extra handling of materiel at the depots. As repair parts flowed through the different inventory levels, depots received, stored, and issued the same item several times before a maintenance shop installed it in a piece of equipment. The redundant handling of materiel increased supply workload and the need for personnel. The Agency recommended that the Army consolidate inventories maintained by installation supply and maintenance activities and store almost all the materiel in retrieval systems and remove the need for Defense Logistics Agency's support and eliminate the redundant handling of materiel. It estimated that the Army could reduce on-hand inventory by at least $60 million if inventories were consolidated and save at least $5 million annually by eliminating the redundant handling of materiel.

In June 1997, the Army stated that, on the basis of the audit report, three pilot studies at three different depots will be conducted beginning on October 1, 1997, to determine the feasibility of the Agency's recommendations. The Army said that it believed that it would be premature to expect to realize any savings in fiscal year 1998. We continue to believe, however, that the Army's process of supporting maintenance operations can be streamlined and therefore the Army's fiscal year 1998 O&M budget request can be reduced by $65 million ($5 million for removing the need for Defense Logistics Agency support and eliminating the redundant handling of materiel and $60 million for reducing on-hand inventory by consolidating inventories).

AIRCRAFT STORAGE

In our September 1996 report we stated that the Air Force could reduce O&M costs by storing 126 fighter and attack attrition aircraft. However, attrition aircraft also exist for other types of aircraft. In 1992, an Air Force-sponsored study concluded that storage and reconstitution costs for F-15 and F-16 aircraft were 1.9 percent and 2.1 percent, respectively, of the aircraft's O&M costs. In addition, the Navy has found storage of excess aircraft for future use to be the

[17]Management of Repair Parts for Maintenance, U.S. Army Audit Agency (AA 97-161, Mar. 17, 1997).

most cost-effective means of managing these assets. It should be noted that some of the Air Force's attrition aircraft are not likely to be needed until after 2005 based on historical attrition rates. The Air Force could reduce its costs by storing attrition aircraft in excess of short-term needs.

The Air Force's fiscal year 1998 O&M budget request could be reduced by $42.4 million ($75,000 multiplied by 565 attrition aircraft). Our analyses of the operating and maintenance costs is based on the funding the Air Force gave Air National Guard units to operate and maintain additional attrition aircraft in fiscal year 1994--about $75,000 per aircraft.

AIRCRAFT ENGINE REPAIRS

A 1996 Air Force Audit Agency report stated that program management personnel at the Aeronautical Systems Center did not have an effective repair support program and adequate related internal controls for the F110 General Electric 129 and F100 Pratt & Whitney 229 engines.[18] Specifically, program managers did not provide depot repair procedures in a timely and economical manner and did not accurately compute engine repair requirements. The Agency found that program management personnel at the Aeronautical Systems Center did not develop depot repair procedures for new components or transfer existing repair procedures for components used on older engines for 29 of the 60 (48 percent) engine components reviewed. As a result, the Air Force could incur about $26.4 million in additional costs for spare item procurements and contractor repairs.

The Agency also found that equipment specialist personnel at Oklahoma City and San Antonio Air Logistics Centers had misstated estimated condemnation rates for 28 of the 59 (47 percent) engine components reviewed. As a result, buy and repair budget requirements were overstated by a net amount of $11.1 million ($14 million overstatement and $2.9 million understatement).

Audit recommendations included (1) establishing or transferring depot-level repair procedures, as necessary, for all F110 General Electric 129 and F100 Pratt & Whitney 229 engines and (2) ensuring that personnel comply with requirements for reviewing, computing, and supporting estimated condemnation rates. In commenting on the report, the Air Force concurred with both

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[18]F110-GE-129 and F100-PW-229 Engine Programs, Air Force Audit Agency, Project 95062007 (Oct. 7, 1996).

recommendations. As of March 31, 1997, the Air Force had not reported any resulting reductions in buy and repair requirements. In June 1997, the Air Force stated that a reduction in funds for these engines would result in shortages. However, we could not verify whether shortages would occur based on the data provided by the Air Force.

The Air Force's fiscal year 1998 O&M budget request could be reduced by $37.5 million ($26.4 million for the procurement and repair of its F110 General Electric 129 and F100 Pratt & Whitney 229 engines and $11.1 million for the engine components whose condemnation rates had been misstated).

DEPOT MAINTENANCE

In our September 1996 report,[19] we stated that opportunities existed to reduce Army depot maintenance costs by transferring, rather than privatizing-in-place, workloads from closing and downsizing depots. We estimated that consolidating the tactical missile workload at the Tobyhanna depot and transferring this workload from the Letterkenny depot could significantly improve the use of the Tobyhanna depot and decrease costs by as much as $27 million annually. Army officials stated that they are now studying and considering the possible transfer of the Letterkenny missile workload to Tobyhanna. If the Army transfers the Letterkenny missile workload to Tobyhanna, the Army's fiscal year 1998 O&M budget request could be reduced by $27 million.

COMBAT AMMUNITION SYSTEM

A 1997 Air Force Audit Agency report found that the Air Force planned to continue to upgrade the components of an information system to track combat ammunition.[20] According to the report, planned or ongoing modifications and upgrades to Air Force and command components of the systems did not comply

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[19]Army Depot Maintenance: Privatization Without Further Downsizing Increases Costly Excess Capacity (GAO/NSIAD-96-201, Sept. 18, 1996).

[20]Combat Ammunition System, Air Force Audit Agency, Project 96054009 (Jan. 17, 1997).

with Corporate Information Management initiative[21] requirements and DOD guidance. This condition occurred because the Air Force developed the initial modification and upgrade plans before DOD classified the two components as legacy systems. As a result, the Air Force was planning to spend over $38.7 million without obtaining a DOD waiver to the information management initiative requirements.

One of the Agency's recommendations was that the Air Force either terminate or obtain waivers for the planned additional work not authorized under the initiative. In June 1997, the Air Force stated that the fiscal year 1998 budget request of $14.3 million is primarily for sustainment costs, not software enhancements. However, in its official response to the Air Force Audit Agency report, the Air Force acknowledged that these changes were modifications and upgrades, not sustainment.

The Air Force's fiscal year 1998 O&M budget request could be reduced by $14.3 million and funding discontinued for automated systems that will soon be replaced.

AIR DEFENSE UNITS

A January 1997 U.S. Army Audit Agency report (Restructuring Maintenance in Air Defense Units, AA 97-105) stated that many maintenance activities in air defense units had one layer of management that could be eliminated. The Agency estimated that by restructuring maintenance activities, the Army would reduce equipment requirements by about $11.7 million. The consolidation of maintenance would also improve the effectiveness of maintenance operations by consolidating the workforce at a central location, increasing visibility over repair parts, and enhancing opportunities for cross-training mechanics.

In June 1997, the Army stated that it was evaluating several of the recommendations made in the report and that it had not yet decided whether the recommendations were feasible. The Army said that it believed that making cuts in fiscal year 1998 would be premature. We continue to believe,

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[21]This initiative requires DOD to select the best of the services' existing automated systems for like functions and migrate all users to the same systems. In October 1993, DOD accelerated implementation of a migration strategy, selected systems, and required the military components to transition to the systems by April 1997.

however, that the Army's fiscal year 1998 O&M budget request could be reduced by $11.7 million and the air defense units restructured to manage resources more cost-effectively and reduce the cost of unnecessary equipment.

MEDIUM LAUNCH VEHICLES

The Air Force requested $27.8 million in O&M funds in the fiscal year 1998 budget for Air Force medium launch vehicle requirements. The Air Force also requested $19.6 million in O&M funds[22] for Delta II launch vehicle recovery efforts as part of the Omnibus Reprogramming request for fiscal year 1997.[23] However, we found that the Air Force has overstated requirements in the fiscal year 1997 reprogramming request by $8.1 million because of a decrease in estimated costs and funding requirements. According to Air Force officials, the cost estimate for the recovery effort decreased by $3.5 million after submitting their request as a result of contract negotiations and the reassessment of requirements. The Air Force identified $11.5 million for launch site recovery costs; $3 million for investigation costs incurred by the launch vehicle contractor, McDonnell Douglas, located in Huntington Beach, California; and $1.6 million for investigation costs incurred by Aerospace Corporation in El Segundo, California, which is a Federally Funded Research and Development Center. The Air Force expects the contractor to be responsible for costs associated with the investigation and has funded the Aerospace Corporation's investigation costs with other available funds.

If Congress approves the fiscal year 1997 Omnibus Reprogramming request of $19.6 million for the Delta recovery effort, the Air Force's fiscal year 1998 O&M budget request could be reduced by $8.1 million ($3.5 million from contract

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[22]The Air Force also requested $18.1 million in Missile Procurement funds to address launch vehicle production impacts for the Air Force Materiel Command. We will address this issue under a separate report on the procurement and Research, Development, Test and Evaluation budgets (to be issued by August 30, 1997).

[23]On January 17, 1997, a Delta II launch vehicle carrying a Global Positioning System satellite exploded shortly after liftoff at Cape Canaveral. The accident destroyed the launch vehicle and payload and damaged parts of the launch pad and surrounding area. U.S. Air Force Space Command estimated the cost to repair the damage, restore launch capability, and investigate causes of the failure totaled $19.6 million.

negotiations and requirements reassessments plus $4.6 million for costs covered by other funds).

B-1 BOMBER OPTIONS

We recently reported[24] three options to reduce or restructure the bomber force that would achieve cost savings and enable DOD to retain extensive aggregate airpower capabilities. The first two options--retiring all or a portion of the B-1B fleet--would result in a smaller bomber force than DOD currently plans. The third option--increasing the number of B-1Bs in the Air National Guard--could reduce the cost to maintain DOD's bomber force while preserving the war-fighting capability of DOD's planned bomber force. Options two and three are not mutually exclusive.

The first option--retiring the entire B-1B force of 95 aircraft--would reduce DOD's conventional airpower capabilities somewhat but would yield significant cost savings. In a May 1996 report,[25] we suggested that rather than modify and sustain the B-1B force, the Air Force could retire its B-1Bs as soon as possible, based on the presumption that their targets could be hit by other available interdiction weapons. If DOD were to retire the B-1B force, CBO estimates it would save about $6 billion in budget authority for fiscal years 1998 through 2002. Depending on how DOD phased in this option, the Air Force could save a portion of the associated operation and maintenance costs in fiscal year 1998. According to an Air Force official, the fiscal year 1998 O&M budget includes an estimated $434 million for B-1B support.

The second option--retire 27 reconstitution[26] reserve B-1Bs and keep 68 B-1Bs in the force--would not result in as much loss in capability as retiring the entire B-1B fleet. If 27 B-1Bs were retired, DOD would still have numerous other combinations of platforms and weapons to destroy the types of targets that the

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[24]Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1998 (GAO/OCG-97-2, Mar. 14, 1997).

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

[26]These aircraft are not funded for flying hours and they lack aircrews, but they are based with B-1B units, flown on a regular basis, maintained like other B-1Bs, and modified with the rest of the fleet.

B-1Bs would otherwise attack. According to CBO estimates, retiring the 27 B-1Bs would save about $750 million in budget authority for fiscal years 1998 through 2002.

The third option--placing more B-1Bs in the Air National Guard--could reduce the cost to operate DOD's bomber force while preserving the war-fighting capability of DOD's planned bomber force. According to CBO estimates, placing 24[27] more B-1Bs in the Air National Guard would save about $110 million in budget authority for fiscal years 1998 through 2002.

Estimated cost savings for our options range from about $110 million to $6 billion in budget authority for fiscal years 1998 through 2002. While we could not identify specific O&M costs associated with options two and three, we were able to identify O&M costs in the Air Force fiscal year 1998 budget request for B-1B support. We recognize that the decision to retire all or a portion of the B-1B force represents a major policy decision. However, if the B-1B force were retired at this time, the Air Force's fiscal year 1998 O&M budget request could be reduced by some portion of the $434 million now programmed to support the B-1B.

SCOPE AND METHODOLOGY

To determine whether O&M accounts should be funded in the amounts requested, we interviewed program and budget officials who managed the O&M programs and/or prepared the budget requests. We also reviewed and analyzed financial, budget support, and program documents related to the O&M issues and analyzed 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 Inspector General and the service audit agencies, to identify issues with O&M ramifications. We conducted our review at Army, Navy, Air Force, and DOD headquarters, Washington, D.C., from January to August 1997 in accordance with generally accepted government auditing standards.

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[27]We selected 24 because this would achieve a 50/50 active/reserve ratio when attrition and backup aircraft are excluded and the Air Force has placed 50 percent or more of some refueling and air mobility assets in the reserve component.

Representatives of the services and DOD commented orally on a draft of this report. DOD officials generally agreed with the approach and methodology for the findings presented in this report. They also noted that the GAO reports we cite contain the Department's positions on the findings in this report. DOD noted exceptions to inventory management, U.S. Transportation Command, and training aircraft issues. Their comments were incorporated in the report where appropriate.

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We are sending copies of this report to 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; the Secretaries of Defense, the Army, the Navy, and the Air Force; the Director of the Office of Management and Budget; 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 enclosure I.

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