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FUTURE YEARS DEFENSE
PROGRAM

Optimistic Estimates Lead to
Billions in Overprogramming

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss our July 1994 report on the Department of Defense's (DOD) Future Years Defense Program (FYDP).¹ Our report stated that DOD had included more programs in its 1995-99 FYDP than future spending plans could support and that the amount overprogrammed could exceed \$150 billion. Since that time, the President and DOD have agreed to changes that could correct some of the imbalance between programs and available funds.

BACKGROUND

The FYDP is a classified database of current and projected force structure, costs, and personnel levels approved by the Secretary of Defense. The projections are made far enough ahead to enable DOD to estimate the future implications of its current decisions. The 1995-99 FYDP represents DOD's blueprint and supporting cost estimates for the defense strategy articulated in the Bottom-Up Review. The FYDP has an estimated cost of about \$1.2 trillion over 5 years.

Congress enacted legislation in 1987 requiring DOD to submit future years program and budget information consistent with the President's budget. This law was in response to congressional concern that the FYDPs have contained more programs than funding projections would support. We have been reporting on this problem since the mid-1980s when DOD funding began to decline. Our work since that time has shown that DOD has had an imbalance between programs and projected funds. This overprogramming tends to obscure defense priorities and delay tough decisions and trade-offs. Over the years, DOD has employed a systemic bias toward overly optimistic planning assumptions. The use of optimistic planning assumptions has led to program instability, costly program stretch-outs, and program terminations.

OVERPROGRAMMING IN 1995-99 FYDP

Our review of the 1995-99 FYDP revealed a substantial amount of risk in projected savings and costs that had resulted in overprogramming. This overprogramming falls into three categories: negative adjustments, overly optimistic savings, and understated costs. We estimated that the amount overprogrammed could exceed \$150 billion.

¹Future Years Defense Program: Optimistic Estimates Lead to Billions in Overprogramming (GAO/NSIAD-94-210, July 29, 1994).

Negative Adjustments

DOD stated that its 1995-99 FYDP had undistributed future negative adjustments of \$20 billion, which reflected last-minute changes due to revised inflation indexes for which DOD could not adjust its programs. Our analysis revealed an additional \$1.5 billion in negative adjustments in the research and development account. DOD used negative adjustments to reflect this overprogramming and give the FYDP totals the appearance of being consistent with the President's budget.

The use of negative adjustments is appropriate in many instances, such as for offsetting receipts and foreign currency fluctuations. However, we do not believe it is appropriate for DOD to use negative adjustments as substitutes for resource decisions necessary to bring programs, projects, and resources in conformance with the President's budget.

Overly Optimistic Savings

In its 1995-99 FYDP, DOD assumed that about \$32 billion in savings would be realized due to base closures or realignments and Defense Management Report initiatives. On the basis of our past work, we believe that these savings may be overly optimistic. If the savings are not achieved, DOD will have to reduce programs or ask for a budget increase.

As a result of recommendations by three separate independent commissions in 1988, 1991, and 1993, Congress approved the closure or realignment of 247 defense activities. The FYDP assumed that DOD would realize a net savings of about \$5 billion from these actions over the 1995-99 period. At the time of our report, DOD had only completed about 20 percent of base closure actions planned, and savings had not been achieved as early as anticipated. For example, DOD's total anticipated savings for the first and second rounds of base closures and realignments was estimated to be about \$10 billion, or 23 percent less than DOD's original estimate of about \$13 billion.

The 1989 Defense Management Report proposed consolidations and management improvements that were estimated to save tens of billions of dollars in support and overhead costs. DOD officials told us that nearly \$27 billion was expected to be saved during

1995 through 1999. We have previously questioned whether the estimated savings from these improvements could be achieved.² Our work in one major area indicates the difficulty in achieving the savings. This area, the Corporate Information Management initiative,³ affects 28 other Defense Management Report initiatives that comprise a major portion of the savings expected by 1997. DOD began this initiative over 4 years ago but has yet to demonstrate any discernable progress toward its goal of achieving substantial savings.⁴

Understated Costs

A substantial amount of cost risk is associated with the 1995-99 FYDP. Our July 1994 report stated that the cost estimates in the 1995-99 FYDP for the fourth round of base closures and realignments, weapon system development and procurement, environmental remediation, pay raises, and peacekeeping operations might be understated by about \$112 billion. By underestimating costs, DOD was able to include billions of dollars in additional programs in the FYDP.

DOD had significantly understated the costs associated with the planned fourth round of base closures and realignments scheduled to begin in 1995. Round four is expected to close an equivalent number of defense activities as the three previous rounds combined. On the basis of a round of this size, we estimated potential costs could exceed the amount shown in the FYDP by more than \$8 billion. Most DOD savings from the 1995 round would likely be realized beyond the 1995-99 FYDP period.

Program cost increases and schedule delays, two of the most prevalent acquisition problems, are among the oldest and most visible problems associated with weapon systems. Program cost

²Defense Management Review (GAO/NSIAD-94-17R, Oct. 7, 1993), Financial Management: DOD Has Not Responded Effectively to Serious, Longstanding Problems (GAO/T-AIMD-93-1, July 1, 1993), Defense Business Fund (GAO/AFMD-93-52R, Mar. 1, 1993), National Security Issues (GAO/OGC-93-9TR, Dec. 1992), and Defense ADP: Corporate Information Management Savings Are Not Supported (GAO/IMTEC-91-18, Feb. 22, 1991).

³This initiative is to improve defense operations and administrative support by streamlining business processes, upgrading information systems, and improving data administration and other technical areas.

⁴Defense IRM: Management Commitment Needed to Achieve Defense Data Administration Goals (GAO/AIMD-94-14, Jan. 21, 1994) and Defense ADP: Corporate Information Management Must Overcome Major Problems (GAO/IMTEC-92-77, Sept. 14, 1992).

increases of 20 to 40 percent have been common for major weapon programs, and numerous programs have experienced increases much greater than that. For example, in April 1994, we testified that the cost growth being experienced on a number of current major Navy systems was as much as 100 percent.⁵ DOD plans to procure equipment valued at about \$260 billion over the next 5 years, of which \$192 billion is for weapon systems or weapon-related acquisitions. DOD also plans to spend \$164 billion in research and development over the next 5 years, of which \$100 billion is for advanced phases of research and development related to weapon systems. On the basis of a conservative growth estimate of 20 percent, we expect current procurement estimates for weapon systems now in the FYDP to rise by at least \$38 billion and research and development to rise by at least another \$20 billion during the FYDP period.

In recent testimony before the Senate Budget Committee, the Secretary of Defense characterized environmental restoration and pollution prevention as one of the fastest growing items in the defense budget. At current funding rates, DOD would spend about \$28 billion on environmental costs for fiscal years 1995-99. As of March 1994, the Congressional Budget Office estimated that DOD's cost projections over the FYDP period might be understated by \$20 billion.

Congress had not completed action on the military and civilian pay raises as of July 1994. The administration had proposed holding military and civilian pay raises below the amount called for under current law. According to the Congressional Budget Office, the pay raises granted to military and civilian workers for 1995 will add \$5.6 billion to payroll costs over the 1995-99 period, and future pay raises could add an additional \$17 billion over the 1996-99 period.

According to DOD, the FYDP did not include funds for DOD's participation in peacekeeping activities. The 1994 budget included a modest request for peacekeeping, which was disapproved by all four defense oversight committees. DOD requested and received supplemental appropriations for peacekeeping operations for fiscal year 1994. According to DOD, it received \$1.2 billion (\$347 million in new budget authority) in February 1994 primarily for operations in Somalia, Bosnia, and Southwest Asia and received an additional \$299 million in September 1994 for humanitarian efforts in Rwanda and the processing of refugees from Cuba. DOD officials stated that the Department intended to request a supplemental appropriation of more than \$2 billion in 1995.

⁵Navy Modernization: Alternatives for Achieving a More Affordable Force (GAO/T-NSIAD-94-171, Apr. 26, 1994).

ACTIONS BY THE ADMINISTRATION SINCE OUR REPORT

Since our July 1994 report, the administration has stated that it will take actions that could correct some of the imbalance between programs in the FYDP and projected funds for those programs.

On December 1, 1994, the President announced that he planned to seek an additional \$25 billion for defense for fiscal years 1996 through 2001. Of this amount, \$10 billion will apply to 1996-99, and \$15 billion is projected for 2000-01. Presently, DOD plans to use these funds for military pay, readiness, quality of life, and modernization programs.

On August 18, 1994, the Deputy Secretary of Defense directed the military services to examine the implications of delaying or canceling nine major weapon acquisition programs. On December 9, 1994, the Secretary of Defense announced changes that would affect seven of these programs and save an estimated \$7.7 billion during fiscal years 1996-2001. According to DOD, the savings will be applied to programs affecting military pay, readiness, and quality of life. Over half of the savings will result from (1) canceling the Tri-Service Stand-Off Attack Missile, a system that has had significant development difficulties and cost growth, and (2) restructuring the Army's Comanche helicopter program. The other five weapons programs, which will be primarily delayed or stretched out, are the DDG-51 AEGIS destroyer, new attack submarine, V-22 Osprey aircraft, Advanced Amphibious Assault Vehicle, and the F-22 fighter aircraft. These program changes reflect what can happen when overprogramming occurs: programs are being stretched out, reduced, or terminated so they can be in line with available funding.

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Mr. Chairman, this concludes my prepared statement. I will be glad to answer any questions you or members of the Committee may have.

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