



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-210895

To the President of the Senate and the
Speaker of the House of Representative

The Secretary of Defense has continually reemphasized the importance of achieving savings in the conduct of Department of Defense (DOD) operations. The President's 1983 budget reported that DOD has taken actions to reduce Total Obligational Authority (TOA) by \$51.4 billion between fiscal years 1981 and 1987. Since the budget was transmitted to the Congress on February 8, 1982, DOD has identified about \$1 billion in additional savings, bringing the total estimate to \$52.4 billion.

To support the claimed savings, DOD identified over 200 specific management reforms in the personnel, acquisition, and operations areas. Taken together these are commonly referred to as DOD's Economies and Efficiencies (E&E) Program.

In presenting its package in February 1982, DOD noted that this program was one part of a broad campaign against inefficiency and waste. While some of the savings include DOD's share of Government-wide personnel actions, DOD announced that over \$20 billion in savings result from major reforms of the acquisition process and vastly improved management of DOD operations. DOD also announced that some of the savings had already been achieved and the remainder was specifically programmed. In addition DOD said that it had set savings targets and had established followup procedures to ensure that targets are attained. In testifying about these economies before the House and Senate Committees on Armed Services, the Deputy Secretary of Defense cited these figures as clearly demonstrating the singleness of purpose in the area of efficient management.

During the period in which DOD first formulated its Economies and Efficiencies Program it had not provided the Services with formal guidance clearly defining criteria for economy and efficiency savings. DOD did not provide formal guidance until August 1982 when the Assistant Secretary of Defense (Comptroller) issued a memorandum which provided instructions for updating the program in the fiscal year 1984 budget submission. This guidance cited the Secretary's continuing commitment to efficiency and economy and gave the highest priority to the achievement of savings in the conduct of DOD operations. The guidance further stated that unless these savings are realized, DOD will not be able to execute all of the

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currently approved program initiatives. This program is a key element in not only the achievement but the evidence of savings in DOD.

Under this guidance, to qualify as an acceptable economies and efficiencies savings initiative, an action must:

- Be a product of this administration's management initiative.
- Be a new initiative; that is, a program may be ongoing but the action must be new. (e.g., a decision this year to lease or buy an item that results in savings would qualify.)
- Be a net of associated costs.
- Achieve cumulative net savings by the end of fiscal year 1988.
- Result in savings for which the present value of the cumulative savings exceeds the present value of the cumulative costs from fiscal year 1981 through fiscal year 1988.
- Be a true management initiative and not merely a recognition of an external factor or action already in place. (e.g., reducing the cost of meals due to the fact that overall market prices decline for agricultural products is not an acceptable economies and efficiencies action.)

OBJECTIVES, SCOPE, AND METHODOLOGY

When DOD first announced its Economies and Efficiencies Program in February 1982, the Chairman, Senate Committee on Armed Services, requested us to verify the accuracy of these savings and determine if DOD's system of tracking the savings is accurate. We reported¹/ the reforms could achieve substantial savings if carried out as planned, but that the savings were based on preliminary budget estimates and must be considered tentative. At the time no formal system existed to track the savings and we stated that we would monitor these initiatives as part of our continuing effort to improve the efficiency and economy of DOD operations.

The purpose of this particular review was to determine:

- If the savings projected for fiscal years 1981 through 1987 can be expected to accrue.

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--If the savings claimed for fiscal years 1981 and 1982 were realized.

--Whether the projected savings are the result of DOD reforms or congressional or Government-wide actions.

We selected a sample of key reforms with potentially large savings to review in detail. In total, our work covered about \$40.7 billion of the \$52.4 billion claimed savings. (See App I for a list of the initiatives reviewed.) We reviewed supporting documentation and interviewed DOD and service officials at Headquarters and selected field installations.

We examined each selected reform from the following perspective:

- (1) Can DOD demonstrate the anticipated baseline funding level prior to enactment of the initiative?
- (2) Can the basis for computing the savings be documented, and does it appear reasonable, and are offsetting costs accounted for?
- (3) Are there reasonable assurances the initiative's will be implemented as planned?

Based on this assessment, we classified the savings for each initiative as: supported/realizable, not supported/not realized, or questionable/uncertain.

We considered the savings to be "supported/realizable" if the following criteria were satisfied:

- (1) The anticipated funding level of the program or activity was identified before the management initiative was taken.
- (2) The savings computation had to be documented and also had to reflect associated offsetting costs.
- (3) The action had been implemented or there are reasonable assurances that the action will be implemented.

When the initiative was not being carried out as planned or the savings were not properly computed, we considered the claimed savings to be "not supported/not realized". Additionally, in some cases an initiative required congressional action before savings could be realized. Thus, in those instances where Congress did not act, we placed the claimed savings in this category.

Lastly, we considered claimed savings to be "questionable/uncertain" if any of the following applied:

- (1) We were unsatisfied with the baseline DOD used to compute the savings.
- (2) We were not satisfied with the savings computation.
- (3) We could not determine with reasonable assurance that a particular action would be implemented to realize projected outyear savings.

Our review was conducted in accordance with generally accepted government audit standards.

SUMMARY OF FINDINGS

In general, we believe that these actions contained in the Economies and Efficiencies Program will reduce spending, but not to the extent DOD claimed. We strongly support DOD's continuing efforts to streamline and economize whenever possible. Some of the difficulties we experienced in grouping the projected savings contained in the fiscal year 1983 package in the above categories should be alleviated with the guidance issued in August 1982 for the fiscal year 1984 package. However a followup review may be necessary to assess whether the guidance results in an adequately supported package.

We believe that not all the projected savings for fiscal years 1981 through 1987 were adequately supported or will be realized. Consequently, to the extent to which these projected savings targets remain unfulfilled, DOD will have to either eliminate additional programs or request additional budget authority in the future. The following table summarizes our analysis.

Summary of GAO Assessment of DOD Claimed Savings (TOA)
During Fiscal Years 1981-1987 (Note a)

<u>Activity</u>	<u>DOD claimed</u>	<u>GAO reviewed</u>	<u>Supported/realizable</u>	<u>Questionable/uncertain</u>	<u>Not supported/not realized</u>
------(millions)-----					
DOD management reforms:					
Personnel	\$ 4,362.0	\$ 4,362.0		\$ 4,321.0	\$ 41.0
Acquisition	15,311.0	6,195.8	\$ 2,926.5	745.7	2,523.6
Operations	<u>5,616.1</u>	<u>3,077.6</u>	<u>1,156.9</u>	<u>1,292.1</u>	<u>628.6</u>
Subtotal	<u>\$25,289.1</u>	<u>\$13,635.4</u>	<u>\$ 4,083.4</u>	<u>\$ 6,358.8</u>	<u>\$3,193.2</u>
Congressional/ Government-wide actions:					
Personnel	\$26,435.0	\$26,435.0	\$ 6,074.0	\$19,186.0	\$1,175.0
Acquisition	671.3	671.3	602.1		69.2
Operations					
Subtotal	<u>\$27,106.3</u>	<u>\$27,106.3</u>	<u>\$ 6,676.1</u>	<u>\$19,186.0</u>	<u>\$1,244.2</u>
Total	<u>\$52,395.4</u>	<u>\$40,741.7</u>	<u>\$10,759.5</u>	<u>\$25,544.8</u>	<u>\$4,437.4</u>

Note a: Appendix II provides detailed discussions of our assessments.

More specifically, we found that:

- Of the total claimed savings, \$25.3 billion, or 48 percent, result from DOD management actions. We reviewed \$13.6 billion of these claimed savings and concluded \$4.1 billion or 30 percent are supported/realizable.
- The remaining \$27.1 billion, or 52 percent, result from congressional or Government-wide action. We reviewed all of these savings and concluded that \$6.7 billion, or 25 percent, are supported/realizable.
- In total we believe \$10.8 billion or 26 percent of the savings we analyzed are adequately supported/realizable.

A similar analysis of the \$5.1 billion in claimed savings for fiscal years 1981 and 1982 showed that:

- \$2.9 billion, or 57 percent, of the claimed savings result from DOD management actions. We reviewed \$1.3 billion of this amount and concluded \$568 million, or 44 percent, is supported.
- \$2.2 billion, or 43 percent, of the claimed savings result from congressional/Government-wide actions. We reviewed all of these savings and concluded all but \$69 million is supported.
- Overall, we believe \$2.8 billion, or 78 percent, of the claimed savings which we analyzed are supported.

Detailed discussions and the results of our analysis are contained in the appendices.

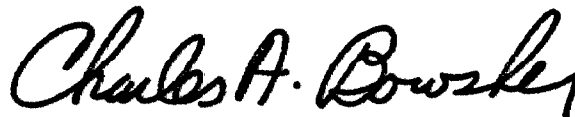
AGENCY COMMENTS

In providing official oral comments on the draft report, DOD officials stated that their primary concern was that the report did not adequately reflect the intent of the Economies and Efficiencies Program. They stated that the program as presented to the Congress reflected DOD's estimate of savings which could be realized if the Congress approved the budget as DOD proposed. We have subsequently revised the final report to address this concern as well as other points DOD raised. These officials also pointed out that if these expected budget reductions do not materialize, then DOD would need more money to carry out its program, or DOD would be forced to make other cuts.

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We are sending copies of this report to the Chairmen, House and Senate Committees on Armed Services, on Appropriations, on the Budget, House Committee on Government Operations and Senate Committee on Governmental Affairs; the Director, Office of Management and Budget; and to the Secretary of Defense.

Sincerely yours,

A handwritten signature in black ink that reads "Charles A. Bowles". The signature is written in a cursive style with a large, prominent initial "C".

Comptroller General
of the United States

C o n t e n t s

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GAO DETAILED ASSESSMENT OF DOD CLAIMED SAVINGS (TOA)

DOD savings category	FISCAL YEARS 1981-87				
	Claimed savings	GAO reviewed	Supported/realizable	Questionable/uncertain	Not supported/not realized
	(millions)				
Personnel					
Civilian pay adjustment (note a)	\$23,839.0	\$23,839.0	\$4,653.0	\$19,186.0	
Military retirement COLA (note a)	1,421.0	1,421.0	1,421.0		
Reform adjustment	4,321.0	4,321.0		4,321.0	
Rounding adjustment	41.0	41.0			\$ 41.0
Recomputation adjustment (note a)	1,175.0	1,175.0			1,175.0
Subtotal	\$30,797.0	\$30,797.0	\$6,074.0	\$23,507.0	\$1,216.0
Acquisition					
Lower cost alternatives	\$ 1,501.0	\$ 964.1	\$ 80.3		\$883.8
Multi-year contracting	1,136.3	620.1	94.5		525.6
Economic production rates	2,353.3	1,532.6	235.2	\$313.1	984.3
Elimination of marginal programs (note c)	8,444.7	3,118.6	3,118.6		
Increased competition	80.9	56.4			56.4
Productivity enhancement	106.8	106.8		106.8	
Other acquisition improvements	2,290.1	399.3		325.8	73.5
Legislative reform (note a)	69.2	69.2			69.2
Subtotal	\$15,982.3	\$ 6,867.1	\$3,528.6	\$745.7	\$2,592.8
Operations					
Logistic improvements	\$ 721.0	\$ 394.6	\$ 17.0	\$ 108.6	\$ 269.0
Eliminate/reduce marginal programs/system	922.8	446.4	117.7	326.4	2.3
Administrative overhead	2,687.2	1,540.1	666.3	662.1	211.7
Increased productivity/personnel efficiency	605.4	344.9	299.9	45.0	
Eliminate/reduce marginal equipment	59.2	50.0			50.0
Base realignments	177.0	66.0	11.0		55.0
Base support consolidation	295.4	150.0		150.0	
Other operations improvements	148.1	85.6	45.0		40.6
Subtotal	\$5,616.1	\$3,077.6	\$1,156.9	\$ 1,292.1	\$ 628.6
Totals	\$52,395.4	\$40,741.7	\$10,759.5	\$25,544.8	\$4,437.4

Note a: Claimed savings resulted from congressional/Government-wide actions.

Note b: Includes \$602.1 million in savings resulting from a congressional action.

GAO DETAILED ASSESSMENT OF DOD CLAIMED SAVINGS (TOA)

FISCAL YEARS 1981 and 1982 (note a)

DOD savings category	Claimed savings	GAO reviewed	Supported/realizable	Questionable/uncertain	Not supported/not realized
(millions)					
<u>Personnel</u>					
Civilian pay adjustment (note b)	\$1,774.0	\$1,774.0	\$1,774.0		
Military retirement COLA (note b)	358.0	358.0	358.0		
Reform adjustment					
Rounding adjustment					
Recomputation adjustment					
Subtotal	<u>\$2,132.0</u>	<u>\$2,132.0</u>	<u>\$2,132.0</u>		
<u>Acquisition</u>					
Lower cost alternatives	\$ 265.7	\$ 198.4	\$ 80.3		\$118.1
Multi-year contracting	56.5	29.0			29.0
Economic production rates	604.0	396.0	82.0		314.0
Elimination of marginal programs (note c)	615.6	172.8	172.8		
Increased competition	12.9	9.4			9.4
Productivity enhancement					
Other acquisition improvements	425.8	137.8		\$137.8	
Legislative reform (note b)	<u>69.2</u>	<u>69.2</u>			<u>69.2</u>
Subtotal	<u>\$2,049.7</u>	<u>\$1,012.6</u>	<u>\$ 335.1</u>	<u>\$137.8</u>	<u>\$539.7</u>
<u>Operations</u>					
Logistic improvements	\$ 31.5	\$ 17.0	\$ 17.0		
Eliminate/reduce marginal programs/system	237.5	75.9	46.5	\$ 27.1	\$ 2.3
Administrative overhead	484.8	237.0	147.8		89.2
Increased productivity/eliminate/reduce marginal equipment	.1				
Base realignments	42.6	11.0	11.0		
Base support consolidation reduction	36.5				
Personnel efficiency	94.0	58.7	58.7		
Other operations improvements	<u>14.8</u>				
Subtotal	<u>\$ 941.8</u>	<u>\$ 399.6</u>	<u>\$281.0</u>	<u>\$ 27.1</u>	<u>\$ 91.5</u>
Totals	<u>\$5,123.5</u>	<u>\$3,544.2</u>	<u>\$2,748.1</u>	<u>\$164.9</u>	<u>\$631.2</u>

Note a: These figures are included in chart for fiscal years 1981-87, App. I, p 1.

Note b: Claimed savings resulted from congressional/Government-wide actions.

Note c: Includes \$71.7 million in savings resulting from a congressional action.

SUMMARY GAO ASSESSMENT OF DOD CLAIMED SAVINGS (TOA)FISCAL YEARS 1981 and 1982

<u>Activity</u>	<u>DOD</u> <u>claimed</u>	<u>GAO</u> <u>reviewed</u>	<u>Supported/</u> <u>realizable</u>	<u>Questionable/</u> <u>uncertain</u>	<u>Not supported/</u> <u>not realized</u>
------(millions)-----					
DOD management reforms:					
Personnel					
Acquisition	\$1,908.8	\$ 871.7	\$ 263.4	\$ 137.8	\$ 470.5
Operations	<u>941.8</u>	<u>399.6</u>	<u>281.0</u>	<u>27.1</u>	<u>91.5</u>
Subtotal	<u>\$2,850.6</u>	<u>\$1,271.3</u>	<u>\$ 544.4</u>	<u>\$ 164.9</u>	<u>\$ 562.0</u>
Congressional/Government-wide actions:					
Personnel	\$2,132.0	\$2,132.0	\$2,132.0		
Acquisition	140.9	140.9	71.7		\$ 69.2
Operations	<u> </u>	<u> </u>	<u> </u>		<u> </u>
Subtotal	<u>\$2,272.9</u>	<u>\$2,272.9</u>	<u>\$2,203.7</u>		<u>69.2</u>
Total	<u>\$5,123.5</u>	<u>\$3,544.2</u>	<u>\$2,748.1</u>	<u>\$ 164.9</u>	<u>\$ 631.2</u>

SUPPORTING DISCUSSION OF GAO ASSESSMENT
OF DOD'S CLAIMED SAVINGS DURING FISCAL YEARS 1981-1987

The claimed \$52.4 billion savings can also be viewed in terms of savings that would be achieved as a result of DOD management reforms and those that should accrue due to congressional or Government-wide actions. In this context, our assessment of the claimed savings is summarized in the following chart.

Summary Of GAO Assessment
Of DOD Claimed Savings (TOA)
During Fiscal Years 1981-1987

<u>Activity</u>	<u>DOD Claimed</u>	<u>GAO Reviewed</u>	<u>Supported/ realizable</u>	<u>Ques- tionable/ uncertain</u>	<u>Not sup- ported/not realized</u>
------(millions)-----					
DOD manage- ment reform:					
Personnel	\$ 4,362.0	\$ 4,362.0		\$ 4,321.0	\$ 41.0
Acquisi- tion	15,311.0	6,195.8	\$ 2,926.5	745.7	2,523.6
Operations	5,616.1	3,077.6	1,156.9	1,292.1	628.6
Subtotal	<u>\$25,289.1</u>	<u>\$13,635.4</u>	<u>\$ 4,083.4</u>	<u>\$ 6,358.8</u>	<u>\$3,193.2</u>
Congressional/ Government- wide actions:					
Personnel	\$26,435.0	\$26,435.0	\$ 6,074.0	\$19,186.0	\$1,175.0
Acquisition	671.3	671.3	602.1		69.2
Operations					
Subtotal	<u>\$27,106.3</u>	<u>\$27,106.3</u>	<u>\$ 6,676.1</u>	<u>\$19,186.0</u>	<u>\$1,244.2</u>
Total	<u>\$52,395.4</u>	<u>\$40,741.7</u>	<u>\$10,759.5</u>	<u>\$25,544.8</u>	<u>\$4,437.4</u>

In the remainder of this appendix, we discuss the details behind the DOD management reforms and the congressional/Government-wide actions. We also address the total fiscal year 1981-87 period and highlight the fiscal year 1981-82 period where appropriate.

DOD MANAGEMENT REFORMS

We examined \$13.6 billion of the \$25.3 billion in savings related to actions taken by DOD management. These savings are distributed among various personnel, acquisition, and operations initiatives. The following sections address each of these areas.

DOD personnel savings

The \$4.4 billion in savings in the personnel area are the result of two DOD initiatives: \$4.3 billion in savings results from reforming the military retirement system which we found to be questionable; and \$41 million was to result from adjusting retirement benefits calculations, we determined was not supported. Our reasons for these assessments are described below.

Military retirement system reform: \$4.3 billion claimed savings are questionable

The military retirement reforms proposed by the Carter administration were designed to increase the attractiveness of service beyond 20 years for careerists. Annual outlays would have increased until the end of this century before annual savings could be expected. The Reagan administration's decision to withdraw this proposal and to claim savings as a result is questionable because:

- DOD could not justify the assumptions used in calculating the savings.
- If we accept the assertion that the proposal would save billions in the long-term, we must question the reasonableness of achieving small savings now at the expense of greater savings in the future.
- Although the proposal was included in President Carter's budget submissions in fiscal years 1981-1982, the measure did not receive congressional support and was never enacted.

Military retirement rounding adjustment: \$41 million savings are not supported

DOD proposed reducing retirement benefits to the next lower dollar to reduce costs by \$41 million between fiscal years 1983 and 1987. We verified that this proposal is a DOD initiative

and the proposed revised method of calculating retired pay would reduce benefits by an average of \$.50 per payee per month. Since the projected savings cannot occur without a change in law, and since the bill containing this provision was not passed during the 97th Congress, all projected savings are not supported.

Acquisitions reforms

DOD claimed savings of about \$15.3 billion in the acquisition area. We reviewed \$6.2 billion of this amount and found \$2.9 billion, or 47 percent, to be adequately supported. The following table summarizes our assessment of those claimed savings.

GAO Assessment of DOD'S
Claimed Acquisition Savings (TOA)
During Fiscal Years 1981-1987

<u>Activity</u>	<u>DOD</u> <u>Claimed</u>	<u>GAO</u> <u>Reviewed</u>	<u>Supported/</u> <u>realized</u>	<u>Ques-</u> <u>tionable/</u> <u>uncertain</u>	<u>Not sup-</u> <u>ported/not</u> <u>realized</u>
	----- (millions) -----				
Lower cost alter- natives	\$1,501.0	\$ 964.1	\$ 80.3		\$ 883.8
Multiyear contract ing	1,136.3	620.1	94.5		525.6
Economic produc- tion rates	2,353.3	1,532.6	235.2	\$313.1	984.3
Eliminate marginal programs (note a)	7,842.6	2,516.5	2,516.5		
Increased competi- tion	80.9	56.4			56.4
Productivity enhance- ment	106.8	106.8		106.8	
Other	<u>2,290.1</u>	<u>399.3</u>	<u> </u>	<u>325.8</u>	<u>73.6</u>
Total	<u>\$15,311.0</u>	<u>\$6,195.8</u>	<u>\$2,926.5</u>	<u>\$745.7</u>	<u>\$2,523.6</u>

Note a: The \$602.1 million in savings associated with the SOTAS program are discussed on page 19.

In the following sections, we discuss some of the details in the areas of lower cost alternatives, multiyear contracting, economic production rates, and eliminating marginal programs.

Lower cost alternatives: two programs
will cost more

DOD reported savings totaling \$1.5 billion by using lower cost alternatives to existing programs. We examined \$964.1 million of this and found \$80.3 million was realized and \$883.8 million was not supported. In addition, we found the restructuring of two programs would cost \$183.8 million more than the original baseline cost. These two programs are discussed below.

DOD claimed \$389.8 million would be saved between fiscal years 1981 and 1987 including \$7.6 million in fiscal year 1982, by restructuring the VTX trainer aircraft program, using an existing rather than a new aircraft design, and by awarding the contract sole source instead of competitively. We determined, however, that the program has been subsequently restructured. The current program calls for two types of trainers--carrier capable and non-carrier capable--and, as of June 1982, is estimated to cost at least \$34.3 million more than the original baseline cost. As a result, we consider the savings not supported.

A similar restructuring of the Marine Vertical Assault Tiltrotor (HXM) program was to save \$388.8 million including \$5.3 million in fiscal year 1982. The program was designed to provide the Marines with a replacement for the CH-46 and CH-53 helicopters. The savings, according to the Navy, would result from replacing the HXM program with a Joint Services Advanced Vertical Lift Program (JVX) in conjunction with the Army, Navy, and Air Force. Recent cost estimates for the JVX Program show the Navy's cost will exceed the original budgeted cost of the HXM program by \$149.5 million.

Multiyear contracting: savings are overstated

DOD claimed savings of \$620 million for three multiyear contracts between fiscal years 1981 and 1987. The systems and the associated savings are as follows:

<u>System</u>	<u>Claimed savings (millions)</u>
F-16	\$259.5
NAVSTAR GPS/IONDS	249.2
Multiple Launch Rocket System (MLRS)	<u>111.3</u>
Total	<u>\$620.0</u>

We do not believe that true savings can be measured by comparing the difference in obligational authority between multiyear and annual based contracts because it does not consider

the time value of money. Office of Management and Budget (OMB) Circular A-94 and current DOD Economies and Efficiencies guidance for computing savings require the use of discounting in the evaluation of programs that commit the Government to costs extending over 3 or more years. DOD did not apply this technique in its computation of multiyear contract savings.^{1/}

Although discounting is a generally accepted practice, selecting an appropriate discount rate has been the subject of much controversy. OMB Circular A-94 prescribes the use of a 10-percent rate applied to constant dollars. This rate, however, has been in effect since 1972. We believe that the average yield on outstanding marketable treasury obligations with remaining maturities comparable to the period of analysis, applied to then year dollars, is the appropriate basis for establishing the discount rate used in estimating the cost of alternatives. That rate was 13 percent at the time DOD prepared its savings estimates. This rate, however, can be expected to change with market conditions over the life of a multiyear contract. The change of a few points can significantly alter the effect of discounting. The OMB procedures, however, tend to be more conservative than the discount procedure we used in this analysis.

Moreover, projected savings are not based on negotiated prices, but rather on budget estimates. In addition, the savings are dependent on successful completion of the entire program as planned. We do not believe the amount can reasonably be assigned to discrete fiscal years.

While the claimed savings are cut off as of fiscal year 1987, expenditures under the programs extend through fiscal year 1987 for the F-16, fiscal year 1994 for the MLRS, and fiscal year 1995 for NAVSTAR. We believe discounted savings can be realized assuming each contract is completed as planned and the size of the savings will depend on the discount rate used.

Economic production rates: savings
need to consider cost of money

We found DOD similarly overstated the potential savings associated with the production of equipment in economical order quantities. These savings must also be discounted to present value where alternative investments extend beyond 3 years. For example, if the 13-percent discount rate were used, the \$851.7 million of claimed savings for procuring the F-16 would be reduced to \$89.4 million. These savings are also subject to additional support costs associated with the earlier deliveries and greater quantity of systems fielded.

^{1/}"GAO Analysis of Projects Proposed by the Department of Defense for Multi-year Contracting in its Fiscal Year 1983 Budget Request" (PLRD-82-73, Apr. 29, 1982)

Elimination/reduction of marginal systems:
programs are reduced but may be reinstated

Of the \$7.8 billion claimed savings, we examined \$2.5 billion and found all to be realizable. Some of the key program terminations are as follows:

<u>Program</u>	<u>FY 81-87 savings</u> <u>---(millions)---</u>
E-4B aircraft	\$ 569.5
Naval Ocean Satellite System (NOSS)	518.6
5" guided projectile	516.7
Titan missile phase out	<u>469.7</u>
Total	<u>\$2,074.5</u>

We believe these are supported. At the same time, there is a possibility the E-4B, NOSS and 5" Guided Projectile savings may not be permanent. The Air Force has canceled then reinstated the E-4B aircraft in previous fiscal years; there remains a valid requirement for a NOSS program which collects and measures global oceanic data; and according to a Navy official, the contractor continues to lobby for reinstatement of the 5" Guided Projectile. These savings may merely represent program deferrals which, if reinstated in future budgets, would nullify the savings.

Operations reforms

DOD claimed savings of \$5.6 billion as a result of operations related reforms. Of this amount, we examined \$3.1 billion and concluded that \$1.2 billion, or 39 percent, is supported/realizable. The following table summarizes our results.

GAO'S Assessment Of DOD'S
Claimed Operations Savings (TOA)
During Fiscal Years 1981-1987

<u>Activity</u>	<u>DOD</u> <u>Claimed</u>	<u>GAO</u> <u>Reviewed</u>	<u>Supported/</u> <u>realizable</u>	<u>Questionable/</u> <u>uncertain</u>	<u>Not supported/</u> <u>not realized</u>
	----- (millions) -----				
Logistic im- provements	\$ 721.0	\$ 394.6	\$ 17.0	\$ 108.6	\$269.0
Eliminate/ reduce marginal program/ system	922.8	446.4	117.7	326.4	2.3
Administrative overhead	2,687.2	1,540.1	666.3	662.1	211.7
Increased producti- vity					
Eliminate/ reduce marginal equipment	59.2	50.0			50.0
Base realine- ments	177.0	66.0	11.0		55.0
Base support consoli- dation reduction	295.4	150.0		150.0	
Personnel efficiency	605.4	344.9	299.9	45.0	
Other opera- tions improve- ments	<u>148.1</u>	<u>85.6</u>	<u>45.0</u>	<u> </u>	<u>40.6</u>
Total	<u>\$5,616.1</u>	<u>\$3,077.6</u>	<u>\$1,156.9</u>	<u>\$1,292.1</u>	<u>\$628.6</u>

The following paragraphs provide discussions of selected aspects of our analysis in greater detail.

Logistics improvements: reforms
generally not supported

DOD claimed total savings of \$721 million as a result of improvements in the logistics system, including supply operations, material maintenance, transportation, and commissary operations. We reviewed three specific improvements totaling \$394.6 million and found only \$17 million is supported, \$108.6 million is questionable/uncertain, and \$269 million is not supported. The three improvements involve depot maintenance, automated markings and reading symbols, and improved supply disciplines. They are discussed below.

a. Depot maintenance industrial fund activity:
\$184 million claimed savings in fiscal
years 1983-1987 not supported

The Air Force Air Logistic Centers (ALCs) are not being fully utilized due to a lack of personnel, and therefore productivity is down. The Reagan amendment to the fiscal year 1982 budget added 3,000 personnel to the civilian end-strength. In theory, the Air Force claims this will increase production and spread the fixed overhead costs across a larger base.

We believe these savings are not supported because DOD did not claim greater efficiency through improved methods of operation or by reducing the number of indirect personnel. Most of the requested increased personnel strength is already on board through the use of temporary employment programs. DOD claims savings as a result of increasing employment, when in effect the only change will be in employment status--temporary versus permanent.

b. Logistics application of automated markings
and reading symbols (LOGMARS): \$108.6 million
claimed savings in fiscal years 1983-1987 is
uncertain

The use of machine-readable symbols on unit packs, containers, and documentation should reduce supply processing times and thereby reduce cost. The LOGMARS concept is expected to provide other benefits as well, such as greater data accuracy and reduced paperwork.

While LOGMARS should reduce costs, the savings are based on cost estimates rather than actual experience. DOD expects to save \$50 million annually beginning in 1986; however, this will depend on the services determining what standard symbols will be used and acquiring the LOGMARS hardware. The savings are based on a 1981 DOD study that should be considered tentative until actual cost data becomes available. At this point we consider the savings to be uncertain.

c. Improved supply disciplines (Army):
\$102 million claimed savings in
fiscal years 1981-1987

The Army claimed these savings would be achieved by (1) reducing the retention level of excess spare parts, (2) avoiding costly overseas procurements, and (3) reducing shipping time of getting repair parts to-and-from maintenance centers.

The Army operations and maintenance account was reduced by \$17 million in fiscal year 1982, but Army officials did not demonstrate how these savings were achieved. In addition, the Army simply assumed a \$17 million savings in each of the fiscal years 1983-1987 based on the fiscal year 1982 reduction. We do not consider this technique of straightlining one-time budget reductions into the outyears, without reasonable assurance that the reduction will be implemented, to be a valid basis for projecting savings. In summary, we believe \$17 million is realizable and \$85 million is not supported.

The elimination/reduction of marginal
programs/systems: \$922.8 million in
claimed savings

DOD claimed savings of \$922.8 million through the elimination and reduction of marginal programs and systems. These operating and support savings were to result from the termination or permanent reduction of operations programs. We examined \$446.4 million in claimed savings related to (1) reducing programs in the Army operations and maintenance account and (2) reduced audio-visual activities.

In curtailing or eliminating programs DOD claimed the Army would save \$397 million in fiscal years 1981 through 1987 as a result of over 25 separate actions. We examined \$295.2 million related to the Military Traffic Management Command (MTMC) and U.S. Forces Command (FORSCOM). We found \$22.1 million is supported and \$273.1 million is questionable.

For fiscal year 1982, we examined \$49.2 million of \$60 million claimed savings. An internal MTMC report indicates that \$27.1 million in cost avoidances were unacceptable due to inadequate methodologies. We found the \$27.1 million questionable for each fiscal year as our review indicates many of the savings represent normal ways of doing business. For example, in one case, a cost avoidance was completed by determining the difference between the lowest and highest contract bids. This should be a normal operating procedure rather than an economy and efficiency. We found the remaining \$22.1 million of budget reductions examined is supported, but only for fiscal year 1982. In fiscal years 1983-1987, DOD simply straightlined the fiscal year 1982 claimed savings.

DOD claimed reductions in audio-visual activities and identified 15 different appropriations accounts which fund this function. Documentation showed that \$95.6 million of the \$151.2 million in claimed savings we examined would be achieved during fiscal years 1982 through 1987. However the documentation showed that \$2.3 million claimed by the Army for fiscal year 1982 will not be achieved--the Army originally reported a \$14 million reduction for this function, whereas, only an \$11.7 million reduction was achieved. We categorize the remaining \$53.3 million of the savings reviewed as questionable. This amount primarily represents a single straight-line extrapolation of previous budget reductions, without any supporting budget guidance directing that similar cuts be taken in outyears.

Administrative overhead: less than
half the reviewed savings are supported

This category of savings primarily represents reductions in headquarters operations. The principal reforms are reductions in travel and consulting services that would save \$2.4 billion between fiscal years 1981 and 1987, including \$450.5 million in fiscal years 1981 and 1982. Our analysis shows that only \$666.3 million, or 43 percent of what we reviewed, was adequately supported. Similarly, \$147.8 million, or 62 percent of what we reviewed, of the fiscal years 1981-1982 savings was realized. The travel and consulting reductions are discussed below:

a. Travel reduction:
most were not implemented as planned

DOD claimed that in fiscal year 1981 it saved \$29.5 million in the Army operations and maintenance appropriations accounts. Savings claimed for fiscal years 1982 through 1987 are a simple straight-line extrapolation of the 1981 claimed savings. We found that the Army saved only \$5 million in each of the fiscal years 1981 through 1983. There was no evidence that even these savings will continue for fiscal years 1984 through 1987.

DOD did not claim any travel reduction savings for the Air Force for fiscal year 1981, but for fiscal years 1982 and 1983 it claims a \$42.8 million savings for each year. The fiscal years 1984 through 1987 claimed savings for the Air Force are also a simple extrapolation of the 1983 claimed savings but with an inflation factor added. We found that in fiscal year 1982 the Air Force experienced a travel reduction of only \$2.6 million, not the \$42.8 million claimed, and for fiscal year 1983 it reduced administrative travel by \$21.4 million not the \$42.8 million claimed. However, the Air Force did reduce other program budgets by \$21.4 million to equal the savings claimed by DOD. Therefore, we accepted the 1983 claimed savings as supported although only half of it came from administrative travel. Air

Force officials said the fiscal year 1983 reduction was a one-time reduction and they had received no guidance on any future reductions in administrative travel. Therefore, we categorize the claimed outyear saving as questionable.

- b. Consulting and related service (Navy):
\$605.9 million in savings were supported but
\$449.9 million in savings were questionable

DOD's claimed savings for this initiative were cumulative amounts from 22 different appropriations accounts. We examined the largest cost-savings category-- Operations and Maintenance, Navy. This category represents about 60 percent of the total reported cost-savings for consulting and related services, or \$1,055.8 million of the total \$1,758.7 million claimed savings.

Navy provided documentation to support \$605.9 million of actual or projected savings for fiscal year 1981 through 1987. Although \$74.4 million of the amount claimed for fiscal year 1982 is a congressionally imposed reduction, we categorized it as supported since the reduction was absorbed by the Navy. Navy was unable to provide documentation to show that \$449.9 million in projected savings for fiscal years 1983 through 1987 will materialize, but since this amount is basically an extrapolation of previous years' savings, we categorize it as questionable.

Increased productivity: more was saved than claimed

DOD claimed that in each of the fiscal years 1982 through 1987 it will save \$38.7 million primarily through on-going productivity improvement programs. The Army provided documentation to support total savings of \$232.2 million for the period. The Army productivity program saved more than the amount claimed, but the full amount is unknown.

These savings were to be achieved primarily through capital investments that reduce support costs and value engineering that result in lower procurement costs. For example, the Army purchased sand blasting machines for \$248 that enabled savings of \$334,000 annually through reducing the need for manual labor. In addition, while the Navy and Air Force did not report savings in this category, both could probably demonstrate savings.

We reviewed \$112.7 million in claimed savings related to reduced recruitment and advertisement activities. DOD documented most of the claimed savings for Recruiting and Advertising, although \$11 million of the \$20 million claimed savings we examined for fiscal year 1982 is the result of a congressionally directed cut, not a DOD initiative. Nevertheless, since the reduction has been made, we list it as realized.

The Army reduced its fiscal year 1982 Recruiting and Advertising budget by \$9 million, but we found no documented evidence that this budget reduction will continue in fiscal years 1983 through 1987. Because (1) the poor economic conditions and the concomitant improved recruiting market during fiscal year 1982 are unlikely to continue for the next 5 years, (2) the 18 to 20 year old cohort is declining, and (3) the Army had received no budget guidance directing it to take a similar cut for fiscal years 1983 through 1987, we categorize these claimed savings as questionable.

CLAIMED SAVINGS RESULTING FROM CONGRESSIONAL/GOVERNMENT-WIDE ACTIONS

From the fiscal years 1981 through 1987, \$27.1 billion, or 52 percent, of the total claimed savings result from actions initiated outside DOD. These actions are primarily related to personnel concerns, as the following chart demonstrates.

Summary of GAO's Assessment
Of Claimed Congressional/Government-wide
Savings During Fiscal Years 1981-1987

<u>Category</u>	<u>DOD Claimed</u>	<u>GAO Reviewed</u>	<u>Supported/ realizable</u>	<u>Questionable/ uncertain</u>	<u>Not supported/ not realized</u>
------(millions)-----					
Personnel	\$26,435.0	\$26,435.0	\$6,074.0	\$19,186.0	\$1,175.0
Acquisition	671.3	671.3	602.1		69.2
Operations					
Total	<u>\$27,106.3</u>	<u>\$27,106.3</u>	<u>\$6,676.1</u>	<u>\$19,186.0</u>	<u>\$1,244.2</u>

After transmitting the package on economies and efficiencies to the Congress on February 8, 1982, DOD's Comptroller issued detailed guidance for updating the material for incorporation into the fiscal year 1984 budget submission. This was the first time general instructions were provided for identifying and computing such savings.

According to these instructions a savings qualifies to as an acceptable economy or efficiency if the following criteria are met:

- Savings must be the result of the current Administration's management decision.
- Programs may be existing or ongoing activities but the action must be new.

- Actions must be true management initiatives and not merely a recognition of an external factor or action.
- Savings must be net of related costs and be achieved by the end of fiscal year 1988. In addition, the present value of the cumulative savings must exceed the present value of the cumulative costs for fiscal years 1981-1988.

Based on DOD's criterion that actions must result from DOD management initiatives, we do not believe the \$27.1 billion in claimed savings qualify as valid DOD management reforms. At the same time though, some savings have been realized. Our analysis shows that only \$6.7 billion, or almost 25 percent of the claimed savings, are supported.

Congressional actions in the personnel area

We consider most of the savings attributable to the pay cap questionable, and the savings associated with military retirement pay mostly supported. The following paragraphs discuss our concerns in greater detail.

The civilian pay adjustment: savings have been realized but the outyear claims are questionable

DOD claimed savings of \$23.8 billion for imposing a 4.8 percent pay cap on civilian salaries for fiscal year 1982 and a 5 percent cap for fiscal years 1983 through 1987. While the imposition of pay caps avoids the costs that would be incurred by granting full comparability increases, variables such as unbudgeted changes in the number of employees and the unreliability of projected pay caps, make these estimated savings highly speculative, and, therefore, questionable. The following actions erode the reliability of the claimed savings:

- Fiscal Year 1982 Although the projected savings of \$1.8 billion assume the 4.8 percent pay raise approved by the Congress, it does not include the offsetting addition of approximately 20,000 DOD civilian spaces approved by Congress. While fiscal year 1982 actual expenditures/obligations are not yet available from DOD or the services, DOD estimates that it expended approximately \$24.9 billion for civilian pay. The amount exceeds the baselines upon which the savings are projected by \$2.3 billion.
- Fiscal Year 1983 DOD assumed a 5-percent pay raise when estimating fiscal year 1983 savings. Ultimately, however, the Congress approved only a 4-percent pay raise which DOD now estimates will result in \$1.8 billion additional savings.

--Fiscal Year 1984 through 1987 In calculating budget savings for these years, DOD assumes the following:

<u>Fiscal year</u>	<u>Comparability</u> ------(percent)-----	<u>Pay cap</u>
1984	7.6	5
1985	6.4	5
1986	5.8	5
1987	5.6	5

However, since the calculations were first made, the President has submitted the fiscal year 1984 budget which contains no pay raise for civilian employees. Since the actual percentage pay increases have often differed from that projected in prior years' budgets, we categorize these savings as questionable.

The military retirement cost of living adjustments: savings of \$1.4 billion are supported

In August 1981, the Congress passed legislation eliminating one of the semiannual cost of living increases for retired Federal civilian and military employees. Although DOD has realized, and most likely will continue, to realize, savings as a result of this legislation, the \$1.4 billion savings should not be viewed as a DOD management reform since this is a congressional action. In addition, since fewer than anticipated personnel retired during fiscal years 1981 and 1982, the savings were greater than estimated.

Military retirement computation adjustment: the Congress did not pass the required legislation

DOD claimed savings of \$1.2 billion in anticipation of congressional approval of Reagan administration proposal. This proposal would reduce or eliminate increases based on the Consumer Price Index, for retired military members whose current retired pay annuities exceed those of a similar member retiring today. Although this measure could have reasonably been expected to achieve the projected savings, the proposal was defeated in the House Committee on Armed Services deliberations and was not considered at all by the Senate during the 97th Congress. Consequently, we consider these savings as not realized.

Congressional actions in the acquisition area

DOD included \$602.1 million in savings for eliminating the Army's Standoff Target Acquisition System (SOTAS). These savings were realized. In addition, \$69.2 million was to be saved through the implementation of proposed modifications to the Davis-Bacon Act which would lower labor costs. We determined that this congressional action would save millions, however, since the legislation was not passed, we consider the savings to be not realized.

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