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STATEMENT OF
Mr. Henry W. Connor
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NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION
BEFORE THE
SENATE COMMITTEE ON ARMED SERVICES
SUBCOMMITTEE ON PREPAREDNESS
ON
AMMUNITION PRODUCTION

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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to appear before your Subcommittee today to discuss our annual reviews of the military services' ammunition budgets. Our ammunition reviews date back to the Army's fiscal year 1973 program. Our most recent report issued on September 16, 1985, evaluates the President's budget request of \$5.3 billion for ammunition items and \$368.4 million for enhancing ammunition production facilities. In that report we concluded that about \$1.1 billion of the funds requested for ammunition items and \$129.2 million of the funds requested for ammunition production facilities should not be provided in the fiscal year 1986 budget.

I would like to make clear right up front that our recommended reductions do not impact the readiness of our forces because we do not question the services stated ammunition requirements. Our recommendations are based on our findings that (1) on-hand inventories and undelivered funded quantities were sufficient to meet stated needs, (2) unit cost estimates were overstated, (3) part or all of the quantities requested could not be delivered within the fiscal year 1986 program timeframes, and (4) the requests were premature because of technical and other problems.

What I would like to do, is to provide you some details about our annual ammunition reviews, covering such topics as (1) why we do the reviews, and (2) how we go about doing them with a few examples of our rationale for recommending funding reductions.

WHY WE DO THE REVIEWS

Our work in this area started in the early 1970s when the Chairman of the House Appropriations Committee asked us to review the Army's fiscal year 1973 appropriation request for enhancing ammunition production facilities. Starting with the fiscal year 1977 program the Committee expanded its request to include the review of Army ammunition items. Subsequent requests expanded the scope of our work to include reviews of Navy, Air Force, and Marine Corps ammunition items. Recently, other committees have also requested the reviews. The Senate Appropriations Committee asked us to review the fiscal year 1984, 1985, and 1986 programs and the House Armed Services Committee asked us to review the fiscal year 1985 program. The basic objective of our work is to attempt to answer the question of whether the program should be funded in the amounts requested by the services.

The Committees ask us for two products (1) fact sheets and questions on ammunition items and production facilities for use during hearings in the March/April timeframe and a report for use during budget mark-up in the July/August timeframe.

HOW WE DO THE REVIEWS

In our review of ammunition items, we focus on whether the quantities requested are needed and can be produced within the budget year program period. In addition, we attempt to determine whether unit costs are reasonable and whether technical or other problems are unresolved.

The primary factors we consider in establishing need are requirements, inventory and projected consumption. Among other things we identify the inventory objectives for war reserve and training unique ammunition over several years and attempt to determine reasons for significant changes. We compare the projected inventory position at the end of the budget year program period with the level prescribed by defense guidance i.e., days of supply. We determine whether the programs for items needed to constitute a complete round (e.g., projectile, fuze and propelling charge) are in reasonable balance. We evaluate the feasibility of renovating existing unserviceable stocks as an alternative to procurement. For some of the newer systems, such as the Bradley, we compare weapons and ammunition delivery schedules. Finally, we contrast forecast training consumption with recent actual consumption to determine whether forecasted consumption is realistic.

For many of the newer war reserve items, the existing inventory and program quantities are far below the wartime requirements and even the lower programming level prescribed by defense guidance. However, notwithstanding severe shortages, there are often valid reasons for not providing funding for specific ammunition items. For example, in reviewing the Army's fiscal year 1985 program for 8-inch improved conventional munitions we observed that there were virtually no rounds in the inventory and program quantities were far below requirements.

Yet we recommended a substantial reduction in the fiscal year 1985 program because the quantities could not be produced within the fiscal year 1985 program period because of an existing production backlog. While the item was certainly needed, funding in fiscal year 1985 was not. Such funding would serve only to increase the production backlog and would not improve readiness.

For many of the training unique ammunition items, the existing inventory and program quantities are above inventory objectives. However, before making recommendations to reduce the request because inventory exceeds objectives we consider the extent of the excess and the potential impact of any program reductions on ammunition production facilities.

In assessing costs we compare year-to-year cost changes for ammunition items and major components. We assess reasonableness of cost projections by comparing unit costs in the budget with those obtained under recent contracts and those on published price lists. We review individual service requests to assure that the services are using the same unit costs for identical items. Finally, we determine whether improper costs are included in the total, whether components in stock are available and whether the item will be procured in the configuration described in budget support documents.

Our review of the services' fiscal year 1986 program surfaced several different situations which resulted in the services requesting more funding than needed. For example, the Army overstated its request for 40-millimeter high explosive cartridges by \$13 million because it used the wrong unit cost. Increasing the quantity was not feasible because the Army was having difficulty producing existing funded quantities. Another example was the Navy's request of \$1.6 million for 60-millimeter mortar cartridges which was overstated by \$1.4 million because the Navy used the wrong unit cost. The Navy's request was for an uneconomical quantity of 1,900. Therefore, we recommended that the Navy increase the program to 12,100 cartridges. This quantity would permit the Navy to achieve its inventory objective and still reduce the budget request by \$700,000. Finally, the Air Force request for 30-millimeter cartridges included \$3 million for components to support a container repair program. However, we found that the Air Force plans to discontinue container repair after the fiscal year 1985 program.

In addition to determining whether the item can be produced within the budget year program period as discussed earlier, we attempt to determine whether technical or scheduling problems mitigate against funding the item. For example, in reviewing the Army's request for \$6.7 million in fiscal year 1986 for 4.2-inch mortar cartridges we found that the Army suspended this

cartridge from use except for war emergency and declared it unsafe for future procurement. The Army estimates it will take about 2 years to redesign the cartridge. However, funding for the redesign had not been provided at the time of our review. Similarly, the Navy requested \$6 million for the 30-millimeter cartridges for use on A-4 and F-4 aircraft after they have been retrofitted with 30-millimeter guns. However, the research and development program to retrofit the guns had not been funded. Finally, the Air Force requested \$2 million for one type fuze for which operational testing has not been completed. It is highly unlikely that such testing will be completed to permit timely execution of the fiscal year 1986 program because only one B-1B bomber is available for the testing.

In assessing the request for ammunition production facilities we concentrate on the need for the facilities, their design status, cost data and site selection. We determine both the peacetime and mobilization requirements for the items the facilities are designed to produce. We review alternatives to building the facility, e.g., is the product available from the private sector, as well as the methodology the Army used in selecting the facility site. We determine the extent to which design has been completed and the basis for the Army's cost estimates.

Each year the Army receives omnibus funding for facility design. Congressional guidance precludes funding projects when

final design is not complete. In our review of the Army's fiscal year 1986 facilities program we found that final design had not been completed for two projects and that site selection had not been made for one project. A similar situation existed last year. In fact, one of the facilities for which design is not complete this year was not funded last year because of incomplete design.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you may have.

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