

United States General Accounting Office

GAO

Report to the Ranking Republican,
Committee on Armed Services, House of
Representatives

January 1994

**DEFENSE
CONVERSION**

**Slow Start Limits
Spending**





United States
General Accounting Office
Washington, D.C. 20548

150765

**National Security and
International Affairs Division**

B-255686

January 25, 1994

The Honorable Floyd D. Spence
Ranking Republican
Committee on Armed Services
House of Representatives

Dear Mr. Spence:

In response to your request, we determined the status of Department of Defense (DOD) funded programs designed to address the many economic challenges resulting from reduced defense spending. These programs are frequently referred to by umbrella terms such as Defense Transition, Defense Conversion, Defense Reinvestment and Conversion, or Defense Reinvestment and Economic Growth Initiatives. Between May and September 1993, we briefed members of your staff four times on the status of funding on defense conversion programs. These briefings, as well as our briefings of five other congressional committees, were primarily intended to provide timely data to help develop the DOD's fiscal year 1994 Authorization and Appropriations Acts.

Subsequent to our briefings, we agreed with your staff to prepare a report that establishes a baseline of defense conversion efforts. Accordingly, this report (1) identifies and compares programs included in three defense conversion initiatives, (2) identifies the amounts committed or obligated as of about July 31, 1993, and (3) summarizes evaluations of two defense conversion programs that were authorized prior to fiscal year 1993.

Defense conversion refers to a number of federal programs intended to help individuals and communities cope with cutbacks in military spending and to support the defense technology and industrial base. These programs include assistance to individuals through separation incentives, extended health benefits, and training for displaced workers; assistance to help communities plan for economic development and diversification; and assistance to companies to develop dual-use technologies and promote the commercial use of defense-related technologies.

Results in Brief

There have been at least three defense conversion initiatives proposed by Congress or the executive branch. While each initiative provided for similar spending, the programs included and the planned costs of each

program have varied widely. We identified 52 programs¹ included in one or more of the defense conversion initiatives proposed by Congress or the executive branch. Additionally, the Logistics Management Institute has identified 116 other federal or state programs designed to help ease the impacts of defense downsizing that are not specifically identified as defense conversion programs by Congress or the executive branch.

Of the 52 defense conversion programs, 20 had little or no funds committed or obligated as of about July 31, 1993, 10 months after the beginning of the fiscal year. DOD committed or obligated \$1.1 billion for the remaining 32 programs. One program—separation incentives and health benefits for DOD civilian personnel—represented about half of the \$1.1 billion. Most of the remaining obligations were incurred in programs that had begun prior to fiscal year 1993.

While many defense conversion programs are in early stages, the Inspectors General of DOD and the Department of Commerce have evaluated two of the programs that began prior to fiscal year 1993. In one case, the Department of Commerce Inspector General concluded that three of the six grants reviewed had a questionable impact on helping to reduce the long-term economic impact of defense reductions on communities. In the other, the DOD Inspector General concluded that ineffective planning and oversight had resulted in implementation problems.

Background

Because of the political changes that have swept across Eastern Europe and the former Soviet Union, DOD financial outlays have been and will continue to be cut substantially. Although the overall economy should not experience major disruptions from this decrease, some industries, workers, and communities could be severely affected, according to a Congressional Research Service study.² The federal government has established numerous programs to ease adjustments to the cutbacks, to support the defense technology and industrial base, and to promote the commercial use of defense-related technologies. Defense conversion provides assistance programs in the following areas (see app. I for a detailed listing of the programs):

¹Program refers to any separately identifiable line item included in one or more defense conversion initiative. In some cases, the program is not separately identifiable for budget purposes.

²Federal Economic Adjustment and Conversion Assistance to Communities, Workers and Businesses Affected by Defense Cuts; Congressional Research Service, March 10, 1993.

- Assistance to workers, which includes programs to provide job retraining, alternative employment, or separation/retirement pay and benefits to active duty military, national guard and reserve personnel, and DOD and Department of Energy civilian employees. Displaced private sector defense workers also receive job retraining benefits.
- Assistance to communities, which includes programs to help communities plan and implement economic development and diversification strategies to offset the effect of dislocations resulting from defense downsizing. It also includes programs to support youth development such as the National Guard Civilian Youth Opportunity Pilot Program.
- Technology and industrial support initiatives, which includes funding for partnerships between the federal government and industry or other eligible public and private participants, primarily to encourage the development and/or use of technologies and manufacturing processes that have both civilian and military applications. For the most part, these dual-use programs are included as part of the Technology Reinvestment Project being implemented by an interagency group, which includes representatives from DOD's Advanced Research Projects Agency, the Department of Energy (Defense Programs), the National Science Foundation, the Department of Commerce's National Institute of Standards and Technology, the National Aeronautics and Space Administration, and the Department of Transportation. It also includes programs primarily supporting research and development of dual-use electronics and materials.

Three Defense Conversion Initiatives

There have been at least three defense conversion initiatives used by Congress or the executive branch. While each initiative included programs totaling between \$1.5 billion and \$1.8 billion for fiscal year 1993, the programs and their planned costs vary widely as shown in table 1. In all, 52 programs were included by either Congress or the executive branch.

Table 1: Sources and Funding of Programs Included in Various Defense Conversion Initiatives

Dollars in millions				
Source	Number of programs	Fiscal year 1993 funds		
		Authorized	Appropriated/earmarked	Clinton's plan ^a
Authorized	26	\$1,512	\$1,341	\$1,004
Added by appropriators	14		426	145
Added by the President	12			520
Total^b	52	\$1,512	\$1,767	\$1,669

^aIncludes only DOD funded programs.

^bObligations for one program—separation incentives and health benefits for civilian personnel—are included in each initiative at \$72 million. However, as of December 3, 1993, program office officials estimated that fiscal year 1993 obligations would be \$720 million. Thus, the total for each initiative will increase accordingly.

Division D of the Defense Authorization Act for fiscal year 1993 (P.L. 102-484) provided the initial defense conversion initiative when it authorized DOD to spend \$1.5 billion for a comprehensive package of 26 programs. The second defense conversion initiative was included in the conference report accompanying the Defense Appropriations Act for fiscal year 1993 (P.L. 102-396). The Appropriations Act differed from the Authorization Act, primarily because it added \$306 million for 10 additional research and development programs and \$120 million for 4 additional personnel and community assistance programs.

President Clinton provided the third initiative on March 11, 1993, when he announced his Defense Reinvestment and Conversion Initiatives. The President's fiscal year 1993 plan added 12 DOD³ programs that were previously funded but not counted as defense conversion programs by Congress. The President also called for reducing the funding for the authorized defense conversion programs by about one-third and excluding many of the programs added by the Appropriations Act. The reduction from the amounts authorized primarily resulted from decreasing the planned expenditures for early retirement and health benefits for military personnel by \$201 million and \$56 million, respectively, and reflecting the decreases included in the Appropriations Act.

³The President's plan also included \$285 million for six programs funded by other government agencies. We have limited our discussion to the defense conversion programs funded by DOD.

In addition to these 52 programs, the Logistics Management Institute developed a comprehensive listing⁴ of 116 other federal and state programs designed to help ease the impact of defense downsizing. The other programs, which totaled more than \$20 billion in fiscal year 1993, include the Montgomery GI bill, the food stamp employment and training program, unemployment insurance, federal family education loans, urban development action grant programs, and educational impact aid.

Slow Start Resulted in Little or No Funds Committed or Obligated Through July 1993

The defense authorization and appropriations bills were enacted in October 1992, but DOD did not begin distributing the funds until March 11, 1993. Contributing to the delay were the Bush administration's opposition to many of the elements of the program and the time needed to change administrations and develop new programs following the November 1992 election. Of the 52 defense conversion programs, 20 had little or no funds committed or obligated as of about July 31, 1993, 10 months after the beginning of the fiscal year (see table 2).

⁴Compendium of Programs to Assist the Transition, Logistics Management Institute, February 1993.

Table 2: Programs With Little of No Funds Committed or Obligated

Dollars in millions	
Program	Committed/obligated
Temporary early retirement	0
Temporary health transition-military	\$3
Guard and reserve transition benefits	2
Job training and employment services	0
Job bank	0
GI upward bound ^a	0
Public service job training (troops to teachers)	0
Service member conversion and training	1
DOD environmental programs	3
Philadelphia Naval Shipyard	0
Civilian Community Corp	0
Defense dual-use critical technology	0
Commercial-military integration	0
Regional technology alliances assistance	1
Advanced manufacturing technology	0
Defense manufacturing extension	1
Defense dual-use assistance extension	1
Defense manufacturing engineering education	0
Agile manufacturing and enterprise integration	0
Small business innovative research	0
Total	\$12

^aDOD has not approved implementation of this \$5 million program.

DOD had committed or obligated almost \$1.1 billion to the remaining 32 defense conversion programs as of about July 31, 1993. One program, separation incentives and health benefits for DOD civilian personnel, accounted for over half of this amount.

Most of the remaining obligations were incurred in programs that began prior to fiscal year 1993. These programs include transition and relocation assistance for military personnel, community planning grants provided by DOD's Office of Economic Adjustment, DOD funds transferred to the Department of Commerce's Economic Development Administration, and a series of ongoing research and development projects.

Evaluations of Two Ongoing Defense Conversion Programs

Although many of the defense conversion programs were initially authorized in fiscal year 1993 and the funds had not yet been committed or obligated when we completed our review, evaluations were completed on two programs that were authorized prior to fiscal year 1993. First, the Department of Commerce Inspector General's June 8, 1993, letter questioned the effectiveness of defense conversion monies transferred to the Economic Development Administration. DOD had transferred \$50 million from its fiscal year 1991 appropriations and an additional \$80 million from its fiscal year 1993 appropriations to help address economic adjustment problems that each community identified in its economic adjustment plan. The Inspector General found that three projects had effectively created permanent civilian jobs for former military and defense personnel, while three other projects were having a questionable impact and may provide little benefit in creating long-term employment opportunities. Specifically, the Inspector General questioned the following projects:

- A \$4.5 million project to continue demolition and refurbishment of a prior public works project awarded in 1984. The funds were to be used to rehabilitate two of the remaining five buildings for use as an advanced machining technology center. However, the Inspector General found that the site was contaminated with toxic waste and the Environmental Protection Agency had strict covenants regarding its reuse. The Inspector General doubted that the additional \$4.5 million could salvage the project or impact individuals or businesses affected by defense cutbacks.
- A \$1.75 million project to reconstruct and refurbish portions of a pier, a local tourist attraction. The Inspector General concluded that displaced defense workers would not be attracted to the low-pay, low-skill summer jobs that the project would create.
- A \$2 million project to improve a local water system. The Inspector General believed the project's value was unclear at best because no new businesses had committed to moving into the area.

The Inspector General concluded that the selection of the three questionable projects was due to flaws in the eligibility criteria and recommended revising the criteria to concentrate on projects having direct short- and long-term impacts on the local communities. The Economic Development Administration disagreed with this recommendation. However, the Inspector General expects to report on a follow-up evaluation of additional projects in March 1994.

In another evaluation, the DOD Inspector General, on August 20, 1993, reported on an inspection of the Defense Conversion Assistance program. This program was authorized in fiscal year 1991 to provide skills and tools to help displaced military and civilian personnel find other employment. Despite several positive conclusions concerning the program's operations, the Inspector General found that DOD had not implemented interdepartmental joint planning, established program measurement criteria to ensure even distribution of services, or provided effective program oversight. Specifically, the Inspector General found that

- DOD, the Departments of Labor and Veterans Affairs did not have a mechanism to fix execution responsibility or elevate local disputes to the national level for resolution;
- the amount and type of services provided varied between locations and, in some cases, were duplicative;
- no mechanism or measurement index existed to monitor and evaluate the program;
- reports needed to allocate resources, measure effectiveness, maintain accountability, and analyze project effectiveness were not timely or were inadequate; and
- a comprehensive plan to provide outplacement services for civilian employees was not available.

DOD is evaluating the Inspector General recommendations to correct these problems.

Scope and Methodology

To determine the scope of programs included under defense conversion, we reviewed Defense Appropriations and Authorization Acts for fiscal year 1993 and related committee and conference reports, as well as documents concerning the Clinton defense conversion plan issued by National Economic Council. Our work included all DOD funded programs identified in one or more of these documents. In addition, we reviewed studies conducted by the Logistics Management Institute, the Defense Budget Project, the Defense Conversion Commission, the Congressional Research Service, and the Congressional Budget Office.

To determine the extent to which defense conversion programs have been implemented, we obtained relevant budget data from DOD's Comptroller and the Comptroller of the Advanced Research Projects Agency. We compared this data with information obtained from operating personnel in DOD, the Departments of Commerce and Labor on their spending plans and


the funds committed or obligated at the time of our visits (generally within 1 week of July 31, 1993). We did not attempt to verify the spending data.

We performed our review from March through December 1993 in accordance with generally accepted government auditing standards. As agreed, we did not obtain agency comments on this report. However, we discussed the information in the report with DOD program personnel and have incorporated their comments where appropriate.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after its issue date. At that time, we will send copies to the Secretaries of Defense, Commerce, and Labor; the Director, Advanced Research Projects Agency; the Director, Office of Management and Budget; and other interested congressional committees. Copies of this report will also be made available to others upon request.

Please contact me at (202) 512-4587 if you or your staff have any questions concerning this report. Major contributors to this report were John K. Harper, Assistant Director; Louis G. Lynard, Evaluator in Charge; and William M. McPhail, Senior Evaluator.

Sincerely yours,



David E. Cooper
Director, Acquisition Policy, Technology
and Competitiveness Issues

Funding and Spending Levels for Defense Conversion Programs

Dollars in millions

Programs	Fiscal year 1993			
	Authorized	Appropriated/ earmarked	Clinton's plan ^a	Committed/ obligated
Included in the Defense Authorization Act				
Temporary early retirement	\$254	\$254	\$53	0
Temporary health transition-military	76	76	20	\$3
Separation incentives and health benefits	72	72	72	529
Guard and reserve transition benefits	40	40	29	2
Job training and employment services ^b	75		75	0
Job bank	4		4	0
GI upward bound	5	84	0	0
Public service job training (troops to teachers)	65	65	6	0
Service member conversion and training	75	75	75	1
DOD environmental programs				
Scholarships	10			
Grants to higher education	10	20	20	3
Office of Economic Adjustment	52		30	17
Economic Development Administration ^c	80	80	80	18
Defense dual-use critical technology	100	100	82	0
Commercial-military integration ^d	50	50	42	0
Regional technology alliances assistance ^d	100	100	91	1
Advanced manufacturing technology ^d	25	25	23	0
Defense manufacturing extension ^d	100	100	87	1
Defense dual-use extension assistance ^d	200	100	91	1
Defense manufacturing engineering education ^{d,e}	30	30	28	0
Programs directed by Congress and funded by the Technology Reinvestment Project				
			29	29
Agile manufacturing and enterprise integration	30	30	29	0
Advanced materials partnerships	30	30	29	28
U.S.-Japan management training	10	10	9	9
Analysis of technology and industrial base	5	0		
Center for the Study of Defense Economic Adjustment	2	0		
Defense Procurement Technical Assistance Program	12	0		
Total authorized	1,512	1,341	1,004	642
Defense Appropriations Act additions				
Philadelphia Naval Shipyard		50	50	0
National Guard Civilian Youth Opportunity Pilot Program ^f		30	30	36
Civilian Community Corps		20	20	0
Other programs of the Commission on National Community Service		20	20	12

(continued)

**Appendix I
Funding and Spending Levels for Defense
Conversion Programs**

Dollars in millions

Programs	Fiscal year 1993			
	Authorized	Appropriated/ earmarked	Clinton's plan ^a	Committed/ obligated
Multiuse high performance computing		69		68
Infrared focal plane array technology		15		14
Rapid prototype of applicable specific signal processors		26		21
Multichip module		46	25	10
Multifunction self-aligned gate technology		10		9
Acoustic charge transport		5		5
High temperature superconductor/diamond material		65		21
National Center for Advanced Gear Manufacturing Technology ^{a h}		5		
National Center For Manufacturing Sciences ^{a h}		45		
Superconducting magnetic energy storage ^{a h}		20		
Total added by the Appropriations Act		426	145	196
Clinton program additions				
Transition/relocation assistance			60	39
Small Business Innovative Research			92	0
Junior Reserve Office Training Corps ^h			50	
High school academies ^h			7	
High school academies, expanded ^h			7	
Manufacturing Technology programs transferred to the Advanced Research Projects Agency			24	22
High definition displays			152	73
Advanced lithography			71	70
Optoelectronics			24	24
Multichip module—high temperature superconducting			14	14
Diamond substrate			9	9
Ceramic fiber metal matrix			10	9
Total added by the Clinton program			520	260
Total for all defense conversion programs	\$1,512	\$1,767	\$1,669	\$1,098

(Table notes on next page)

**Appendix I
Funding and Spending Levels for Defense
Conversion Programs**

^aAmounts for programs shown in President Clinton's March 11, 1993, announcement included updated budget data provided by DOD through August 4, 1993.

^bIn addition to fiscal year 1993, \$150 million was transferred to the Department of Labor from DOD's fiscal year 1991 appropriations; \$97 million of which has been committed/obligated as of July 23, 1993.

^cIn addition to fiscal year 1993, the Economic Development Administration has obligated \$18 million of the \$50 million transferred from DOD's fiscal year 1991 appropriations. It has also requested proposals valued at \$52 million as of July 30, 1993. Funds for requested proposals may not be obligated for up to 1 year or more from the request date.

^dClinton's plan reflects decreases from the amount appropriated of 4.7 percent for undistributed congressional reductions and 1.5 percent for the Small Business Innovative Research Program. Also, includes a decrease of \$29.1 million for congressional directed grants to specific programs.

^eIncludes the Manufacturing Experts in the classroom program.

^fTotal appropriation was \$44 million, of which \$30 million was considered defense conversion funds. Committed/obligated amount was not segregated.

^gMerged into the Manufacturing Science and Technology Program and no longer tracked as an independent defense conversion program.

^hAmounts committed or obligated were not available.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

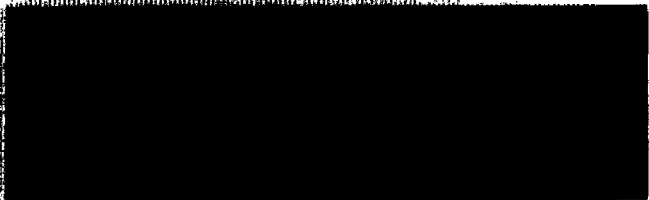
**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.**

**United States
General Accounting Office
Washington, D.C. 20548**



Address Correction Requested

