GAO

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

National Security and
International Affairs Division

B-283318

July 29, 1999

The Honorable John W. Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

Subject: Chemical Demilitarization: Funding Status of the Chemical Demilitarization Program

Since the late 1980's, the Department of Defense (DOD) has been actively pursuing a program to destroy the U.S. stockpile of obsolete chemical agents and munitions. DOD has reported that this program, known as the Chemical Demilitarization Program, is estimated to cost $15 billion through 2007; approximately $6.2 billion has been appropriated for the program from fiscal year 1988 through fiscal year 1999. Because of the lethality of chemical weapons and environmental concerns associated with proposed disposal methods, the program has been controversial from the beginning and has experienced delays, cost increases, and management weaknesses.

The Chemical Demilitarization Program is funded through operation and maintenance (O&M), procurement, research and development (R&D), and military construction appropriations, with each being available for use for varying periods of time.[1] Concerns were recently raised within DOD that the program had built up significant levels of funding in excess of spending plans. This led to concerns that the program's fiscal year 2000 budget request might be overstating funding requirements. As requested, we reviewed the extent to which the program retains significant levels of prior years' appropriations in excess of spending plans. Accordingly, this report summarizes the results of a briefing we provided to your office on July 23, 1999, in which we reported our preliminary findings concerning (1) amounts of reported unallocated appropriations and unliquidated obligations from prior years' appropriations, (2) the extent to which more obligations have been liquidated than previously reported, (3) primary reasons for the reported unliquidated obligations, and (4) actions that have affected or will affect unliquidated obligations.[2] We expect to analyze the program more extensively in a more detailed review. As part of that review, we will examine program costs, spending plans, schedules, and other management issues.

---

[1] We did not include military construction appropriations in our review.

[2] Unallocated appropriations refer to funds not yet committed to specific projects—the program office refers to unallocated funds as unissued funds. Unobligated balances represents funds committed or allocated to specific programs but pending contract award. Obligations are the amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that require payments. Unliquidated obligations consist of those obligations for which disbursements have not yet occurred.

167522

RESULTS IN BRIEF

For the selected Chemical Demilitarization Program appropriation accounts reviewed, we did not find sizeable amounts of unallocated appropriations and unliquidated obligations from prior years that appear to be available for other uses. There were sizeable unliquidated obligations reported from prior years. However, based on our review of $382.1 million (62.6 percent) of the reported $610.5 million in unliquidated obligations from the Chemical Demilitarization Program for fiscal years 1992-98, we found that $150.6 million (39.4 percent of the sample) had already been liquidated but not recorded in Defense Finance and Accounting Service (DFAS) budget execution reports. Further, the remaining $231.5 million in unliquidated obligations in our sample was scheduled to be liquidated by November 2000. Reported unliquidated obligations were caused by a number of factors such as delays in obtaining environmental permits and technical delays. At the same time, we identified a number of factors that have affected or will have the effect of reducing previously identified unliquidated obligations. The program has a reported $155.7 million in appropriations not yet allocated or obligated to specific program areas. However, nearly this entire amount ($145.2 million) involves current year appropriations that can be obligated and liquidated over several years.

BACKGROUND

In 1985, the Congress passed Public Law 99-145 directing the Army to destroy the U.S. stockpile of obsolete chemical agents and munitions. On April 25, 1997, the United States ratified the Chemical Weapons Convention, an international treaty banning the development, production, stockpiling, and use of chemical weapons. The Convention commits member nations to dispose of (1) unitary chemical weapons stockpile, binary chemical weapons, recovered chemical weapons, and former chemical weapon production facilities by April 29, 2007, and (2) miscellaneous chemical warfare materiel by April 29, 2002.[3]

To comply with congressional direction and meet the mandate of the Chemical Weapons Convention, the Army established the Chemical Demilitarization Program and developed a plan to incinerate the agents and munitions on site in specially designed facilities. The Program Manager for Chemical Demilitarization in the Edgewood area of Aberdeen Proving Ground, Maryland, manages the daily operations of the program. The Army currently projects this program will cost $15 billion to implement through 2007; approximately $6.2 billion had been appropriated from 1988 through fiscal year 1999.[4]

Since its beginning, the Chemical Demilitarization Program has been beset by controversy over disposal methods; delays in obtaining needed federal, state, and local environmental permits and other approvals; and increasing costs. We have previously reported on these problems as well as problems with management weaknesses in the program and disagreements over the respective roles and responsibilities among federal, state, and local entities associated with the program. For example, in

[3] If a country is unable to maintain the Convention's disposal schedule, the Convention's Organization for the Prohibition of Chemical Weapons may grant a one-time extension of up to 5 years.

[4] This estimated cost excludes funding for the Assembled Chemical Weapons Assessment Program, whose goal is to study the feasibility of disposal efforts for assembled chemical weapons without use of incineration. Separate funding is devoted to this effort.

1995, we reported that program officials lacked accurate financial information to identify how funds were spent and ensure that program goals were achieved.[5] A list of related GAO products is included at the end of this report.

Concerns over chemical demilitarization financial management issues surfaced again in February 1999, following a quick program review summarized in internal memorandums prepared by an official in the Office of the DOD Comptroller. The memorandums suggested that significant portions of prior years' O&M, procurement, and R&D appropriations obligated by specific Military Inter-departmental Purchase Requests (MIPR)[6] remained unliquidated, and could be deobligated and reprogrammed for other uses.

FUNDING BALANCES FOR THE CHEMICAL DEMILITARIZATION PROGRAM

The Chemical Demilitarization Program budget reports showed $155.7 million in current and prior years' appropriations not yet allocated ($107.1 million) or obligated ($48.6 million) to specific program areas. Nearly this entire amount ($145.2 million) is in current year appropriations. Also, the program currently has approximately $1 billion in unliquidated obligations, of which about 61 percent or $610.5 million are associated with prior years' appropriations for fiscal years 1992-98.

To identify the amounts of unallocated appropriations and unliquidated obligations from prior years, we collected official DFAS budget execution data for the Chemical Demilitarization Program. DFAS is responsible for providing the program office and other DOD organizations' financial and accounting services and information. Table 1 lists the reported budget authority and the unallocated, unobligated, and obligated appropriations, along with unliquidated balances for selected appropriations for the Chemical Demilitarization Program as of May 31, 1999. Budget authority allows agencies to enter into financial obligations that will result in immediate or future outlays of funds.

[5] See Chemical Weapons Stockpile: Changes Needed in the Management of the Emergency Preparedness Program (GAO/NSIAD-97-91, June 11, 1997) and Chemical Weapons: Army's Emergency Preparedness Program Has Financial Management Weaknesses (GAO/NSIAD-95-94, Mar. 15, 1995).

[6] An MIPR is a DOD financial form that is used by the program office to transfer funds to other government agencies, such as the Federal Emergency Management Agency (FEMA) and the U.S. Army Corps of Engineers, for work or services identified for the Chemical Demilitarization Program. As required by DOD regulations, the program office records these transfers as obligations.

Table 1: Reported Budget Authority and Unallocated, Unobligated, Obligated, and Unliquidated Balances for Selected Appropriations for the Chemical Demilitarization Program (as of May 31, 1999)

Dollars in millions

Fiscal year and funding category	Budget authority	Unallocated	Unobligated	Obligated	Unliquidated obligations
1992-98	**$3,170.2**	**$10.3**	**$0.2**	**$3159.5**	**$610.5**
Operation and Maintenance	1,821.8	8.9	0	1,812.5	135.8
Procurement	1,119.6	1.3	0.2	1,118.3	444.7
Research and Development	228.8	0.1	0	228.7	30.0
1999	**$666.8**	**$96.8**	**$48.4**	**$521.6**	**$393.0**
Operation and Maintenance	428.3	17.2	23.5	387.6	263.1
Procurement	100.3	57.5	2.8	40.0	39.9
Research and Development	138.2	22.1	22.1	94.0	90.0
Total	**$3,837.0**	**$107.1**	**$48.6**	**$3,681.1**	**$1,003.5**

Note 1: The Chemical Demilitarization Program had a reported $3.2 billion in budget authority for fiscal years 1992-98 and $666.8 million in budget authority in fiscal year 1999. The budget authority for fiscal years 1992 and 1993 O&M funds and fiscal year 1992 R&D funds are not included in the table because these funds have been canceled. In addition, the table does not include military construction funds because these funds were not included in this review.

Note 2: Unless otherwise specifically provided by law, a fixed appropriation account is generally available for adjusting and liquidating obligations properly chargeable to the account for 5 years following its period of availability for obligation. At the end of this 5-year period, the account is closed, and all balances are permanently canceled. O&M appropriations are available for obligation for 1 year, R&D appropriations are available for obligation for 2 years, and procurement appropriations are available for obligation for 3 years.

Note 3: Numbers not intended to total horizontally.

Note 4: The program office refers to unallocated funds as unissued funds.

Source: DFAS data provided by the program office.

As shown in table 1, the program office had a reported $10.3 million unallocated balance for fiscal years 1992-98. This balance consisted of funds that were never allocated to a specific project or were returned to this category after allocation. Returned funds include those amounts that were returned to the program office from projects that were terminated or completed for less than the obligated amount. Most of the unallocated funds are no longer available for obligation because their periods of availability for obligation have lapsed. In addition, the program office's unobligated balance for fiscal years 1992-98 was reported to be approximately $200,000. At the same time, the program reported $610.5 million in unliquidated obligations from fiscal years 1992-98.

In addition, as shown in table 1, the program office had a reported $96.8 million in unallocated and $48.4 million unobligated appropriations, and $393 million in unliquidated obligations in fiscal year 1999 funds. However, it is important to note that the R&D and procurement, but not O&M funds, will still be available for obligation for the remainder of this year and 1 or 2 more future years; and the obligations of all three appropriations may be liquidated for several more years beyond that.

MORE FISCAL YEARS 1992-98 OBLIGATIONS HAVE BEEN LIQUIDATED THAN REPORTED

For our preliminary review, we focused our analysis on the status of the unliquidated obligations for fiscal years 1992-98. Based on our review of 28 MIPRs with $382.1 million in unliquidated obligations (or 62.6 percent of the total reported unliquidated obligations), we found that $150.6 million (39.4 percent) had been liquidated.[7] The remaining $231.5 million (60.6 percent) of the reported $382.1 million in unliquidated obligations is scheduled to be liquidated between August 1999 and February 2000 (see table 2).

Table 2: Adjusted Unliquidated Obligations for 28 MIPRs (as of July 7 Through July 14, 1999)

Dollars in millions

Category of funds	Number of MIPRs GAO reviewed	Reported unliquidated obligations'	Liquidated funds		Adjusted unliquidated obligations	
			Amount	Percent	Amount	Percent
Operation and Maintenance	8	$79.3	$66.9	84.4	$12.4	15.6
Procurement	16	283.2	74.1	26.2	209.1	73.8
Research and Development	4	19.6	9.6	49.0	10.0	51.0
Total	**28**	**$382.1**	**$150.6**	**39.4**	**$231.5**	**60.6**

Note 1: The MIPRs were for fiscal years 1992-98 funds.

Note 2: Unless otherwise specifically provided by law, a fixed appropriation account is generally available for adjusting and liquidating obligations properly chargeable to the account for 5 years following its period of availability for obligation. At the end of this 5-year period, the account is closed and all balances are permanently canceled. O&M appropriations are available for obligation for 1 year, R&D appropriations are available for obligation for 2 years, and procurement appropriations are available for obligation for 3 years.

'Reported as of May 31, 1999, by DFAS.

Source: DFAS data provided by the program office.

As shown in table 2, we reviewed eight MIPRs that included a reported $79.3 million in unliquidated O&M obligations. Of this amount, $55.2 million was allocated to the FEMA for the Chemical Stockpile Emergency Preparedness Program (CSEPP). According to FEMA officials and supporting documentation, the total amount has been liquidated but was not timely reported to the program office for input to the finance service records. In addition, another $11.7 million of the reported $79.3 million in unliquidated O&M obligations has been liquidated by the program office and its contractors. The remaining $12.4 million of the $79.3 million amount is scheduled to be liquidated between now and February 2000.

[7] The $150.6 million represents 24.7 percent of the total reported $610.5 million in unliquidated obligations for fiscal years 1992-98, as identified in table 1.

In addition, as shown in table 2, we reviewed 16 MIPRs that included a reported $283.2 million in unliquidated procurement obligations. Of this amount, $54.2 million was allocated to FEMA for CSEPP projects. According to FEMA officials and supporting documentation, $40.5 million of the $54.2 million in CSEPP obligations has been liquidated but not reported to the program office in time for input to the finance service records. The remaining $13.7 million is still unliquidated but allocated to Alabama for its CSEPP projects. In addition, another $33.6 million of the reported $283.2 million in unliquidated procurement obligations has been liquidated by the program office and its contractors by May 31, 1999, and the remaining $209.1 million is scheduled to be liquidated between now and November 2000.

We also reviewed four MIPRs that included a reported $19.6 million in unliquidated R&D obligations. Of this amount, the program office and its contractors have liquidated $9.6 million. The remaining $10 million is scheduled to be liquidated between now and September 2000. Our preliminary review of the budget execution reports and MIPRs shows no indication that the program office obligated the same funds to separate projects and contracts in order to reduce its unobligated balances. We plan to complete a more extensive analysis of the potential for such double obligations as part of our future review discussed previously.

PRIMARY REASONS FOR THE UNLIQUIDATED OBLIGATIONS

We identified a variety of reasons for the reported unliquidated obligation balances. Most included procedural delays associated with reporting financial transactions to the finance service. More specifically, they included:

Accounting and procedural delays: According to DOD and Army officials, it can take from 90 to 120 days to process and report liquidation data before liquidations are included in the finance service budget execution data and reports. For example, the program office's projects are large enough to include a primary contractor and several subcontractors. Primary contractors may take several weeks to validate, process, and report liquidation actions by their subcontractors to the program office, which also has its own processes and procedures before reporting to the finance service. Furthermore, the finance service requires time to input and report its liquidation data to responsible DOD and Army officials.

Army and FEMA accounting and procedural delays for CSEPP funds: On the basis of our MIPR sample, CSEPP liquidations were not included in the finance service data because FEMA had not reported liquidation actions in a timely manner to the program office.

Environmental permit delays: Program officials found that estimating the time required to obtain environmental permit approvals was much more difficult than expected. For example, permits to construct the Umatilla, Anniston, and Pine Bluff chemical demilitarization facilities took 2 to 3 years more than the program office anticipated. Although funds were obligated for these projects, the program office could not liquidate the obligations until after the respective state approved the construction permit and the demilitarization facilities were constructed.

Technical delays: According to program officials, lessons learned from ongoing demilitarization operations at Johnston Atoll in the Pacific Ocean and Tooele, Utah, resulted in technical and design changes for future facilities that required additional time and resources. While these changes were being incorporated, liquidation of obligated funds proved to be slower than program officials expected.

ACTIONS THAT HAVE AFFECTED OR WILL AFFECT UNLIQUIDATED OBLIGATIONS

Several factors have affected or will affect the program office's unliquidated obligations. First, in fiscal year 1999, the Congress reduced the administration's budget request for the Chemical Demilitarization Program by $75.1 million. Consequently, there were fewer funds to obligate during fiscal year 1999 than planned for the program. A factor that should reduce unliquidated obligations is the 1997 approval of environmental permits for the construction of the Umatilla, Oregon, and Anniston, Alabama, chemical demilitarization facilities. The construction of these facilities should allow the program office to liquidate unliquidated procurement obligations for these locations. In addition, the environmental permits were approved in 1999 for the construction of Pine Bluff, Arkansas, and Aberdeen, Maryland, chemical demilitarization facilities, which should allow the program office to liquidate unliquidated procurement obligations for these locations. At the same time, program officials expect additional procurement costs at the Umatilla and Anniston disposal sites due to design and technical changes to previously purchased equipment.

AGENCY COMMENTS AND OUR EVALUATION

We provided a draft copy of this report to DOD and the Army for comment. Responsible officials stated that they did not have sufficient time to formally review and comment on the report. However, we were provided with various technical comments which were used in finalizing the report.

SCOPE AND METHODOLOGY

To assess the unobligated appropriations and unliquidated obligations for the Chemical Demilitarization Program, we interviewed and obtained data from DOD, Army, and FEMA officials, including officials from the Program Manager for Chemical Demilitarization Program in the Edgewood area of Aberdeen Proving Ground, Maryland; Office of the Under Secretary of Defense (Comptroller); Deputy Assistant Secretary of the Army, Chemical Demilitarization; Assistant Secretary of the Army for Financial Management; Army Audit Agency; and Office of Management and Budget. We reviewed DFAS reported budget execution data for selected appropriations for chemical demilitarization program budget authority, unallocated, unobligated, and unliquidated balances for fiscal years 1992-99. We did not attempt to reconcile budget execution data with DOD's financial statements.[8] In addition, we interviewed DOD and Army officials to discuss the (1) requirements for these funds, (2) primary causes for the unliquidated obligations, and (3) actions that have affected or will affect unliquidated obligations.

Because most unallocated appropriations are no longer available for obligation, unobligated balances are relatively small compared to the budget authority and fiscal year 1999 funds are still available for

---

[8] For information on DOD's overall financial status see Financial Audit: 1998 Financial Report of the United States Government (GAO/AIMD-99-130, Mar. 31, 1999).

obligation and liquidation for several years, we focused our analysis on the status of the unliquidated obligations for fiscal years 1992-98. We judgmentally selected and reviewed 28 of the program's 63 MIPRs with reported unliquidated obligations of more than $1 million to (1) verify the reported unliquidated obligation, and (2) identify specific requirements and time frames for liquidating the obligations. To verify the reported unliquidated obligations, we interviewed responsible program officials and reviewed supporting documentation from the Army and its contractors and compared these data with the unliquidated obligations reported in DFAS budget execution reports. On the basis of this comparison, we determined the extent to which more obligations have been liquidated than previously reported by the finance service. These liquidated obligations were deducted from the reported unliquidated obligations to determine the revised unliquidated amount. In addition, we interviewed responsible program officials and reviewed supporting documentation from the Army and its contractors to determine the schedules for liquidating the remaining unliquidated obligations.

We conducted our review from July 6 to July 26, 1999, in accordance with generally accepted government auditing standards. We are continuing our review of the Chemical Demilitarization Program. This report represents the preliminary results of our work.

We are sending copies of this report to Senator Pete V. Domenici, Senator Daniel K. Inouye, Senator Ted Stevens, Senator Robert Byrd, Senator Frank R. Lautenberg, Senator Joseph 1. Lieberman, and Senator Fred Thompson and to Representative John R. Kasich, Representative Jerry Lewis, Representative C.W. (Bill) Young, Representative David R. Obey, Representative John P. Murtha, Representative Ike Skelton, Representative Floyd D. Spence, and Representative John M. Spratt, Jr., in their capacities as Chair or Ranking Minority Member of cognizant Senate and House Committees and Subcommittees. We are also sending copies of this report to: the Honorable William S.Cohen, Secretary of Defense; the Honorable William J. Lynn, Under Secretary of Defense (Comptroller); the Honorable Louis Caldera, Secretary of the Army; and the Honorable Jacob Lew, Director, Office of Management and Budget.

If you have any questions regarding this letter, please contact Barry Holman or me on (202) 512-8412. Key contributors to this assignment are Don Snyder, Claudia Dickey, and Mark Little.

David R. Warren

David R. Warren, Director
Defense Management Issues

RELATED GAO PRODUCTS

Chemical Weapons and Materiel: Key Factors Affecting Disposal Costs and Schedule (GAO/NSIAD-97-18, Feb. 10, 1997).

Chemical Weapons Stockpile: Emergency Preparedness in Alabama Is Hampered by Management Weaknesses (GAO/NSIAD-96-150, July 23, 1996).

Chemical Weapons Disposal: Issues Related to DOD's Management (GAO/T-NSIAD-95-185, July 13, 1995).

Chemical Weapons: Army's Emergency Preparedness Program Has Financial Management Weaknesses (GAO/NSIAD-95-94, Mar. 15, 1995).

Chemical Stockpile Disposal Program Review (GAO/NSIAD-95-66R, Jan. 12, 1995).

Chemical Weapons: Stability of the U.S. Stockpile (GAO/NSIAD-95-67, Dec. 22, 1994).

Chemical Weapons Disposal: Plans for Nonstockpile Chemical Warfare Materiel Can Be Improved GAO/NSIAD-95-55, Dec. 20,1994).

Chemical Weapons: Issues Involving Destruction Technologies (GAO/T-NSIAD-94-159, Apr. 26, 1994).

Chemical Weapons Destruction: Advantages and Disadvantages of Alternatives to Incineration (GAO/NSIAD-94-123, Mar. 18, 1994).

Arms Control: Status of U.S.-Russian Agreements and the Chemical Weapons Convention (GAO/NSIAD-94-136, Mar. 15,1994).

Chemical Weapon Stockpile: Army's Emergency Preparedness Program Has Been Slow to Achieve Results (GAO/NSIAD-94-91, Feb. 22, 1994).

(709434)

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. VISA and MasterCard credit cards are accepted, also. 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 37050
Washington, DC 20013

or visit:

Room 1100
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 (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested