

GAO

Report to the Subcommittee on
Defense, Committee on Appropriations,
House of Representatives

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MILITARY PERSONNEL

DOD Needs More Effective Controls to Better Assess the Progress of the Selective Reenlistment Bonus Program



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Highlights of [GAO-04-86](#), a report to the Subcommittee on Defense, Committee on Appropriations, House of Representatives

Why GAO Did This Study

The Department of Defense (DOD) uses the Selective Reenlistment Bonus (SRB) program to reenlist military personnel in critical specialties. In fiscal years 1997-2003, the program budget rose 138 percent, from \$308 million to \$734 million (see fig.). In fiscal year 2003, the House Appropriations Committee directed the Secretary of Defense to reassess program efficiency and report on five concerns: (1) how effective the program is in correcting retention shortfalls in critical occupations, (2) how replacement guidance will ensure targeting critical specialties that impact readiness, (3) how DOD will match program execution with appropriated funding, (4) how well the services' processes for administering the program work, and (5) advantages and disadvantages of paying bonuses in lump sum payments. The committee also directed GAO to review and assess DOD's report.

What GAO Recommends

GAO recommends that the Secretary of Defense direct the Undersecretary of Defense for Personnel and Readiness to (1) retain the requirement for an annual review of the SRB program and (2) develop a consistent set of methodologically sound procedures and metrics for reviewing the effectiveness and efficiency of all aspects of each service's SRB program administration. DOD agreed with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-86.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or stewartd@gao.gov.

What GAO Found

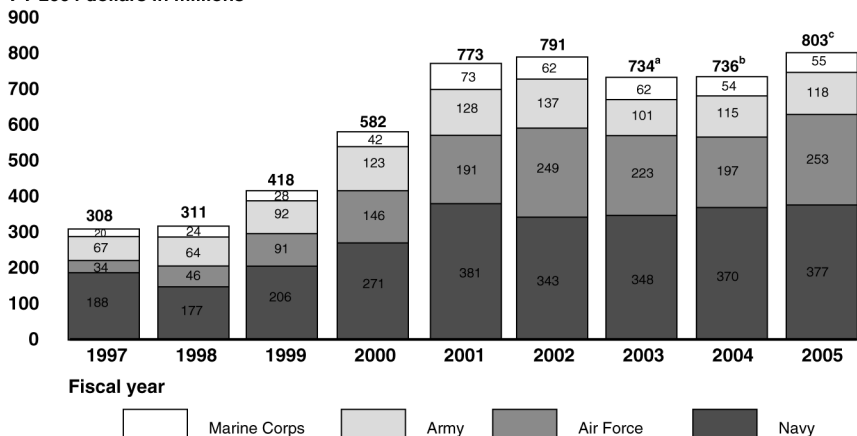
Despite congressional concerns about the SRB program, DOD's May 2003 report stated that the program is managed carefully, bonuses are offered sparingly, and the services need flexibility in administering the program. However, DOD's responses did not thoroughly address four of the five SRB program concerns contained in the mandate. As a result, Congress does not have sufficient information to determine if the program is being managed effectively or efficiently. For example,

- DOD has not issued replacement program guidance and did not allow us to review the guidance that has been drafted. DOD's report focused primarily on criteria for designating occupations as critical, but the report did not address an important change—the potential elimination of the requirement for conducting annual program reviews. In response to our 2002 report, DOD stated that this requirement would be eliminated from future program guidance. DOD recently told us that the new guidance will require periodic reviews, but neither the frequency nor the details of how these reviews would be conducted was explained.
- DOD conducted a limited evaluation to address the congressional concern about how well the services are administering their programs. The response consisted largely of program descriptions provided by the services. Among other things, DOD did not use a consistent set of procedures and metrics to evaluate each of the services' programs. Consequently, it is difficult to identify best practices, or to gain other insights into ways in which the effectiveness and efficiency of the services' programs could be improved.

DOD thoroughly addressed the congressional concern pertaining to the advantages and disadvantages of paying SRBs as lump sums.

SRB Program Budget Growth, Fiscal Years 1997-2005

FY 2004 dollars in millions



Source: GAO analysis of DOD data.

^aIn-year (or current) estimate. ^bFiscal year 2004 budget request. ^cFiscal year 2005 budget estimate.

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Abbreviations

DOD	Department of Defense
OMB	Office of Management and Budget
OSD	Office of the Under Secretary of Defense
SRB	Selective Reenlistment Bonus

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United States General Accounting Office
Washington, DC 20548

November 13, 2003

The Honorable Jerry Lewis
Chairman
The Honorable John Murtha
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

To meet its total active-duty force requirements, the Department of Defense (DOD) must reenlist about 150,000 personnel each year. The Selective Reenlistment Bonus (SRB) program is intended to help the services increase reenlistments in occupational specialties, such as linguists and information technology specialists, that the Secretary of Defense deems to be critical. Concerned about missing their overall retention goals in the late 1990s, all the services expanded their use of SRBs to help retain more enlisted personnel. As a result, the cost of the program more than doubled—from \$308 million¹ in fiscal 1997 to \$791 million in fiscal 2002. During the last few years, Congress also approved DOD requests for basic pay increases above the rate of inflation to address the services' retention concerns. Despite military pay increases and improved overall retention, funding for the services' SRB budget is expected to rise to over \$800 million in fiscal year 2005. Moreover, about one-third of all current reenlistments receive SRBs.

To facilitate closer monitoring of the SRB program, congressional defense committees requested our 1995 and 2002 reviews of the program. The House Appropriations Committee also mandated² our current review of DOD's recently issued report on the program. In our 2002 report,³ we identified several management and oversight concerns. For example, some

¹ All budget information in this report has been converted to constant fiscal year 2004 dollars, except where noted otherwise.

² House Report (H.R. Rep. 107-532), June 25, 2002, accompanying H.R. 5010, Department of Defense Appropriations Bill, 2003.

³ U.S. General Accounting Office, *Military Personnel: Management and Oversight of Selective Reenlistment Bonus Program Needs Improvement*, [GAO-03-149](#) (Washington, D.C.: Nov. 25, 2002).

services were not using all the criteria they had established for selecting occupational specialties to receive bonuses; the numbers of both reenlistments and SRB-eligible specialties had grown substantially since 1998; and critical program guidance canceled in 1996 had not been reissued. Among other things, we recommended that DOD conduct annual reviews of the services' SRB programs as required by its directive. In concurring with our recommendation, DOD noted that a future DOD directive would not require formal annual reviews of the program. Rather, these reviews would be accomplished through other means that we concluded were very limited in scope. In our 1996 report,⁴ we also raised concerns about SRB program management and oversight. Our recommendations included that DOD (1) provide more explicit guidance and criteria for determining SRB skills and (2) monitor the services' adherence to this guidance. DOD did not concur with either of these recommendations.

In a House Report accompanying the Department of Defense fiscal year 2003 appropriation bill, you expressed concern that DOD guidance and oversight of the SRB program was limited and that "a reassessment of the program was warranted to ensure it is being managed efficiently." The Committee directed the Secretary of Defense to report back to the committee on five concerns and directed us to review and assess the DOD report.⁵ Those five concerns were (1) effectiveness of the SRB program in correcting retention shortfalls in critical occupations, (2) replacement program guidance and how that guidance will ensure that the program targets only critical specialties that impact readiness, (3) steps DOD will take to match program execution with appropriated funding, (4) evaluation of the process the services use to administer the program, and (5) advantages and disadvantages of paying bonuses as a single lump sum payment. DOD issued its report in May 2003.⁶ In introductory remarks, DOD's report stated that the services manage their SRB programs carefully, offer bonuses sparingly, have management standards and practices to conduct a review of each skill receiving a bonus, and do

⁴ U.S. General Accounting Office, *Retention Bonuses: More Direction and Oversight Needed*, GAO/NSIAD-96-42 (Washington, D.C.: Nov. 24, 1995).

⁵ The Senate Appropriations Committee also directed the Under Secretary of Defense for Personnel Readiness to report on other aspects of DOD's SRB program.

⁶ Department of Defense, *Report on Selective Reenlistment Bonus Program: Report to the Committees on Appropriations of the United States Senate and House of Representatives*, Office of the Under Secretary of Defense Personnel and Readiness, (Washington, D.C.: May 2003).

an excellent job tailoring their SRB programs to changing demands for specific skills. Also, the need for flexibility in administering the program was a theme present throughout DOD's report.

In August 2003, we briefed your staff on our preliminary observations of DOD's report. We provide our final assessment in this review. Our objective was to determine the extent to which DOD's report thoroughly addressed the five SRB program management concerns raised in the congressional mandate.

To conduct our work, we examined DOD's mandated report on its SRB program, along with supporting documentation from the services and the Office of the Secretary of Defense (OSD). We also referred to our 2002 report and DOD's comments on that report. We conducted our review and assessment from June through September 2003 in accordance with generally accepted government auditing standards. Additional information on our scope and methodology is presented in appendix I.

Results in Brief

DOD's May 2003 report on the Selective Reenlistment Bonus (SRB) program did not thoroughly address four of the five program concerns raised in the congressional mandate. As a result, Congress does not have sufficient information to determine if the program is being managed effectively and efficiently. In responding to the first concern, DOD's report did not directly address the SRB program's effectiveness or efficiency in correcting shortfalls in critical occupations. Instead, the report discussed the general benefits of using bonuses to increase the retention of military personnel rather than how well the services are selectively applying bonuses to critical occupations. With regard to the second concern, DOD has not issued replacement program guidance and did not allow us to review the guidance that has been drafted. DOD's report focused primarily on changes that would provide greater flexibility to the services in designating occupations as critical. The report did not address an important change—the potential elimination of the requirement for conducting annual program reviews. In response to our 2002 report, DOD stated that this requirement would be eliminated from future program guidance. DOD recently told us that the new guidance will require periodic reviews, but neither the frequency nor the details of how these reviews would be conducted was explained. Although the third concern mandated that DOD describe steps that it will take to match program execution with appropriated funding, DOD did not describe such steps. Instead, DOD stated that the services need execution flexibility and have operated consistent with the law and within the overall Military Personnel

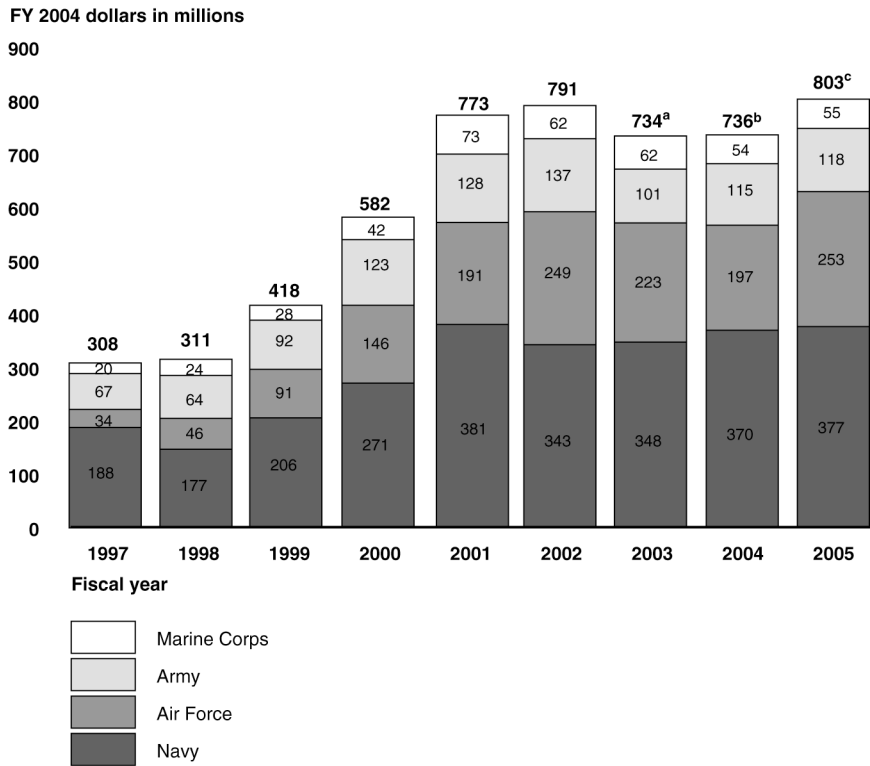
appropriation. Our analyses showed that in fiscal years 1999-2002 the services spent a combined total of \$259 million more than Congress appropriated for the SRB program. In responding to the fourth concern, regarding an evaluation of how the each service administers its SRB program, DOD's limited assessment consisted primarily of program descriptions provided by the services. Because different procedures and metrics were used to evaluate the services' programs, it is difficult to identify best practices and other insights into ways in which the effectiveness and efficiency of the services' programs could be improved. As mandated in the fifth concern, DOD identified the most salient advantages and disadvantages that could result from implementing a lump sum payment option for paying retention bonuses. We generally concur with DOD's observations about the positive and negative aspects of using lump sum bonuses.

We are making recommendations to DOD to improve management and oversight of the SRB program with more methodologically rigorous evaluations. We are recommending that DOD (1) retain the requirement for an annual review of the SRB program and (2) develop a consistent set of methodologically sound procedures and metrics for reviewing the effectiveness and efficiency of all aspects of each service's SRB program administration. DOD agreed with the recommendations.

Background

Over the past 7 years, DOD has increasingly used the SRB program to address retention shortfalls. The program's budget has grown from \$308 million in fiscal year 1997 to an estimated \$734 million in fiscal year 2003—a 138 percent increase after the effect of inflation was held constant (see fig. 1). The budget is estimated to grow to \$803 million in fiscal year 2005, with most of the projected growth resulting from increases in the Air Force SRB program budget. Our 2002 report noted that in fiscal year 2001 the Air Force extended reenlistment bonuses to 80 percent of its specialties.

Figure 1: SRB Program Budget Growth, Fiscal Years 1997-2005



Source: GAO analysis of DOD data.

^aIn-year (or current) estimate.

^bFiscal year 2004 budget request.

^cFiscal year 2005 budget estimate.

In recent years, Congress has appropriated less money than the services have requested for the SRB program. Based on our work, in fiscal 2003 Congress appropriated \$32 million less than DOD requested. Congressional committees proposed further SRB budget reductions during their reviews of DOD’s fiscal year 2004 budget request. The House Appropriations Committee proposed a \$44.6-million reduction; the Senate Appropriations Committee, a \$22-million reduction; and the Senate Armed Services Committee, a \$46-million reduction. The Senate Armed Services Committee additionally noted concerns about proposed SRB program budget increases at a time when overall retention rates are robust and the benefits of military service are increasing overall. DOD appealed these proposed reductions, noting that “the effects of an improving economy

and the waning emotional patriotic high of the decisive victory in Operation Iraqi Freedom will combine to increase pressures on both the recruiting and retention programs.” For fiscal year 2004, Congress appropriated \$697 million for the SRB program, which was a reduction of \$38.6 million from the amount DOD requested.

Despite increased use of the SRB program, DOD has cited continued retention problems in specialized occupations such as air traffic controller, linguist, and information technology specialist. A more favorable picture is present with regard to overall retention. All of the services reported that they met overall retention goals for fiscal year 2002 and, with the exception of the Air Force missing its retention goal for second term airmen, expect to meet overall retention goals in fiscal year 2003. Further bolstering these retention expectations are recent survey results showing improvements in servicemembers’ attitudes toward remaining in the military. For example, the 2002 DOD-wide status of forces survey found that the career intent of military personnel had improved between 1999 and 2002, rising from 50 to 58 percent. The survey results showed that retention attitudes were particularly better for junior enlisted (up 11 percent) and junior officers (up 13 percent). In addition, the 2002 Air Force-wide quality of life survey found that 66 percent of enlisted personnel reported they would make the Air Force a career, which is an increase from 58 percent, reported in 1997. According to DOD officials, the effects of more recent events such as extended deployments and other higher operations tempo issues could change servicemembers’ attitudes toward remaining in the military.

Congressionally approved reforms in basic pay implemented during the last 3 years were intended in part to address retention problems, particularly with mid-grade enlisted personnel. In the 2002 Quadrennial Review of Military Compensation,⁷ DOD attributed the increased use of SRBs in the late 1990s to a growing pay discrepancy between civilians and the mid-career enlisted force. For that period, the review noted an increased use of bonuses for personnel with 10 to 14 years of service. DOD noted that while bonuses are a very important compensation tool, their use is intended for specific purposes and for relatively short periods of time. According to that review, bonuses are appropriate for use within particular skill categories, not as a tool for resolving military and

⁷ Department of Defense, *Report of The Ninth Quadrennial Review of Military Compensation, Vol. 1*, (Washington, D.C., 2002).

civilian pay differentials across an entire segment of the force. The report noted that widespread pay differentials should be remedied through pay table restructuring. Pay table restructuring began in fiscal year 2001, and additional military pay adjustments have been approved in subsequent budgets.

DOD's Report Did Not Thoroughly Address Congressional Concerns

DOD's May 2003 report did not thoroughly address four of the five congressional concerns about effective and efficient management of the SRB program. First, the report indirectly addressed SRB program effectiveness and efficiency by discussing bonuses as a general military retention tool instead of the effectiveness and efficiency of the program in targeting bonuses to improve retention in selected critical occupations. Second, DOD did not permit us to review the draft guidance, but—based on DOD's comments on our 2002 SRB report, excerpts of draft criteria contained in DOD's mandated report, and our discussions with DOD officials—the replacement guidance could expand the SRB program by giving the services more flexibility in designating occupations as critical and either eliminate or weaken the requirement for annual SRB program reviews. Third, OSD did not outline steps to match program execution to appropriated funding as the mandate required; instead, OSD reiterated the need for program-execution flexibility. Fourth, OSD's evaluation of the services' administration of their SRBs program was limited, relied largely on service-provided descriptions, and did not use consistent procedures and metrics. Finally, as required by the fifth concern in the mandate, DOD identified the most salient advantages and disadvantages resulting from paying SRBs as lump sums.

DOD Report Indirectly Addressed Program Effectiveness and Efficiency in Correcting Retention Shortfalls

DOD's report did not directly discuss how effectively and efficiently each service is currently using the SRB program to address retention problems in critical occupations. Although the mandate noted, "a reassessment of the program is warranted to ensure it is being managed efficiently," DOD's response to concern one did not provide sufficient detail to document the effective and efficient use of the program in awarding SRBs. In response to one of the other four congressional concerns, DOD stated that the "intent of retention bonuses is to influence personnel inventories in specific situations in which less costly methods have proven inadequate or impractical." The report did not, however, document what methods had been used previously or the cost-effectiveness of those methods in achieving desired retention levels.

Also absent from the report was a discussion of how key factors influence the current use of SRBs. Examples of key factors include the effects of changes in the basic pay, overall retention rates, and civilian unemployment. For example:

- Despite increasing basic pay to address the discrepancy between military and civilian pay noted in the 2002 Quadrennial Review of Military Compensation, the budgets for the SRB program are projected to grow to \$803 million in fiscal year 2005. In comments received on our preliminary observations briefing, DOD officials noted that our use of constant 2004 dollars in our budget trend analysis did not fully account for the effects of the basic pay changes that exceeded the inflation level and thus increased the size of individual bonuses. At the same time, future SRB program budgets do not show decreases that might be expected as these pay table changes address overall military-civilian pay discrepancies and problems identified within various pay grades.
- The report did not address the extent to which recent higher levels of overall retention offer opportunities for reducing the number of occupations eligible for SRBs or the bonus amounts⁸ awarded for reenlistment. DOD officials have noted that all of the services met or exceeded their aggregate retention goals in fiscal year 2002 and that strong overall retention is expected to continue. However, they cited retention shortfalls in some occupational specialties as areas of concern. Although a generally positive aggregate retention climate might present DOD with opportunities to curtail use of its SRB program, the report did not discuss under what conditions reductions in the program might or might not be appropriate at this time.
- Despite noting a relationship between civilian unemployment rates and military retention, DOD's report did not indicate whether civilian unemployment—which is at a 9-year high—might result in the need for fewer SRBs being offered and possibly at lower bonus levels. One study cited in DOD's report noted that there is a relationship between higher unemployment rates and improved overall military retention. In part of its answer to concern three, DOD noted that changes in the economy and labor market drive changes in actual reenlistment rates. Just as periods of relatively lower civilian unemployment might suggest the need for greater

⁸ Total bonus amounts are determined by multiplying (1) the servicemember's current monthly basic pay by (2) the number of additional years of obligated service and by (3) a bonus multiple that can range from 0.5 to 15. The bonus multiples are determined by each service for all specialties they deem critical. Under current SRB program authority, the services are allowed to pay reenlistment bonuses of up to \$60,000, though some services have set lower maximums.

use of the SRB program, periods of relatively higher unemployment might conversely suggest less need for SRBs. Despite civilian unemployment being at its highest rate in several years, the SRB program budget is projected to increase in fiscal year 2005.

Instead of directly addressing program effectiveness and efficiency, the 2003 report discussed the general benefits of using bonuses to retain military personnel. DOD's report cited numerous studies that demonstrated or postulated this effect. However, findings from some studies may not be readily generalized to the way that the SRB program is currently managed or to the economic conditions that currently exist. More specifically, some studies used outdated retention data obtained in the mid-1970s or were performed in a very different retention environment (e.g., the increase in force size during the 1980s and the large draw-down of military forces in the 1990s). Even given our concerns about some of the findings, we believe DOD presented sufficient support for its conclusion that bonuses can be effective in promoting retention. A largely unaddressed, but more pertinent issue is how effectively and efficiently DOD applied this tool to improve retention in critical occupations under recent and current economic conditions.

Replacement Program Guidance Not Issued but Proposed Changes Could Weaken Controls for Targeting SRBs

DOD did not permit us to review the draft guidance⁹ that will replace the current DOD directive and the DOD instruction canceled in 1996. Our findings for this concern are based on DOD's comments on our 2002 SRB report, excerpts of draft criteria contained in DOD's mandated report, and our discussions with DOD officials. Changes to the guidance could lower the threshold required for designating occupations as critical and may eliminate or weaken the requirement for formal annual reviews of the SRB program.

DOD's planned changes to the replacement guidance could provide the services with greater flexibility for designating a specialty as critical but could weaken the controls for targeting the specialties receiving SRBs by lowering the threshold required for making such a designation. The

⁹ Issuance of DOD Directive 1304.21, *Policy on Enlistment, Accession of Officers in Critical Skills, Selective Reenlistment, and Critical Skills Retention Bonuses for Active Members*; and DOD Instruction 1304.22, *Administration of Enlistment, Accession of Officers in Critical Skills, Selective Reenlistment, and Critical Skills Retention Bonuses for Active Members*; are expected in fall 2003 instead of August 2003 as had been specified in DOD's report.

canceled 1996 instruction required the services to consider five criteria¹⁰ before designating a specialty critical and making it eligible for SRBs, but DOD's 2003 report stated that the revised program instruction would require occupations to meet a lower threshold—meeting “at least” one of five criteria. For the period since 1996 when the instruction was canceled, our 2002 report found that, in some cases, the services had already been using only one of the five criteria to designate occupations for inclusion in the program. This allowed the services to define broadly what constituted a critical occupation and included more occupations than would have likely qualified if all five criteria had been considered.

DOD's planned changes could also eliminate or weaken the requirement for formal annual reviews of the SRB program and thereby weaken the ability of Congress and DOD to monitor the program and ensure that it targets only critical specialties. To implement the SRB program, DOD Directive 1304.21 assigns specific responsibilities for administering the program to the OSD and to the service Secretaries. According to this directive, the Assistant Secretary of Defense for Force Management Policy, under the Under Secretary of Defense for Personnel and Readiness, is responsible for annually reviewing and evaluating the services' enlisted personnel bonus programs in conjunction with the annual budget cycle. These reviews are to include an assessment of the criteria used for designating critical military specialties. As a result of these reviews, the OSD is to make the revisions needed to attain specific policy objectives. Our 2002 report found that DOD had not conducted any of the required annual program reviews since 1991. In its response to our 2002 SRB report, DOD stated that it plans to eliminate those requirements from the replacement guidance. More recently, a DOD official stated that the new guidance will require periodic reviews, but neither the frequency nor the details of how these reviews would be conducted was explained. In its report to Congress, DOD maintained that much of the SRB program oversight takes place during ongoing internal service program budget reviews. In contrast, we concluded in our 2002 report that those program budget reviews were limited in scope and did not provide the detailed evaluation needed to ensure the program was being implemented as

¹⁰ The canceled instruction required the services to identify critical specialties by providing a balanced evaluation of five factors: (1) serious understaffing in adjacent years, (2) persistent shortages in total career staffing, (3) high replacement costs, (4) the arduousness or unattractiveness of the work, and (5) whether the specialty is essential to the accomplishment of defense missions.

intended. A more in-depth discussion of the current limited oversight is provided when we discuss DOD's response to the fourth concern.

In contrast to the previously mentioned changes, DOD's report noted some steps that we believe could strengthen controls on the SRB program. According to the report, the new SRB program instruction will (1) require the services to establish parameters to define "critical shortages" and (2) base those requirements on factors such as the potential impact of a shortage on mission accomplishment. In addition, DOD has recently established a working group that has been tasked with developing a "common understanding and definition of critical skills." Previously, we found that DOD had not clearly defined the criteria the services were to use in designating critical occupations since the SRB program instruction was canceled in 1996.

DOD Report Outlined No New Steps to Match Program Execution with Appropriations

Contrary to the mandate, DOD's 2003 report did not outline steps that it will take to match program execution with appropriated funding. Instead, DOD stated that the services need execution flexibility and have operated consistent with the law and within the overall Military Personnel appropriation. Our trend analysis in current year dollars showed that the services spent a combined total of \$259 million more than Congress appropriated for the SRB program in fiscal years 1999-2002. DOD's use of this flexibility has resulted in the services overspending their SRB budgets by as much as \$111 million in a single year—fiscal year 2001. More recently, two of the services stayed within their appropriated budgets. In fiscal year 2002, the Air Force and Marine Corps spent, respectively, \$26 million and \$4 million less than their fiscal year 2002 SRB appropriation. However, the Army and Navy exceeded their appropriated SRB budgets by \$38 million and \$21 million, respectively.

DOD noted that the services can reallocate funds within the Military Personnel appropriation without seeking congressional authority. In the report, DOD did not agree with the congressional concern that program expenditures needed to match funding levels appropriated specifically for the SRB program. Rather, DOD maintained that monies were available from other parts of the Military Personnel appropriation if a service needed additional SRB funding in a fiscal year. DOD's response noted that budget submission timelines require reenlistment forecasts up to 2 years prior to execution and that intervening changes in the economy and labor market can add uncertainty and drive changes in actual reenlistment rates. Using the services in-year, or current estimates—created during the year of program execution—we found that the services had exceeded their

fiscal year 1999-2002 estimates for the number of expected SRB reenlistments by a combined total of 32,466 personnel. Furthermore, our current trend analysis on their budget justifications showed that for the Army and Navy, reallocation or reprogramming of funds had become a reoccurring pattern of activity. In our 2002 report, we concluded that better OSD program oversight and management would have required the services to justify their need to exceed appropriations during fiscal years 1997-2001.

Evaluation of Services' Processes for Administering the Program Was Limited

DOD's limited evaluation of the services' SRB programs relied primarily on program descriptions provided by the services. The report presented different issues for each service and used inconsistent procedures and metrics to reach conclusions about each service's program administration effectiveness and efficiency. Absent was a discussion of key performance indicators, the means used to verify and validate the measured values, and other characteristics such as those GAO identified in its report assessing agency annual performance plans.¹¹ The absence of a consistent, explicit methodology made it difficult to determine (1) best practices that might be applied from one service to another and (2) other insights that could result in each service more effectively and efficiently administering its SRB program.

Although OSD assembled a multi-service panel to discuss the evaluation, DOD's response consisted largely of program descriptions that the services supplied. Each service made statements about the effectiveness of its program but provided insufficient documentation to support those statements. OSD conducted its last comprehensive review of the SRB program in 1991. As noted earlier in our assessment of DOD's response to the second concern, DOD stated that it intends to eliminate the requirement to perform detailed annual program reviews when its replacement program directive is issued.

In introductory comments to the 2003 report, DOD stated that the SRB program is evaluated annually within the context of three Planning, Programming, and Budgeting System activities. In our 2002 report, we found that those reviews, conducted by the DOD Comptroller and the

¹¹ U.S. General Accounting Office, *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans*, GAO/GGD-10.1.20 (Washington, D.C.: Apr. 1998).

Office of Management and Budget (OMB), and the testimony provided to Congress were limited.

- When the services prepare budget submissions for the SRB program, they discuss the small sample of occupations included in their justification books. As we noted in our 2002 report, the DOD Comptroller stated that the budget submissions are not detailed programmatic evaluations.
- DOD's 2003 report also cited OMB reviews as part of an evaluation of the programs. During the preparation of our 2002 report, OMB officials told us that their reviews were limited and did not constitute a detailed assessment of the services' programs.
- DOD's 2003 report stated that the services' out-year budgets were carefully reviewed during congressional testimony. It is our view that congressional testimony does not represent a detailed programmatic review of a program this complex. For example, in March 11, 2003, DOD's testimony before the Military Personnel Subcommittee of the Senate Armed Services Committee¹² included very limited statements about the SRB program.

DOD's report listed some positive steps that the services have proposed to administer the SRB program more effectively and efficiently. For example, the Navy and Army are validating and improving the models used to manage their SRB programs, and the Air Force has created a new bonus review board to keep its leaders apprised of how the SRB program is functioning. At the time of our review, the services were just starting to implement these steps to improve their programs, and there was no data to determine how effective and efficient these efforts are.

¹² Department of Defense, *Prepared Statement of the Honorable David S. C. Chu, Under Secretary of Defense (Personnel and Readiness), Before the Military Personnel Subcommittee, Senate Armed Services Committee* (Washington, D.C.: Mar. 11, 2003).

DOD Report Identified Advantages and Disadvantages of Using a Lump Sum Payment Option

DOD identified the most salient advantages and disadvantages resulting from implementing a lump sum payment method for paying retention bonuses.¹³ We generally concur with DOD's observations about the positive and negative aspects of using lump sum bonuses. DOD's report cited a 1985 GAO study¹⁴ that found lump sum payments had three main advantages: more cost-effective, better visibility to Congress, and more adaptable to budget cuts than paying bonuses incrementally. The 2003 DOD report cited another important consideration in awarding bonuses in lump sum payments. Because enlisted personnel prefer "up-front" payments and are willing to receive less money initially than more money offered in the future, we believe that the federal government could reenlist more personnel for the same amount of money if bonuses were paid in a lump sum.

DOD cited several disadvantages to using a lump sum payment option. For example, there are significant up-front costs associated with paying both lump sum SRB payments in the implementation year and completing the anniversary payments for SRBs awarded previously. The first year of change would require the largest budget increase, and each subsequent transition year would become less costly. The implementation of a lump sum SRB program could become cost neutral over the long term if bonuses paid in a lump sum eliminated the need for equal amounts of anniversary payments in succeeding years. It could even save money if sufficient reenlistees were attracted with less money because up-front compensation—even if less—is more attractive than compensation promised in the future.

DOD's report addressed other potential disadvantages of using a lump sum payment method. These include the possibility that a recipient will fail to stay in the military for the full reenlistment period after receiving a bonus and the problem associated with recouping all or part of bonus amounts from personnel who do not complete their obligated term of service. Despite these disadvantages, our 1985 report stated our support for the use of lump sum retention bonuses. The Marine Corps began using the lump sum payment option for its SRB program in fiscal year 2001 and is

¹³ The Army, Navy and Air Force currently pay 50 percent of the reenlistment bonus up front, and they pay the remaining 50 percent in equal installments over the term of reenlistment.

¹⁴ U.S. General Accounting Office, *Navy Management and Use of the Selective Reenlistment Bonus Program*, [GAO/NSIAD-85-143](#) (Washington, D.C.: Sept. 9, 1985).

the only service currently using this payment method. In February 2004, the Marine Corps expects to have preliminary results from an evaluation of its use of lump sum payments.

Although not required by the mandate to do so, DOD and the services could have made the response to concern five more informative for Congress by identifying alternative strategies for implementing the lump sum option and estimating the costs of each strategy for each service. For example, one strategy might be to phase in the lump sum payment option. Phasing in lump sum payments could provide DOD with increased program administration flexibility and decreased budgetary problems caused by switching from installment payments in a single year.

Conclusions

Overall, our analysis of DOD's May 2003 congressionally mandated report on the SRB program showed that DOD's report did not provide sufficient information to enable Congress to determine whether the program is being managed effectively and efficiently. With one exception, DOD's report did not thoroughly address congressional concerns about the effective and efficient management of the SRB program. Of DOD's responses to the five congressional concerns, three were incomplete or nonresponsive—those regarding program effectiveness and efficiency in correcting retention shortfalls in critical occupations, DOD actions to match program execution with appropriations, and DOD's evaluation of the services' program administration. A fourth response—regarding replacement program guidance—did not provide information essential for us to make an independent determination as to the response's adequacy. DOD directly and fully addressed one of mandated concerns—the advantages and disadvantages of lump sum bonus payments. Although the SRB program is expected to grow to over \$800 million in fiscal year 2005, the report did not address factors that may have reduced the services' retention concerns and could reduce SRB program cost. Underlying many of these shortcomings is a lack of empirically based information caused by DOD's limited reviews of the SRB and inconsistent use of evaluation procedures and metrics. DOD's possible elimination of the requirement for a detailed annual review and continued reliance on service-specific procedures and metrics could further weaken Congress's ability to monitor the SRB program.

Recommendation for Executive Action

To assist Congress in its efforts to monitor the management of the SRB program and to ensure that DOD is effectively and efficiently targeting retention bonuses to critical occupations, we recommend that the Secretary of Defense direct the Office of the Under Secretary of Defense for Personnel and Readiness to (1) retain the requirement for an annual review of the SRB program and (2) develop a consistent set of methodologically sound procedures and metrics for reviewing the effectiveness and efficiency of all aspects of each service's SRB program administration.

Agency Comments

In written comments on a draft of this report, DOD concurred with our recommendations. DOD further stated that, with regard to our recommendation to develop review procedures and metrics, it would (1) conduct research to develop meaningful metrics for reviewing the effectiveness and efficiency of all aspects of each service's administration of the SRB program and (2) implement those metrics so that they are consistent with DOD's Human Resource Strategy Plan. DOD's comments are reprinted in their entirety in appendix II.

We are sending copies of this report to the Secretary of Defense. We will also make copies available to appropriate congressional committees and to other interested parties on request. In addition, the report will be available at no charge at the GAO Web site at <http://www.gao.gov>.

If you or your staff have questions about this report, please call me at (202) 512-5559. Key staff members contributing to this report were Jack E. Edwards, Kurt A. Burgeson, Nancy L. Benco, and M. Jane Hunt.



Derek B. Stewart
Director, Defense Capabilities and Management

Appendix I: Scope and Methodology

We reviewed the Department of Defense's (DOD) May 2003 congressionally mandated report and documents used in the preparation of that report. That information was supplemented with prior Selective Reenlistment Bonus (SRB) program guidance, budget request documentation, and other information gathered during our 2002 review of the SRB program. To assess the adequacy and accuracy of the information contained in DOD's report, we obtained and reviewed documentation used by the Office of the Secretary of Defense (OSD) to support its responses. For example, we reviewed the eight studies cited in DOD's response to concern one in the mandate. In addition, we reviewed information provided by each of the services, as well as past GAO and DOD reports on the SRB program. We compared findings from these past reports to DOD's mandated responses to assess the validity of what was presented. We updated the program budget analysis from our 2002 review using budget data contained in DOD's Military Personnel budget justification books prepared for Congress. We sought to review updated SRB program guidance, but DOD indicated that these pre-decisional documents would not be released until the final versions had been approved.

We met with DOD officials to update information obtained during our 2002 review of the SRB program. Interviews were primarily conducted with officials in the Office of the Under Secretary of Defense for Personnel and Readiness because these officials were the primary authors of DOD's report. We also met with personnel responsible for administering the services' SRB programs. We obtained updated retention data contained in prepared statements used by DOD during congressional hearings. We also reviewed the results of DOD's 2002 status of forces survey and the Air Force's 2002 quality of life survey.

We conducted our review from June through September 2003 in accordance with generally accepted government auditing standards.

Appendix II: Comments from the Department of Defense



OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

OCT 29 2003

PERSONNEL AND
READINESS

Mr. Derek B. Stewart
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, D.C. 20548


Dear Mr. Stewart:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, GAO-04-86, 'MILITARY PERSONNEL: DoD Needs More Effective Controls to Better Assess the Progress of the Selective Reenlistment Bonus Program (SRB)', dated October 6, 2003 (GAO Code 350389)." We appreciate the opportunity to comment.

The Department concurs with the GAO recommendations. We agree that Services should systematically report to the Department the metrics they use that provide insight to the efficiency and effectiveness of their SRB programs. By the same token, we agree that the office of the Under Secretary of Defense (Personnel and Readiness) should annually review the Services' SRB program metrics. Provided in the enclosure are supplementary details that address the GAO recommendations.

Comments or questions should be addressed to Major Harvey Johnson at (703) 614-3973, or Harvey.w.Johnson@osd.mil.

Sincerely,


Charles S. Abell
Principal Deputy

Enclosure:
As stated



GAO-04-86/GAO CODE 350389

**“MILITARY PERSONNEL: DOD NEEDS MORE EFFECTIVE
CONTROLS TO BETTER ASSESS THE PROGRESS OF THE
SELECTIVE REENLISTMENT BONUS PROGRAM”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Office of the Under Secretary of Defense for Personnel and Readiness USD(P&R) to retain the requirement for an annual review of the Selective Reenlistment Bonus (SRB) program. (Page 18/Draft Report)

Now on p. 16.

DOD RESPONSE: Concur. The Department concurs with the GAO recommendation that the Office of the USD(P&R) retain the requirement for an annual review of the SRB program. The Department currently requires Services to submit for approval any reprogramming action greater than \$10 million between budget authority lines needed to fund proposed adjustments to the bonus program. The Services’ currently manage their SRB programs carefully and offer bonuses to qualified enlisted personnel in designated critical skills. At least annually, the Services examine the health of individual occupational specialties to shape a sustainable force, which will meet readiness needs today and in the future. Each Service prepares a plan for use of bonuses, which are carefully reviewed in the course of the Departments Planning, Programming, Budgeting and Executing System.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Office of the USD(P&R) to develop a consistent set of methodologically sound procedures and metrics for reviewing the effectiveness and efficiency of all aspects of each Service’s SRB program administration. (Page 18/Draft Report)

Now on p. 16.

DOD RESPONSE: Concur. The Department will research a viable system to ensure meaningful metrics are developed for reviewing the effectiveness and efficiency of all aspects of each Service’s SRB program administration. These metrics will be implemented in the Balance Score Card metrics and consistent with the Human Resource Strategy Plan.

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